Center for American Progress

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Making Our Middle Class Stronger

35 Policies to Revitalize America's Middle Class

David Madland

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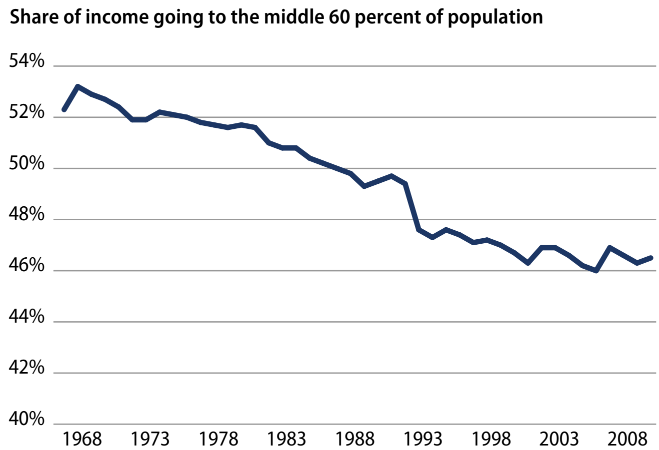
Introduction and summary

The American middle class is in trouble. Incomes are stagnant or falling, while the costs of life's necessities continue to rise, and the risks of falling behind grow. The weakness of our middle class is a problem not just for those who are struggling but also for all Americans because a strong middle class is essential for a vibrant democracy and a healthy economy—and for our conception of what America is all about.

This report describes 35 policies developed by the Center for American Progress that would strengthen our middle class by helping address the challenges Americans face in achieving and maintaining a middle-class standard of living. This report does not tackle every issue of concern to the middle class or address every problem in our economy. Rather, it focuses on the central pocketbook issues facing the middle class: the financial squeeze Americans face because they are caught in a vice between stagnant incomes and weak job prospects on one hand and rising costs and growing risks of paying for middle class basics such as health care, retirement, housing, and a college education for their children on the other.

FIGURE 1

Share of nation's income going to the middle class has been declining for decades



Sources: US Census Bureau, "Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households"

The 35 policies detailed in the main pages of this report are the kinds of bold, aggressive action that Americans have been waiting for (see summary table starting on next page) such as lower college education costs, workplace standards that match the needs of 21st-century dual-income families, the creation of more well-paying middle-class jobs, and reliable and sustainable retirement income security.

Why is action needed? Most Americans see the answer to that question every day. But what they see is also reflected in numbers.

More than 12 million people are unemployed, and the unemployment rate has been higher than 8 percent for three years, the longest sustained period of high unemployment since the Great Depression.[1]

Even for those with jobs, the economy has, for the most part, failed to deliver. Income for the typical household has stagnated over the past few decades and has actually fallen over the past 10 years: Median income for working-age households—meaning half of the population makes more and half makes less—fell by 1.9 percent during the supposedly good economic recovery of 2001 to 2007 and fell by another 4.6 percent during the Great Recession of 2007–2009.[2]

As a result of stagnant incomes for the middle class and rising incomes for the rich, the share of the total national income earned by the middle 60 percent of households has been on the decline for decades. Today it is near its lowest level since the government began keeping track of the statistic in 1967.[3]

At the same time that incomes have stagnated, costs and risks for middle-class families have increased dramatically. According to the Senate Committee on Health,

A summary of our 35 policies to strengthen our middle class

Lower the costs of college

The key to lowering college costs for middle-class families is to change the way colleges do business while also making it easier for families to finance education. We can help make colleges more efficient by creating incentives for colleges to keep costs down, by providing better information to middle-class families to inform their college choices, by fostering cost-based competition between schools, and by encouraging colleges to give credit for online courses and other nontraditional, less-expensive ways of learning. The costs for families of financing higher education can be kept under control by letting the repayment of loans vary depending on how much the graduate is earning and by providing lower-cost loans for attending schools that keep their costs down. Here's how:

- Ensure that college is affordable to students and parents by creating an incentive for colleges that limit their net price to 15 percent of a family's income
- Save tuition costs for students by awarding them college credit for proven knowledge and skills—whether acquired through traditional or nonconventional means
- Universal college "nutrition" labels to provide students and their families with key information about colleges such as costs, debt loads, and likely job prospects
- Promote the use of free or low-cost textbooks that are already in use by many colleges
- Automatically connect student loan repayments to post-college pay levels for new college graduates

Reduce costs and barriers to job training

Job training programs are critically important for making sure American workers have skills that employers value. Unfortunately, high costs and other barriers have restricted access to these programs for many Americans, especially those with less education who could

Education, Labor and Pensions, between 1970 and 2009 the costs of gas went up by 18 percent, health care by 50 percent, college by 80 percent, and housing by 97 percent, net of overall inflation.[4] The percentage of Americans who lost ground economically by either experiencing a major loss in income or incurring large out-of-pocket medical expenses has rapidly increased over the past two decades, rising to 20 percent in 2010, the last year complete data are available, from 14 percent in 1986, according to research by Yale political scientist Jacob Hacker.[5] Not surprisingly, Americans haven't been able to put enough away for retirement, and the risk of falling behind in retirement increased significantly—the percentage of working-age households that are at risk of being unable to maintain their preretirement standard of living in retirement rose to 51 percent in 2009 from 32 percent in 1983, according to the Center for Retirement Research at Boston College.[6]

Finally, it is becoming harder for Americans to join the middle class. According to research by Bhashkar Mazumder of the Federal Reserve Bank of Chicago, the likelihood that a child born poor will rise into the middle class has declined significantly over recent decades.[7] As a result, the United States has less economic mobility than other developed economies.[8]

benefit the most. To ensure that Americans who want to upgrade their skills are able to do so, we propose making it easier to take time off for training, increasing the flexibility and availability of training funding, and dramatically ramping up apprenticeship programs that create career ladders. Specifically, we recommend:

- Increasing mid-career training by providing workers the right to request time off from work for training
- Encouraging adult workers to enroll in career training by creating a flexible Pell Grant for these workers
- Enrolling 1 million more workers into apprenticeship programs in high-growth and emerging industries by partnering with the private sector and increasing funding for existing programs

Raise workplace standards

To help boost incomes, workplace standards need to be strengthened and updated to give workers a solid wage floor to negotiate from and tools to help capture a reasonable share of the economic gains they help produce. To help workers do well when companies do well, we need to increase the use of broad-based incentive pay, allow workers to join unions, make the government a better consumer, and start to link worker compensation to CEO compensation. To raise the wage floor, we need to increase the minimum wage to the level it was in the 1960s before its value was allowed to erode and to crack down on workplace fraud that denies workers the wages and benefits they are owed. Our proposals include:

- Helping ensure workers do well when companies do well by promoting employee ownership and broad-based profit sharing through a grant program and an office of inclusive capitalism

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The weakened state of the middle class hurts all of us by stifling our country's economic growth and undermining our democracy.[9]

A strong middle class is a prerequisite for robust entrepreneurship and innovation—a source of trust that makes business transactions more efficient and a source of sustainable demand that encourages businesses to invest. A strong middle class also promotes efficient delivery of government services, greater political participation, and forward-looking public investments in education and infrastructure.[10]

The issues addressed in this report are central to the strength of the middle class. With such high levels of unemployment, millions of people are falling out of the middle class, and wages are being forced further downward. Yet this report goes well beyond immediate job-creation policies because long before the Great Recession started, the middle class was significantly weakened by the problems of stagnant wages, rising costs and risks, and declining mobility. Long after unemployment returns to more normal levels, the middle class will still face these same basic problems unless we take the kinds of actions recommended in this report.

- Limiting the tax deductibility of executive pay to the 25 times the national median annual earnings
- Requiring companies that offer their CEOs "golden parachutes" in their contracts to also offer strong severance packages to their other employees in the event of layoffs
- Encouraging the federal government to do business with companies that provide middle-class jobs by reforming government contracting policies
- Reforming our international corporate tax system to end the overseas outsourcing bias and promote investment in the United States
- Raising the minimum wage to $10 and linking it to half of the average wage to ensure that hard work pays a decent wage
- Ensuring workers get the pay and benefits they are owed by preventing employers from misclassifying employees as independent contractors and by making more workers eligible for overtime pay
- Allowing workers to join unions if they want

Reduce the costs of getting sick or losing a job

Middle-class families have a high risk of falling deeply behind if they get sick or lose a job. Indeed, 62 percent of all personal bankruptcies were due to health care costs in 2007.[18] Efforts to ensure workers have quality, affordable health care, access to paid sick days, and a strong unemployment insurance system are the keys to minimizing unnecessary economic risks for middle-class families. This means we need to:

- Ensure middle-class Americans have access to quality, affordable health care by fully implementing Obamacare and pursuing additional measures to reduce the price of health care and insurance premiums such as competitive bidding, bundling payments, and reducing administrative expenses
- Pass legislation allowing workers to earn paid sick days so that workers don't lose their jobs or incomes if they get sick or have to care for a sick child

Indeed, for the past decade that Gallup has been asking Americans about their biggest financial concern, those in the middle class have consistently said they are most worried about not earning enough money, the high cost of living—especially paying for health care, housing, and college—and risks such as maintaining a decent standard of living in retirement and losing their job.[11] Sadly, Americans have also been telling pollsters for the past several years—even before the start of the Great Recession—that they think their children will be worse off than they are.[12]

Recommendations cover a wide range of issues, including higher education, job training, workplace standards, retirement, health care, housing, gas prices, child care, and infrastructure.

Most of the policies in this report have multiple benefits and address more than just one aspect of the challenges facing the middle class—including high unemployment, stagnating incomes, rising costs, increased risks, and declining mobility. Our policies to reduce the costs of college, for example, do far more than just lower expenses for middle-class families. They also reduce the risk students will emerge from college saddled with excessive debt levels and help more people gain

- Improve the unemployment insurance system so it is financially strong and provides a reasonable wage replacement to those who have lost their jobs through no fault of their own and who continue to seek employment without success

Make it possible for workers to also be caregivers for children and elderly parents

With 71 percent of all women who have children working,[19] two-earner families the norm, and half of older Americans receivingcare from their children or children-in-law,[20] modern middle-class families bear large costs to care for young children and provide services for elderly parents. Unfortunately, current policies have not fully adapted to the times. To help modern families deal with the high costs of care, we propose providing paid family and medical leave to all workers, just as all other industrialized countries do, as well as significantly expanding access to preschool and increasing the child and dependent care tax credit. Doing so would:

- Ensure that middle-class families' economic security is not threatened when they welcome a new baby or need time away from work to care for an aging parent, by providing paid family and medical leave insurance to workers
- Reduce expenses for middle-class families by significantly expanding access to high-quality, public preschool programs for 3-year-old and 4-year-old children
- Help middle-class families dealing with the high cost of child care and caring for aging parents by expanding and reforming the child and dependent care tax credit

Boost retirement security

Our private retirement system is failing. Half of all workers don't have a retirement plan at work, and many of those who do are not on track to save enough for retirement—in large part because most plans have

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the income benefits of higher education. Similarly, our retirement proposal would reduce the cost of saving for retirement, as well as provide greater income security during retirement. Expanding access to preschool for 3-year-olds and 4-year-olds will reduce costs for child care, boost children's education and later-life experiences, and create teaching jobs.

Even policies that may not seem to obviously address more than one problem facing our middle class often do. Reducing health care costs not only helps families cut down on expenses but also can boost worker income because the high cost of health care has caused many firms to divert money away from wage increases and toward health benefits.[13] Policies that can directly boost incomes such as inclusive capitalism, which rewards workers when firms do well, are also associated with greater job stability and fewer layoffs during economic downturns, providing a buffer against risks.[14] Reforming unemployment insurance will not only help prevent families from falling out of the middle class but will also boost spending and create jobs.[15] And rehabilitating foreclosed properties as rental homes can help create jobs, as well as lower rental costs in certain markets.

high fees and are inefficient. To ensure that everyone has more and better options to save for retirement, we recommend creating a new kind of retirement plan that is more efficient and more secure than basic 401(k) plans. We would also open to the public the 401(k) plan for federal employees. Our plan:

- Creates a new collective, defined-contribution plan to cut the costs of saving for retirement in half, compared to a traditional 401(k), while providing greater security
- Opens up the Thrift Savings Plan, the 401(k) for federal employees, to the public so that everyone has the option of saving in a 401(k) plan with very low fees and smart investment options

Stabilize the costs of housing

Rapidly rising housing prices followed by the bursting of the housing bubble and the subsequent wave of foreclosures deeply harmed our middle class. Home ownership is a key source of middle-class wealth, but the median value of primary residences fell by 18.9 percent from 2007 to 2010[21]—dramatically reducing the wealth of the middle class, leaving millions owing far more than their homes are worth, and trapping people in bad financial situations that threaten to further deteriorate the housing market. We must help re-establish home ownership as a ladder to building middle-class wealth rather than an anchor that holds families back. This requires several steps to stabilize the housing market, including establishing a large-scale refinancing initiative, rehabilitating and renting out government-owned foreclosed homes, responsibly winding down the two mortgage finance giants—Fannie Mae and Freddie Mac—now under government conservatorship, and implementing mortgage principal reductions through "shared appreciation." Specifically, we call for:

- Establishing a large-scale refinancing initiative to help creditworthy homeowners with little or negative home equity take advantage of today's historically low interest rates
- Stabilizing hard-hit communities and expanding affordable housing by rehabilitating and renting out government-owned foreclosed homes

Each individual policy in this report would be a big help to the middle class—creating a significant number of jobs, boosting incomes for a large percentage of the population, meaningfully cutting costs for middle-class necessities, and considerably lowering the risks of falling behind—and would go a long way toward rebuilding the ladder of opportunity. Together, our 35 policies approach the scale necessary to start rectifying the income, cost, and risk problems faced by Americans. Our policies will help:

- Ensure middle-class families pay only 15 percent of their income to send their children to college
- Reduce the cost of saving for retirement by nearly half, compared to a typical 401(k) plan
- Lower mortgage payments for millions of families by an average of $2,600 a year
- Restore 500,000 teaching jobs
- Create more than 2 million jobs rebuilding and upgrading our infrastructure
- Guarantee workers access to paid sick days and maternity leave
- Increase access to higher education and job training

- Ensuring a liquid, stable, and affordable U.S. mortgage market by responsibly winding down Fannie Mae and Freddie Mac, both of which are now under government conservatorship
- Providing deeply underwater homeowners a fighting chance of staying in their homes through mortgage principal reductions with "shared appreciation"

Reduce energy and transportation costs

Middle-class families have been hard hit by rising yet extremely volatile prices for gasoline and home energy. The solution to prevent family budgets from being strained by prices that go way up, then down, and then back up again is to help families reduce energy use, give people more and better alternative transportation and energy choices, and reduce commodity speculation that contributes to energy price volatility. We can achieve this by:

- Helping middle-class families reduce their energy costs by making their homes more efficient through a nationwide HomeStar program
- Fighting rising gas prices by helping consumers spend less on gas, by placing limits on oil speculation, and by instating a revised cash-for clunkers program, as well as increasing investments in alternative fuels and public transportation
- Reducing the cost and volatility of home energy prices through residential clean energy standards

Create middle-class jobs

The private sector has now created jobs for the past 28 straight months, but we are not creating enough jobs to return our economy to full employment anytime soon. Spurring the kind of job creation the economy needs will take bold actions that boost demand—as many of the policies in this report do—as well as more direct interventions to jumpstart hiring. Direct interventions to create jobs should rebuild our crumbling infrastructure, put teachers back in classrooms, and incentivize work sharing to save jobs and provide

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- Ensure that workers receive the overtime pay and benefits they deserve
- Help non-college-graduates gain credentials that boost pay by as much as $225,000 more than comparable job seekers during their lifetimes
- Save middle-class consumers thousands of dollars annually on health care and limit the risk that illness will send them to the poorhouse
- Reduce the cost to parents of quality preschool

Certainly there are a number of other policies that would also be of great help to the middle class—notably the Restore America Act introduced by Sen. Tom Harkin (D-IA) and Rep. Rosa DeLauro (D-CT), as well as dozens of other ideas on the Center for American Progress website and elsewhere.[16]

But our 35 policies, if enacted, would make a meaningful difference in the lives of all Americans. The pages that follow describe these 35 policies. Many of the policies are new; many have not been previously discussed by the Center for American Progress; and most are not yet part of the dominant political conversation. But all of them should be.

the flexibility that employers and employees both are seeking. We propose that the federal government:

- Enable public schools to rehire all the teachers that have been laid off because of the Great Recession and its aftermath, putting 500,000 teachers back in the classroom
- Make needed investments in highways, energy, transit, rail, water, and other infrastructure to create more than 2 million jobs per year
- Help save existing jobs and create new ones in the private sector by promoting work sharing through tax incentives and revamping the unemployment system

Focus policymakers on the middle class

Helping rebuild our middle class needs to be a central focus for policymakers. Yet the state of the middle class has not always received the attention it deserves. We propose several institutional reforms to ensure that the middle class is at the top of the agenda and a key part of the day-to-day discussions of policymakers. We suggest:

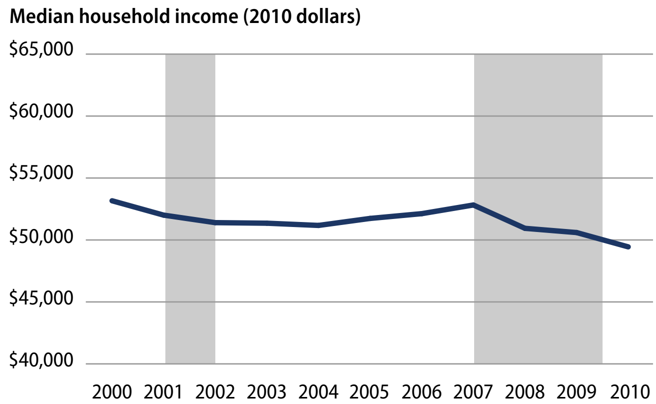
- Requiring a "middle-class impact statement" for major pieces of legislation so that a bill's effect on the middle class is part of the debate
- Creating a bipartisan commission on the middle class and requiring a vote on its recommendations so that the middle class receives the same level of attention we place on the federal budget deficit

In order to succinctly present such a large number of recommendations, we only briefly describe the core concepts of the 35 policies. In the near future we will release individual briefs describing the major new policies in greater detail. We provide cost estimates, where available, for those policies with a significant budgetary impact but do not specifically describe how to pay for them—their costs are consistent with previous plans we have released to achieve long-term fiscal balance by investing now in growth- and prosperity-generating policies, while working to lower our nation's federal budget deficits over time.[17] This set of middle-class policy proposals is of vital importance to the future our country and should be a top priority for policymakers.

FIGURE 2

Median household income has declined over past decade

Had stagnated for previous twenty years



Source: Economic Policy Institute analysis of US Census Bureau Data, shaded bars indicate recession.

Lower the costs of college

Earning a college degree is one of the most effective ways to join the ranks of the middle class, as college graduates have a substantial wage advantage over nongraduates.[22] But the cost of college has been rising dramatically. The cost of attending a public university has increased by 368 percent over the past three decades, while median family income has increased by only 14 percent during the same period.[23]

This huge increase in college costs poses a barrier that is too high for some middle-class families and creates a large financial burden for many more middle-class families. These families have been forced to make great financial sacrifices to pay for their children's education, while a generation of graduates has been saddled with burdensome student debt loads, too.

Approximately two-thirds of students with four-year bachelor's degrees finish their studies with student loan debt, and the average amount of debt per student is nearly $25,000.[24] Ten percent of borrowers owe more than $54,000.[25] Total student debt now exceeds $1 trillion.[26] Many middle-income parents, who on average contribute 37 percent of their children's cost of college, are also being forced to take on additional loans to cope with these rising costs.[27]

Such high levels of student debt are a burden on individuals and the economy. This debt is causing young adults to delay or eliminate purchases of big-ticket items such as a car or a home,[28] or to postpone important decisions such as getting married and having children.[29]

In order to ensure college is a ladder of opportunity to the middle class, we need to get college costs under control and reduce the amount that families have to pay for it. The key to lowering college costs for middle-class families is to change the way colleges do business at the same time that we make it easier for families to finance education. We can help make colleges more efficient by creating incentives for colleges to keep costs down, providing better information to middle-class families to inform their college choices, and encouraging colleges to give credit for other nontraditional, less-expensive ways of learning. We can help keep borrowing costs manageable by letting the repayment of loans vary depending on how much the graduate is earning and by providing lower-cost loans for attending schools that keep their costs down.

Limit college costs for middle-class families

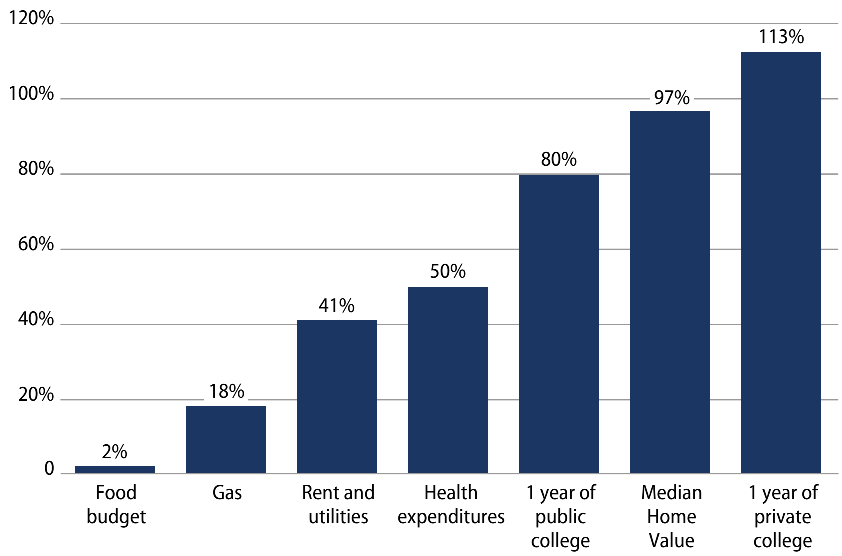
The federal government should incentivize colleges and state legislatures to limit the net price of college to 15 percent of a family's income. The federal government can do this by providing zero-interest loans to students attending institutions that implement policies to keep their net price down to this level. This would have an immediate effect on holding down overall college costs because:

- Middle-class families would influence the college market by shifting their attendance to schools that limit their costs and offer access to no-interest student loans.
- Colleges and universities would use their considerable marketing power to publicize their plans to cap college costs at 15 percent of a family's income and the fact that students are eligible for no-interest loans.
- State legislatures would be forced to maintain public support for higher education to ensure that in-state students are eligible for no-interest loans.

FIGURE 3

The costs of important middle class goods and services have grown rapidly

Growth in price, net of overall inflation (1970-2009)



Source: Senate Committee on Health, Education, Labor, & Pensions, "Saving the American Dream: The Past, Present, and Uncertain Future of America's Middle Class," 2011.

No-interest federal student loans should be available to families with incomes up to $150,000. This policy would significantly lower the cost of student loans for students who attend schools that keep their costs down. Moving to no-interest loans could save students from middle-class families nearly $10,000 in interest payments over 10 years.[30]

Give credit for prior learning

Entrepreneurial learners should be able to save money and time by earning college credit through the expanded use of so-called prior learning assessments, which take into account what a student has learned outside of the traditional classroom. In addition, military veterans should benefit from a streamlined process that translates their taxpayer-funded military training into relevant college credit.

Prior learning assessments measure what a student has learned outside of college, evaluate whether that learning is college level, and then determine the equivalent number of college credits. These assessments are closely tied to the learning outcomes one would expect from an equivalent college course. According to the Council for Adult and Experiential Learning, prior learning assessments can result in savings that range from $1,600 to $6,000 for a typical student or veteran who earns 15 college credits through the assessments.[31]

In addition, prior learning assessments also help students to earn their degrees or occupational credentials in a shorter period of time. The Council for Adult and Experiential Learning finds that 56 percent of adult prior-learning-assessment students earn a degree within 7 years, compared to only 21 percent of adult students who do not utilize prior learning assessments.[32] This is why the federal government should implement the following four policies to expand the use of prior learning assessments:

- The Department of Education should offer competitive grants to states to develop statewide systems of prior learning assessments. Statewide systems oversee portfolio assessment and standardized tests, and award credits that are transferable to any school in the state system.

- Students should be able to use federal student aid such as Pell Grants, Stafford Loans, or Post 9/11 GI Bill benefits to pay for an evaluation course through any statewide system of prior learning assessment, as long as subsequent credits are accepted at all public colleges and universities in the system.

- As a prerequisite for receiving Post 9/11 GI Bill benefits, colleges and universities should be required to offer college credit to veterans with military training that meets college standards—as determined by a federally recognized independent organization.

- The federal government should require accreditors to consider the availability of prior learning assessments as part of their accreditation standards.

Require colleges to provide consumer information via college "nutrition" labels

Average debt at schools can range from $950 to $55,250 and graduation rates from 6 percent to 92 percent.[33] Yet many students are unaware of these differences in part because colleges are free to determine the information they provide to students, which means they are likely to exclude embarrassing information that may reflect poorly on the school.

The federal government should require colleges and universities to provide pertinent information to prospective students concerning their likelihood of graduating, finding employment, and paying off student debt. Similar to nutrition labels on food, this information should be provided through a standardized college scorecard that is used by all colleges and universities. Schools should be required to place this standardized college scorecard on all promotional materials to allow students to easily compare schools. An adequate college scorecard should include a standard format to communicate easy-to-understand information on:

- Graduation rates
- Average out-of-pocket costs net of grant aid
- Average student debt and average monthly payments to pay off the student debt in 10 years
- Employment rates and average salary one year after graduation for recent graduates

The effectiveness of the college scorecard relies upon it being accessible and easy to find. While the Obama administration has developed a prototype for the college scorecard, it is not mandatory for all colleges and universities. Requiring the college scorecard to be posted on college websites, enrollment forms, financial aid paperwork, and other promotional materials will make it visible enough to grab the attention of applicants.

Furthermore, to ensure that this scorecard can be accessed by the greatest number of prospective students, the Obama administration should also create an online, interactive version of the scorecard that interfaces with the College Navigator website.

Increase the availability of free or low-cost textbooks

The cost of college textbooks is increasingly prohibitive for middle-class college students. Access to free or low-cost textbooks can significantly reduce the burden. The typical price of a single new textbook is $175, while the average college student spends more than $1,000 per year on textbooks and supplies. According to the U.S. Public Interest Research Group, college textbook prices have increased at nearly four times the rate of inflation since 1994.[34]

Fortunately free or lower-cost open-source digital textbooks are challenging this traditional high-cost model. Students can access an increasing amount of materials for their courses at no charge—only paying for the print versions of the book or add-ons such as study guides. In addition, some states are taking measures to reduce textbook costs for their college students. Washington state's Open Course Library, for instance, provides open educational resources for 42 community college courses, reducing the cost to as little as $30 per course.[35]

The U.S. Department of Education should expand access to free or low-cost textbooks and open education resources by:

- Offering competitive grants to states that commit to pilot programs for free or low-cost textbooks at their public colleges and universities. States could attempt their own innovative programs or commit to replicating other states' successful programs that are already making college more affordable by bringing down the cost of textbooks.

- Assembling a central repository for free digital textbooks modeled on the California Digital Textbook Initiative. The central repository would serve as an online public market for free digital textbooks and open educational resources that could be reviewed by millions of professors, students, and public reviewers. Professors and other instructors across the country would be free to use these textbooks and open educational resources in their classrooms.

Average debt at schools can range from $950 to $55,250 and graduation rates from 6 percent to 92 percent.

Make the income-based repayment plan the default option for federal student loans

The payoff of a college education varies, and the financial rewards of a degree tend to be small in the years that immediately follow graduation. Yet student loan payments are the same throughout the repayment period regardless of whether a graduate is making $20,000 or $200,000 a year.

The Department of Education currently offers a better option for paying down loans: an income-based repayment system. Enacted by Congress in 2007, this is a pay-as-you-earn program in which students pay a percentage of their discretionary income toward their loans. The program gives students an opportunity to pay their loans back at a rate commensurate with their ability to pay.

This federal income-based repayment plan should be the default option for all federal student loans, ensuring that individuals do not spend more than 15 percent of their disposable income in making student loan payments. This policy still allows recent graduates who would not benefit from the income-based repayment system to opt out of the default plan. But reducing loan payments while new graduates are young will help them better cope with payments in the short term, while keeping them on track to pay back their obligations over the long term. Colleges should provide exit counseling to students to help determine the best repayment option for them.

Admittedly, paying back a loan under this plan would require repayment of the loan over a longer time period than the standard 10-year time frame. But the reduced payments early in a career will help the young worker and will build a stronger middle class. In addition, the Obama administration is shortening the repayment period necessary to achieve full loan forgiveness to 20 years—five years less than the original program—for responsible borrowers who enroll in the income-based repayment plan. The new timeframe becomes available later this year.

Reduce costs and barriers to job training

Middle-class jobs in the United States increasingly require some level of education or training beyond high school. While a four-year bachelor's degree is not required for many of these middle-skill positions, advanced training often is necessary.

According to the Bureau of Labor Statistics, a worker with some postsecondary education but no degree earns approximately 13 percent more than a worker with only a high school diploma and is 7 percent less likely to be unemployed, while a worker with an associate's degree earns approximately 20 percent more than a worker with only a high school diploma and is 28 percent less likely to be unemployed.[36] Research also shows that one year of postsecondary education and an occupational credential can serve as a tipping point for substantially increased earnings.[37]

In addition, labor economists estimate that our workforce will encounter a shortage of five million "middle-skill" workers by 2018. These middle-skill workers are individuals who have jobs that pay middle-class wages but also need some type of postsecondary credential—typically earned through community college or workforce training. The vast majority of workers who will fill these middle-skill jobs in 2018, however, are already beyond our elementary and secondary school systems.

According to the Georgetown Center on Education and the Workforce, three-quarters of middle-class workers in 1970 had no education or training beyond high school. By 2007, however, the percentage of middle-class workers with only a high school diploma had been cut in half to 39 percent. And the labor market trend is moving further toward higher education, as 97 percent of net new jobs being created between 2008 and 2018 are expected to require some type of postsecondary degree or credential.[38]

Unfortunately, our existing workforce training system is not up to the task. High costs and other barriers, especially for working learners who try to gain skills while holding onto their current job, have restricted access to these programs for many Americans—even as our economic competitors focus on ramping up their training efforts.

To ensure that Americans who want to upgrade their skills are able to do so, we propose making it easier to take time off for training, increasing the flexibility and availability of job training funding, and dramatically ramping up apprenticeship programs that create career ladders.

Increase mid-career training by providing workers the right to request time off from work for training

American workers should have a legal right to request time off for job training that is mutually beneficial to the worker and their employer. This policy would encourage workers to upgrade their skills by shifting the presumption that workers should be fearful about asking for time off for training to one that encourages workers to make that request.

This would benefit both workers—by helping to ensure they are able to acquire new skills and consequently boost their incomes—and employers. In a Massachusetts study of incumbent worker training programs more than 90 percent of employers reported improvements in productivity and competitiveness; nearly 50 percent reported giving employees pay raises; and more than 20 percent reported avoiding layoffs as a result of training.[39] In Britain a policy similar to our proposal enjoys the support of business groups and labor.[40]

Specifically, our recommendation is that Congress should guarantee all workers at companies with at least 50 employees the right to request time off for job training. Workers would have the right to get help from outside resources—such as career counselors, workplace-learning advisors, union representatives, or public workforce office staff—to design their request for time off to enroll in job training. The requested job training would need to be relevant to the worker's job, workplace, or business. Employers would not be required to approve workers requests for training but would be required to respond to the request within 30 days.

Each state, with support from the U.S. Department of Labor, would create an online system to track worker requests and the corresponding employer responses. The system would create a platform for workers and employers to engage in a dialogue about the need for job training and provide transparent information about an employer's support for job training.

Create a flexible Pell Grant for adult workers to enroll in career training

Adult workers who have not finished some type of postsecondary degree or credential should be eligible for professional career counseling services and a federally funded career training account. In other words, we need a more flexible Pell Grant for adult workers.

Research has shown that access to postsecondary education and training significantly helps adult workers earn better wages and that combining customized workforce training with professional career counseling provides almost $50,000 in additional lifetime benefits per adult worker.[41] Unfortunately, there is not enough job training being funded by the federal workforce system. Only one-fifth of adults receiving services through the Workforce Investment Act Adult and Dislocated Worker programs actually receive job-training services, and only 6 percent earn credentials with labor market value.[42]

Furthermore, the Pell Grant program is not designed well for adults with full-time jobs who want to take one course per semester or obtain an occupational certificate.

Career training accounts—or Pell Grants for adult workers—would be available to adult workers ages 24 to 55 who earn less than $60,000 annually and do not possess a college degree, technical certification, or an industry-recognized credential equal to at least one full year of postsecondary education. Training funds would be limited to 48 months from the first day of enrollment in a training course. These training accounts should be capped at a total amount equal to one year of a maximum Pell Grant—currently $5,635.[43]

To receive a flexible career-training Pell Grant, an adult worker would be required to enroll in a vocational training program through their local public workforce system or community college. The training program would start with a comprehensive skills assessment and multiple sessions with a career counselor or career advisor.

Career counselors would help adult workers in their efforts to pursue certificates and credentials in programs that can be finished in one year to two years. Career counselors would limit training options to occupations in high-growth and high-demand industries in their regions and could limit enrollment to programs with proven track records of success in order to ensure the highest return on investment for taxpayer funds.

Expand apprenticeship training to develop 1.5 million skilled workers

The workforce training system should increase its support of apprenticeship training and also expand the apprenticeship model into new industries. Increasing the number of workers annually enrolled in apprenticeship training programs to 1.5 million—from the current level of 400,000—would create new pathways into the middle class for millions of workers over the next decade and would help provide employers with skilled workers who the market does not always provide.

According to the Department of Labor, apprenticeship completers earn an average starting salary of $50,000 and make as much as $225,000 more than comparable job seekers during their lifetimes.[44] Apprentices also don't have to wait until their training program is finished to earn money. A typical apprentice in carpentry, for example, starts their apprenticeship at 60 percent of a journeyman's salary, and their wage is increased by 5 percent every six months over the course of the four-year apprenticeship program. That means an apprentice is learning a valuable skill that will lead to a middle-class career, while also earning an income rather than accumulating thousands of dollars in student debt.

Specifically, we propose an investment of $2 billion annually to support an increase of 1 million new apprentices. This would enable the Department of Labor's Office of Apprenticeship to work with state-and-local workforce boards to conduct outreach to the private sector, develop relationships with employers in high-growth and emerging industries, and allocate financial aid to cultivate newly registered apprenticeship programs.[45]

Raise workplace standards

Over the past four decades, middle-class incomes have grown very slowly—far more slowly than productivity gain would allow for.[46] Indeed, since 1979 productivity (the measure of output per hour of work) increased by 85 percent,[47] yet household income for the middle 60 percent of income earners grew by less than half that, according to Congressional Budget Office figures.[48]

The past decade has been even worse for workers. The median income for working-age households actually fell during the economic expansion from 2001 to 2007, dropping by nearly 2 percent during this period, and then fell by another 4.6 percent during the Great Recession—even as productivity continued to increase.[49]

What's more, as middle-class incomes sink, a smaller share of the population makes an income near the mid-level. According to Alan Krueger, head of the U.S. Council of Economic Advisors, the share of the population that is earning within 50 percent of the median income has declined from 66.1 percent in 1980 to 59.5 percent in 2010, the last year for which complete data are available.[50]

As the middle class struggles, incomes for those at the very top have skyrocketed, fueling a striking disconnect between corporations, CEOs, and their workers—and more generally between the fate of the rich and that of the rest of the country. The after-tax, inflation-adjusted income of the top 1 percent of households grew by 275 percent from 1979 to 2007.[51] A major contributor to this rapid increase was the ballooning salaries of executives. Executives, managers, or supervisors at nonfinancial firms account for 40.8 percent of the top 1 percent of earners, according to one study.[52]

Corporate profits are at record levels—10.8 percent of gross domestic product in the first quarter of 2012, the highest level since the data was first collected in 1947.[53] Estimates indicate that CEO pay has risen from 42 times the average worker salary in 1980 to 380 times the average worker salary in 2011.[54]

In short, the middle class has received very little of the economic gains they have helped create.

There are a number of reasons for this disconnect between increasing productivity and stagnating wages for the middle class, but a key element is that workplace standards have failed to keep pace with changes in the economy and no longer help balance power in the economy. To help boost incomes, workplace standards need to be strengthened and updated to give workers a solid wage floor to negotiate from, alongside the tools they need to help capture a reasonable share of the economic gains they help produce.

The share of the population that is earning within 50 percent of the median income has declined from 66.1 percent in 1980 to 59.5 percent in 2010.

To raise the wage floor, we need to increase the minimum wage to the level it was in the 1960s, before its value was allowed to erode, and crack down on workplace fraud that denies workers the wages and benefits they are owed. To help workers do well when companies do well, we need to increase the use of broad-based incentive pay, allow workers to join unions, make the government a better consumer, and start to link worker compensation to CEO compensation.

Promote inclusive capitalism

When a company does well, so should all of its workers—not just executives at the very top. To help ensure that workers are rewarded for the wealth they generate, the federal government should encourage companies to adopt broad-based sharing programs such as granting workers an ownership stake or a share of profits based on workers' collective performance.

Research shows that this type of inclusive capitalism leads to positive outcomes for both the firm and the workers. Ways to promote inclusive capitalism include everything from worker cooperatives and employee stock ownership programs to profit sharing and gain sharing to broad-based stock options—paired with a supportive workplace culture that includes solid base-wages and benefits and a say on the job.

For workers, inclusive capitalism is associated with higher pay, greater long-term wealth accumulation, and greater job stability.[55] For businesses, inclusive capitalism is often associated with increased productivity, profitability, and the likelihood of long-term survival, as well as greater worker loyalty and effort and lower worker turnover.[56]

Congress should do a number of things to encourage companies to adopt broad-based sharing programs. First, it should offer grants to regional inclusive capitalism centers that would provide outreach, education, and technical assistance to private-sector businesses on adopting sharing practices and supportive workplace cultures.[57]

Second, Congress and the Obama administration should stop policies that inhibit the growth of sharing policies. Current federal policies, for example, sometimes render employee-owned companies ineligible for government contracts that are set aside for women- and minority-owned firms, even when the employee-owners meet the program qualifications. That practice and similar ones should end.

Third, Congress should create an Office of Inclusive Capitalism—that would increase awareness about inclusive capitalism by, for example, encouraging business schools to include information about these programs in their curricula and highlighting existing laws that promote inclusive capitalism such as benefit corporation laws, which provide legal protections to companies with inclusive capitalism practices.[58]

Limit the deductibility of executive pay to 25 times the national median annual earnings

Currently, wages for all employees can be deducted from a corporation's income tax liability, with the deduction for executive compensation restricted to $1 million per year for top officers of public companies. Yet performance-based pay such as stock options and bonuses are not included in the cap for tax deductibility. In response, corporations have engaged in a form of compensation arbitrage by shifting compensation toward "performance pay."[59] This shift and other factors have resulted in ballooning executive pay and have helped divorce executive compensation from any reasonable relationship with the compensation of middle class workers.[60]

The cap on the tax deductibility of executive compensation should apply to all compensation, including "performance based pay," and should be set at 25 times the national median annual earnings—roughly $1 million today. The cap would provide an explicit legal link between executive pay and middle-class incomes and may help boost workers' wages by starting to change the culture that has divorced the fate of executives from their employees.

To be sure, these reforms will not totally solve the problem of stagnant middle-income wages and runaway executive salaries: Corporations will be free to spend the same amount on executive pay but would have to pay higher taxes on that compensation. But at least middle-class taxpayers won't be paying for it in the form of corporate tax write-offs, and the reform would create an incentive to pay workers more economywide by setting norms and allowing the tax deductibility of executive compensation to rise only if workers' wages are rising.

Require companies that offer golden parachutes to top executives to also provide adequate severance to workers

More than one-fifth of the American workforce—approximately 26 million workers—is employed by companies that have contracts with the federal government.

Workers who lose their jobs often receive no help from their former employers as they confront a difficult job market. Yet CEOs who lose their jobs—even in cases of poor performance or misconduct—often receive "golden parachutes" worth millions of dollars.[61] In the last year for which data is available, only 20 percent of American workers were entitled to severance.[62] As a result, most workers who lose their job must rely on unemployment benefits, which are quite modest.[63] Yet 78 percent of CEOs have golden parachute provisions in their contracts, entitling them to cash payments upon termination—the most common provision pays three years of compensation.[64]

This double standard undermines the American notion of fairness in the workplace. If it makes sense to give golden parachutes to highly-paid CEOs, who are likely to have considerable wealth to cushion against a loss of employment, then it makes even more sense to offer at least an adequate level of severance to rank-and-file employees, who are unlikely to have assets to fall back on and who are frequently laid off through no fault of their own.

That is why we propose a nondiscrimination rule (similar to the rules governing workplace health and retirement benefits) requiring that public companies offering severance packages to their top executives also offer adequate severance to all other employees. Specifically, we propose that if a company offers a severance package to its executives in excess of the CEO's base pay, then it must also offer a basic severance package to the rest of its workers: at least two weeks per year of service. Employees terminated without cause would have a legal right to severance benefits if the company's executives have a severance provision in their contracts or if they are given a golden parachute.

This policy would enhance economic security for middle-class workers against the possibility of layoffs. It would also discourage excessive golden parachutes that waste corporate resources for top executives' personal benefit.

Raise federal contracting standards to strengthen the middle class

As a major purchaser of goods and services, the federal government has the potential to significantly influence the labor market. More than one-fifth of the American workforce—approximately 26 million workers—is employed by companies that have contracts with the federal government.[65] Unfortunately, millions of federal contract workers are paid very low wages, and their employers too often do not comply with federal wage and safety laws.[66]

By continuing to do business with companies that fail to comply with the law and that pay very low wages, the federal government drives down standards, makes it hard for companies with better workplace practices to compete, and contributes to the weakening of the middle class. Instead, the government should leverage its power as a major purchaser of goods and services to raise workplace standards. Congress should enact legislation to ensure that government stops rewarding companies with federal contracts that significantly and persistently violate the law and instead encourages agencies to do business with companies that provide middle-class jobs.[67]

More than 140 cities and one state (Maryland) have adopted standards to help ensure that government contracts help build the middle class, and that public contractors pay their workforces a nonpoverty wage.[68] Dozens of cities and states have responsible bidding ordinances that require prospective contractors to certify that they properly classify their workers as employees and comply with prevailing wage, workers' compensation, and unemployment tax laws before they are eligible to bid for public works projects.[69]

States and localities have found that adoption of such standards results not only better wages for workers but also in higher-quality and more reliable services. These contracting standards also increase competition among responsible contractors, which in turn reduces project delays, cost overruns, and monitoring, compliance, and litigation costs.[70]

End tax incentives for offshoring jobs

The U.S. tax code rewards companies for locating investment and jobs in foreign countries rather than the United States, which encourages the overseas outsourcing of American jobs and worsens the pressures driving down the wages of middle-class workers. America's middle class has a strong stake in ensuring a tax code that is not stacked against them.

Despite the fact that the United States nominally has a "worldwide" tax system, U.S. multinational corporations' overseas profits are treated differently—and far more favorably—than profits earned in the United States. This system of deferral provides tax incentives for overseas investments. In fact, it encourages U.S. companies to make job-creating investments overseas, even if similar investments in the United States would be more profitable absent tax considerations. The increased competition from countries where jobs have been outsourced has reduced employment and driven down wages for middle-class workers, contributing to the stagnation of middle-class incomes.[71]

There are several ways to reverse the tax code's bias toward foreign investment and to stop rewarding companies for shipping jobs overseas. First, a corporate minimum tax would ensure that U.S. multinational corporations pay at least some tax on their overseas profits and would reduce the reward for outsourcing jobs. Furthermore, specific deductions that promote overseas outsourcing should be eliminated. Corporations can currently take deductions for expenses involved in overseas investments such as relocation and shipping expenses. These deductions are clear subsidies for shifting American jobs abroad and should be eliminated. The savings created by eliminating these corporate tax deductions should be used to provide a tax credit for the costs of insourcing jobs—the costs involved in bringing jobs and business activity back to the United States—as proposed by Sen. Debbie Stabenow (D-MI) and Rep. Bill Pascrell (D-NJ).[72]

Increase the minimum wage and set it at half the average wage

The minimum wage should be set and indexed to one-half of the average wage, or approximately $10 today. Raising the minimum wage enables low-wage workers to enter the middle class and also causes employers to raise wages for workers already in lower end of the middle class through a "spillover effect."[73]

Over the past four decades, workers have become much more productive and our country much richer, yet we have allowed the value of the minimum wage to decline significantly. Indeed, since 1968 the inflation-adjusted value of the minimum wage has declined by 31 percent, even as productivity (the measure of output per hour of work) increased by 123 percent, and the inflation-adjusted average wage grew by 15 percent.[74] Indexing the minimum wage to one-half the average wage:

- Prevents congressional inaction from reducing the value of the minimum wage
- Guarantees that workers reap some of the economic gains they help create
- Raises living standards as our nation becomes richer

Efforts to index the minimum wage to inflation, while helpful to ensure that government inaction doesn't erode its value, consign future minimum-wage workers to today's standard of living, no matter how rich and productive our country becomes.

An increased minimum wage would also help our economy by increasing productivity through higher morale and effort, as well as reducing turnover.[75] Some readers might be concerned that an increased minimum wage would be harmful for job growth. But research has found that those fears are unfounded.[76]

Ensure that middle-class workers are paid the wages they are owed

Unfortunately, several relatively widespread practices prevent millions of workers, many of them middle class, from receiving the wages and benefits they are owed. An estimated 10 percent to 30 percent of employers wrongly claim their employees are independent contractors.[77] This renders the worker ineligible for overtime pay protections, forces them to pay for additional taxes for Social Security and Medicare that are the employer's responsibility, and leaves them without coverage under health and safety, family and medical leave, and antidiscrimination and labor laws.[78]

This law-breaking is not isolated to low-wage industries. State audit reports have found high rates of misclassification among construction, real estate, and high-technology jobs.[79]

A related problem is that millions of white-collar workers receive no overtime pay due to exemptions for white-collar workers earning more than $24,000. This not only denies workers some of the wages they would ordinarily earn but also can lead to excessive overtime that hurts work performance and productivity and is associated with poor health and creates work/family conflicts.[80]

Congress or the U.S. Department of Labor can ensure white-collar workers receive the overtime they deserve by raising and adjusting for inflation the minimum salary that white-collar workers must earn in order to be exempt from overtime.[81] Congress should also clarify that only workers who spend the majority of their time performing high-level executive, administrative, and professional duties are exempt from overtime.

Misclassification can be reduced by improving transparency, closing tax loopholes, and increasing penalties for lawbreakers. Specifically, the Labor Department should require companies to notify workers of their status as an employee or independent contractor and track contractors' hours. For its part, Congress should:

- Eliminate tax loopholes that permit companies to misclassify some workers[82]
- Strengthen enforcement by clarifying that it is illegal to misclassify employees
- Require employers to provide workers notice of their status as an employee or independent contractor
- Increase penalties on employers who misclassify their employees and commit other workplace violations
- Provide protections to workers who are discriminated against because they have sought to be accurately classified
- Encourage states to strengthen their misclassification prevention efforts[83]

In these ways, Congress and the executive branch can ensure that workers throughout the middle class earn what they deserve from their employers.

Ensure that workers who want to form a union are able to do so

Unions help make the middle class by enabling workers to negotiate for fair wages and benefits and also by helping ordinary citizens get involved in the political process. But as unions became weaker over the past four decades, they became less able to perform these functions—and the middle class has withered, with the share of income going to the middle class falling alongside the percentage of workers in unions.[84]

Indeed, according to Harvard University's Bruce Western and University of Washington's Jake Rosenfeld: "Union decline explains one-third of the growth in inequality—an effect equal to the growing stratification of earnings by education."[85] If unionization rates increased by 10 percentage points—to roughly the level they were in 1980—the typical middle-class household, unionized or not, would earn $1,479 more a year.[86]

Unfortunately, the current union election process is stacked against workers who want to form a union. One study finds that 35 percent of the time that workers file a petition for an election, the election does not end up happening.[87] To ensure that workers who want to form a union are able to do so, the following should occur:

The National Labor Relations Board should help put an end to needless election delays and modernize the union election process by enacting regulations that reduce unnecessary litigation, streamline pre- and postelection procedures, and facilitate communications via digital communications that workers now depend on.[88]

Congress should pass comprehensive labor law reform that establishes a fair process for workers to decide on union representation; that expands coverage so more workers are provided the right to organize; that establishes meaningful penalties and remedies for workers who are fired or discriminated against for exercising their right to organize; and that includes measures to promote productive collective bargaining for first contracts—so that workers can negotiate for improved wages and benefits.[89]

Congress should also make the right to join a union a civil right.[90] This would give workers who are discriminated against in exercising their right to organize a private right to sue, just as workers have a right to sue if they face other forms of workplace discrimination.

Reduce the costs of getting sick or losing a job

Middle-class families are at high risk of falling deeply behind if they get sick or lose a job. Costs of health care are high and rapidly rising, while the possibility of going to the poorhouse from getting sick or losing a job is ever present. Obamacare is already starting to provide some relief and will do far more when fully implemented, but getting sick may still lead to lost income or a lost job.

We pay far more for health care that citizens in every other wealthy country in the world—$7,960 per person annually, compared to $3,182 per person[91] for the average developed country—and costs continue to spiral out of control. According to the Senate Committee on Health, Education, Labor and Pensions, between 1970 and 2009 the costs of health care rose 50 percent, net of overall inflation.

These increases are due in large part to inefficiencies in our health care system but also because we have all ended up paying for the uninsured, with, for example, health care providers transferring a portion of the cost of covering the uninsured to us by increasing premiums by more than $1,000 per year on average, according to one study.[92]

Not surprisingly, because of the extreme costs and risks our health care system places on individuals, 62 percent of all personal bankruptcies were due to health care costs in 2007.[93] Getting sick not only imposes high health care costs on the middle class, but even a minor illness can jeopardize a person's job.[94] Indeed, 23 percent of adult Americans report either being threatened with losing a job or being fired for taking time off when they or a family member has been sick.[95]

If members of the middle class lose their jobs, they should be able to rely on a strong unemployment insurance system to provide a temporary replacement of part of their wages while they look for work. Yet our unemployment insurance system fails to cover many unemployed workers,[96] and more fundamentally the system faces a significant financial shortfall that jeopardizes the modest level of coverage it currently provides.

In short, middle-class families face excessive costs and risks if they get sick or lose a job. To help minimize unnecessary economic risks for middle-class families, we need to ensure that Americans have quality, affordable health care, access to paid sick days, and a strong unemployment insurance system.

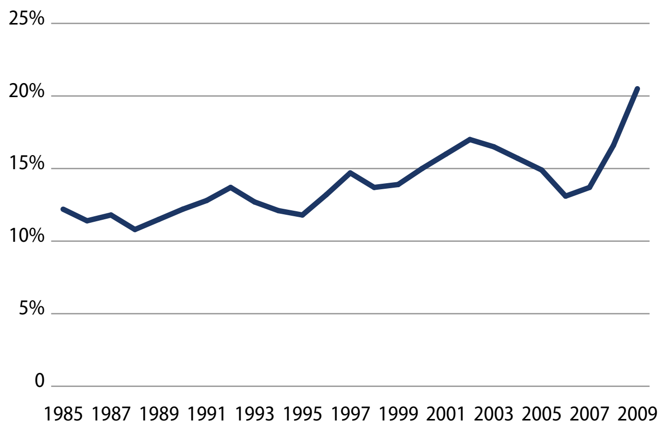
Ensure that middle-class Americans have access to quality, affordable health care

The federal government must do everything it can to ensure that Obamacare is fully implemented and adopt further reforms to rein in wasteful health care spending that raises consumer costs. These reforms will help ensure that middle-class Americans have access to quality, affordable health care.

FIGURE 4

Economic risks have been increasing for over two decades

Percentage of the population experiencing 25% or greater loss of disposable income



Source: Economic Security Index

To fully implement Obamacare, work must be done to help educate people about the law. Starting in 2014, uninsured individuals will be able to purchase insurance through new insurance marketplaces, called exchanges. And for many individuals and small businesses, tax credits will be available to offset some of these costs. At that time, Medicaid will also cover more Americans due to a provision in the law that expands Medicaid eligibility.

As the federal government implements specific aspects of Obamacare, it should seize the opportunity to advance other reforms that will reduce costs and improve patient care. As the federal government implements health care exchanges to help people buy insurance, policymakers should use the exchanges' market power to negotiate with insurers and exclude plans that provide low value to consumers.[97] Full implementation of Obamacare will result in 95 percent of Americans being covered, and American households on average will be more than $1,500 per year better off.[98]

Beyond Obamacare, policymakers can take additional steps to contain health care costs and increase quality by instituting reforms. The government should undertake reforms to:

- Rein in wasteful administrative costs by creating a federal office dedicated to simplifying health care administrative plans
- Coordinate similar administrative processes by different health care participants
- Embed administrative simplification rules and systems into existing reform efforts[99]

New research from the Center for American Progress estimates that by instituting the administrative reforms side by side with Obamacare, the federal government would shrink these unnecessary costs by 25 percent—or $40 billion per year.[100]

Also, we need to hasten the transition away from fee-for-service payments to doctors and hospitals that often include high-cost tests and procedures and toward paying for quality by bundling payments to providers so that the quality of care is the focus, not the quantity of care. Finally, expanding the use competitive bidding in Medicare—instead of setting prices administratively—to determine prices for medical devices and laboratory tests would not only result in savings for Medicare but also for beneficiaries through lower coinsurance and monthly premiums.[101]

Let workers earn paid sick days

Paid sick days should be available to all American workers. Implementing this policy would provide greater job security to millions of Americans, reduce worker turnover, and ultimately strengthen the middle class.

Currently there are no federal laws guaranteeing workers the right to earn paid sick days. Forty percent of private-sector workers—more than 40 million Americans—do not have access to designated paid sick days and are forced to choose between working sick or forgoing pay and risking losing a job.[102] Twenty-three percent of adults report either being threatened with losing a job or being fired for taking time off when they or a family member has been sick.[103]

Policymakers should guarantee workers the ability to accrue up to seven job-protected, paid sick days per year to recover from their own short-term illnesses or to care for an ill family member. Two bills before Congress—the Healthy Families Act and the Rebuild America Act—would implement paid sick days.[104]

Select states and cities that have implemented paid sick days demonstrate that such a law can be expanded without adversely affecting the economy. San

Forty percent of private-sector workers—more than 40 million Americans—do not have access to designated paid sick days and are forced to choose between working sick or forgoing pay and risking losing a job.

Francisco, for example, experienced little adverse reaction to this policy change, and its economy actually grew faster than those of surrounding cities once the sick days law was implemented.[105]

Improve unemployment insurance to stabilize the economy, boost economic growth, and assist the unemployed

Unemployment insurance helps keep middle-class families in the middle class until jobs become plentiful again by providing a modest income replacement for workers who have lost a job through no fault of their own and are actively looking for a new job. Recent U.S. Census Bureau data shows that nearly 70 percent of those who received unemployment insurance benefits in 2010 were in the middle-60 percent of the income earners.[106] The median annual contribution of unemployment insurance to a family's income was $6,000 in 2009, which on average accounted for 11 percent of a family's income.

Yet the system is under threat, as the Great Recession has left state-run unemployment insurance trust funds insolvent. The insolvency means that states may have to reduce benefit levels, leaving middle-class families with less income when they lose a job through no fault of their own. In order to preserve this important middle-class program, several changes must be made to the unemployment insurance system.

We propose that the way to do this is to begin by having the federal government clear the slate of the debt currently on the books of states, while rewarding states with positive balances. The first condition for clearing the slate is that moving forward, states should be responsible for financing unemployment insurance benefits only when their state's economy is experiencing normal, unelevated levels of unemployment.

The second condition is that in exchange for debt forgiveness and the federal government taking on the responsibility for benefits during periods of high unemployment, states would have to submit to greater harmonization of their eligibility and benefit levels, which would emphasize increasing eligibility and benefit levels. These increases would help middle-class families more adequately cope with the difficulties of unemployment.

Finally, states that provided adequate benefit levels and have sufficiently forward-funded their unemployment insurance trust funds must be rewarded for doing so.

We propose allowing states with surpluses to keep the surplus funds for other uses.

Putting the unemployment insurance system back on a solid footing would insure the middle class has something to fall back on when they lose a job for a reason out of their control.

Make it possible for workers to also be caregivers for children and elderly parents

Modern, middle-class families must do two things at once: Be in the workforce earning a living and also provide care for young children and services for elderly parents. While American family structures today have changed, our policies have remained stuck in the past.

In the 1960s less than a third of all women worked.[107] Today, women now make up about half of all workers on U.S. payrolls,[108] and in nearly two-thirds of families, the mother is either the breadwinner or shares that responsibility with her partner.[109] Less than one in three children now have a stay-at-home parent.[110] As a result, middle-class families need to cover a relatively new and rapidly rising household expense—child and elder care—as well as struggle with inflexible workplaces when they often need time away from work to welcome a new baby or care for an aging parent.[111]

The costs of ensuring the care of a child or aging parent are high and continue to rise—costs that must be born in order to retain employment.[112] Approximately 11 million children under 5 years old are in child care, and America's families are spending nearly $36 billion a year for private care or co-payments for subsidized early learning programs.[113] For example, the average costs of center-based child care for 4-year-olds, which can include preschool, cost an average of $10,550 per year in New York.[114] Since 2000 the cost of that care has increased twice as fast as the median income of families with children.[115]

When it comes to the care of aging parents, the percentage of adult children taking care of their parents has tripled since 1994 to about 10 million people now doing so.[116] A study by the National Alliance for Caregiving found that out-of-pocket costs of adults caring for an aging parent or dying spouse averaged $5,531 a year in 2007.[117]

For middle-class families, child care and elder care support is not only quite costly, but it is also an essential ingredient to accumulating the years of an uninterrupted work history that are often the prerequisite for promotions, raises, and improved job security.[118] Some kinds of care that require significant time off from work such as to tend to a newborn baby or ailing parent require extended leave from work that can strain even healthy family budgets.

In spite of the fact that all of the adults in most families are employed, only about 10 percent of all workers have access to paid family leave that includes time off for care-giving, and this type of leave tends to be offered as a perk for higher-paid workers.[119]

To help modern families deal with the high costs of care, we propose implementing a national paid family and medical leave insurance program available to all workers—something that other industrialized countries do—as well as significantly expanding access to preschool and increasing the child and dependent care tax credit.

Enact Social Security Cares, a federal paid family and medical leave social insurance program

The government should enact Social Security Cares to give workers time off to care when they and their families need it most.[120] The policy would provide up to 12 weeks of paid leave to qualifying workers experiencing the following life events:

- The birth of a newborn or the arrival of a newly adopted or fostered child
- The serious illness of a spouse, domestic partner, parent, or child
- The worker's own serious illness that limits their ability to work

The Family and Medical Leave Act of 1993 provides unpaid, job-protected leave for these types of events, but only about half of the workforce qualifies for this leave,[121] and many more cannot afford to take it because it is unpaid.[122] Social Security Cares would provide paid leave insurance to the vast majority of U.S. workers, so they have access to benefits when they need them. Using the most conservative estimates, nearly 80 percent of adults would be eligible for paid leave, including almost three-quarters of women and more than 70 percent of parents with young children.[123]

Significantly increase access to preschool for 3-year-old and 4-year-old children

All American families should have access to high-quality preschool programs for 3-year-old and 4 year-old children because a high-quality preschool education improves children's academic achievement outcomes and later-life experiences. But the high cost of quality preschool prices out many middle-class families—so much so that some children from middle-class families are less than half as likely to attend preschool than those from more affluent families.[124]

Evidence suggests that middle-income students obtain similar important benefits that low-income students do from preschool.[125] In fact, a rigorous evaluation of Oklahoma's universal preschool program found that children making the greatest gains were from families making nearly middle-class incomes that in many cases would be just high enough to exclude them from means-tested preschool programs.[126]

In spite of the fact that all of the adults in most families are employed, only about 10 percent of all workers have access to paid family leave that includes time off for caregiving.

Expansion of high-quality preschool education opportunities requires two major changes. First, we must improve the quality and coordination of existing early education systems. The federal government should continue to:

- Encourage states to align early learning standards for all programs
- Invest in state assessments and systems to ensure standards will be met
- Improve the quality of early childhood education workforce

Improving the quality of publicly funded programs will likely encourage the private providers that middle-class families often rely on to keep pace.

Second, we need to increase investment in preschool programs. Expanding preschool access to all 3-year-olds and 4-year-olds will cost at least $16 billion, or approximately 8 percent of current education spending—a cost that should be born together by federal, state, and local governments.[127] To help reach this goal, the federal government should increase investments in Head Start and provide matching grants to propel states to revamp their finance formulas, improve preschool quality, and increase access.

Use the tax code to lower the cost of caring for children and elderly parents

The federal child and dependent care tax credit should do more for middle-class families bearing the costs of child care or care for an aging parent.[128] Improving the design of the child and dependent care tax credit would benefit many middle-class families who struggle to balance both work and family obligations. Specifically, Congress should do the following:

- Expand the child and dependent care tax credit to more middle-class families by raising the income thresholds above which the credit is phased out. Currently at $15,000, the threshold should be raised to $85,000, as President Obama's Middle Class Task Force has proposed. That would substantially increase the amount of the credit for middle-class families. Raising the threshold would increase the credit for families with incomes between $15,000 and $115,000, nearly doubling it for families earning between $43,000 and $85,000.

- Increase the share of child care and dependent care costs offset by the federal tax credit and the amount of the expenses that can be claimed. The share of the costs that are offset by the tax credit should be increased to 50 percent, and the maximum amount of child or elder care costs for which the credit can be claimed should be increased from $3,000 to $6,000 per child and up to $12,000 for two children and indexed with inflation.

These changes would provide a significant benefit to millions of middle-class families that rely on outside care providers. Approximately 11 million children under 5 years old are in child care and since 2000 all of America's families are spending a total of nearly $36 billion a year for private care or co-payments for subsidized early learning programs.[129] When it comes to the care of aging parents, the percentage of adult children taking care of their parents has tripled since 1994 to about 10 million people—at an average cost of $5,531 per year according to one study.[130]

Boost retirement security

Being able to retire with security and dignity are core elements of what it means to be middle class, yet sadly this is becoming increasingly difficult to do. Social Security provides an essential baseline of income for retirees, but to maintain their standard of living in retirement, middle-class Americans depend upon accumulations in employer-sponsored retirement accounts and, to a smaller extent, personal private savings. Yet because of flaws in our voluntary private retirement system, a large percentage of Americans do not have enough retirement savings to maintain their current standards of living.

Ernst and Young estimates that 59 percent of new middle-class retirees will outlive their retirement savings,[131] while Boston College's National Retirement Risk Index estimates that 51 percent of households are at risk of having an insecure retirement.[132] The two primary reasons for inadequate retirement savings are:

- Half of all workers don't have a retirement plan at work[133]
- Many workplace plans do not lead to sufficient savings or retirement security

The typical household approaching retirement accumulated $120,000 in total through their 401(k) plans—a seemingly large sum but one that would provide a typical 65-year-old with a monthly payment of approximately $575.[134] These 401(k) plans can work well for some people, but in general they have failed to provide a secure retirement for a number of reasons including high fees, improper features, poor investment decisions, and their inability to take advantage of the efficiencies of pooled retirement funds.[135]

To ensure that all Americans have a quality retirement plan, we propose creating a new retirement plan type, the Collective Defined Contribution plan—a hybrid between a traditional pension with a defined monthly benefit and a 401(k) plan in which the retiree sets aside savings—as well as opening to the public the federal Thrift Savings Plan, the 401(k) for federal employees.

Create a Collective Defined Contribution retirement plan and open the Thrift Savings Plan to the public

In order to help the middle class retire with dignity, we need to expand retirement plan coverage and make saving less costly and more efficient. We propose achieving these goals and patching holes in the current retirement system by creating a new hybrid retirement plan type, the Collected Defined Contribution plan, and opening up the Thrift Savings Plan—the 401(k) retirement plan for federal employees—to the public. This means Americans would be covered for retirement in one of the following ways:

- Under their current pension or 401(k) plan
- Under a Collective Defined Contribution plan
- Through an expanded Thrift Savings Plan

We also recommend requiring automatic enrollment in plans in order to boost participation and increase savings balances.

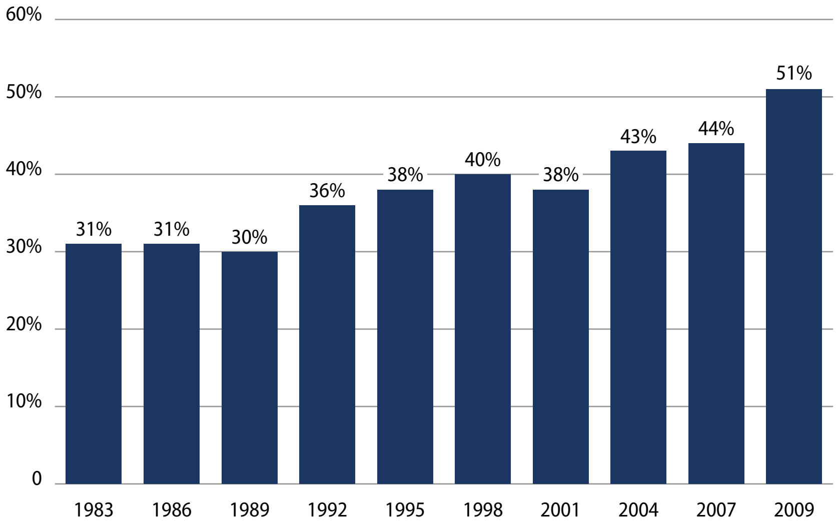
The Collective Defined Contribution plan takes the best parts of defined-contribution plans such as 401(k) plans and defined-benefit plans such as traditional pensions with consistent monthly payments to deliver a portable, cost-effective, and stable level of benefits for retirees at a constant cost to employers.

In the Collective Defined Contribution plan, employers would facilitate worker contributions to the plan but not be responsible for managing retirement accounts. But similar to a pension, assets would be pooled and professionally managed, and payouts would last a lifetime. The risk of not meeting targeted returns would be shared between retirees and workers rather than born by the employer.

FIGURE 5

More Americans at risk of having a lower standard of living in retirement

Share of households at risk of declining living standards in retirement



Source: Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass, "The National Retirement Risk Index: After the Crash" (Chestnut Hill, MA: Center for Retirement Research at Boston College, 2009).

Compared to a typical 401(k) plan, the Collective Defined Contribution plan would provide the cost efficiencies of a defined-benefit pension—46 percent lower costs that come from professional money management, long investment time horizons, and the ability to spread risks across multiple generations.[136] This new plan also would reduce risks for individual workers and retirees compared to a 401(k) because its long investment time horizons produce more stable and predictable investment returns.[137]

Despite the cost advantages of a collective defined-contribution plan, some people prefer the greater control over investment and other decisions allowed in 401(k)-style plan. These people should be able to invest in the Thrift Savings Plan. As the Center for American Progress has previously written, the Thrift Savings Plan is a model 401(k) because it has, among other features, very low fees, strong oversight, smart and limited investment options, and an annuity option.[138] Previous CAP research indicates that these low fees enable the typical worker earning $30,000 per year to save the equivalent of an additional $900 per year.[139]

Stabilize the costs of housing

Rapidly rising housing prices followed by the bursting of the housing bubble and the subsequent wave of foreclosures deeply harmed the middle class. Home ownership is a key source of middle-class wealth, but average home prices have fallen nearly 35 percent from their peak in 2006,[140] adding to about $7 trillion in lost household wealth.[141] This dramatic reduction in the wealth of the middle class, who had stretched their budgets to pay for (at the time) rapidly increasing housing prices, has left millions owing far more than their home is worth and has trapped people in bad financial situations that still threaten to further deteriorate the housing market.

Because of the housing crash and the historic decline in home prices, nearly one in four homeowners is "underwater," meaning they owe more on their mortgage than their home is worth, and nearly 5 million borrowers owe more that 125 percent of their home's current value.[142] The clear majority of underwater borrowers are middle-class families with an average mortgage balance of less than $300,000, according to CoreLogic.[143]

Hundreds of thousands of foreclosed properties sit vacant on the for-sale market, often deteriorating and losing value by the day. This glut of foreclosed properties is a serious drag on local housing markets. The typical foreclosure decreases the value of a home by 27 percent, and the mere presence of a foreclosure in neighborhood drops the value of all nearby homes by about 1 percent, according to a Massachusetts Institute of Technology study.[144]

Homeowners are deeply harmed by declining home values, but so too are renters—and many middle-class American families are transitioning from owing a home to renting one. According to U.S. Census Bureau data released earlier this year, the proportion of families that rent their home reached a 15-year high in the first quarter of 2012.[145] That increase in demand has caused monthly rents to skyrocket in many markets. Nationwide rents are almost 6 percent higher today than they were a year ago, and in many hard-hit markets such as Miami and Detroit, that increase is well above 10 percent, according to the real estate listing firm Trulia.[146]

In short, the collapse of the housing bubble has deeply harmed the middle class and threatens to continue wreaking havoc on families and the economy unless the housing market is stabilized.

Policymakers must help re-establish home ownership as a ladder to building middle-class wealth, rather than an anchor that holds families back. This requires several steps to stabilize the housing market, including establishing a large-scale refinancing initiative, rehabilitating and renting out government-owned foreclosed homes, responsibly winding down the two mortgage finance giants—Fannie Mae and Freddie Mac—now under government conservatorship, and implementing mortgage principal reductions through "shared appreciation."

Lower monthly housing costs by helping more homeowners refinance their mortgage

Congress should establish a large-scale refinancing initiative to help creditworthy homeowners with little or negative home equity take advantage of today's historically low interest rates. Even though many of these homeowners meet traditional lending standards, they often have trouble refinancing simply because of their equity position.[147] This policy will help millions of middle-class families lower their mortgage payments by an average of $2,600 a year.[148] It would also help the broader housing market: For every 1,000 new mortgage refinancings, 38 fewer mortgages would default, according to the Congressional Budget Office.[149]

A large-scale refinancing initiative has two distinct parts: streamlining existing refinancing programs and establishing a new program for borrowers who are ineligible for federal support today. The first step requires several changes to the federal government's Home Affordable Refinance Program, established in 2009 to streamline the refinancing process for Fannie- or Freddie-backed borrowers. One change would be for Congress to increase competition among banks by offering the same benefits under the Home Affordable Refinance Program to all eligible lenders. Another change: Congress could eliminate unnecessary fees charged to certain underwater or nearly underwater borrowers, which pose a significant barrier to program participation.[150]

The second step requires more aggressive action. Even if the above changes were made, more than 3 million current-but-underwater borrowers with loans not backed by the federal government would be unable to refinance, according to our analysis.[151] One possible solution is to create a new government program to help refinance these purely private loans into government-backed ones. Operating such a program through the Federal Housing Administration, which the president proposed earlier this year,[152] would limit the size of loans eligible for government support, narrowing the focus to struggling middle- and low-income families. The program would be restricted to only homeowners who are currently up to date on their mortgage payments. Such a requirement would require some taxpayer support to limit the impact on the Federal Housing Administration's balance sheets.

A large-scale refinancing initiative … will help millions of middle-class families lower their mortgage payments by an average of $2,600 a year.

Stabilize hard-hit communities and expand affordable housing by rehabilitating and renting out government-owned foreclosed homes

With home prices in a slump and both rent and rental demand rising,[153] many of the 200,000 government-owned foreclosed homes[154] could earn the best return for taxpayers and help more middle-class families if they were rehabilitated and turned into affordable rental units, a process we call "Rehab-to-Rent."[155] If done well, Rehab-to-Rent could help middle-class families by stabilizing housing markets hit hard by the recent foreclosure crisis, revitalizing neighborhoods blighted by vacant foreclosed homes, and providing affordable rental units at a time of rising rental demand.

Earlier this year, Fannie Mae and its regulator, the Federal Housing Finance Agency, announced a pilot program as the first step in a major Rehab-to-Rent strategy. The pilot offers pools of Fannie-repossessed homes—most of which are already occupied with tenants, who will remain in the properties—to eligible investors looking to rent them out for a period of time.[156] If the pilot proves successful, Fannie should stand ready to expand the program to more markets and offer more foreclosed properties for conversion, with a particular focus on affordability, transparency, and accountability.[157] To be sure, Rehab-to-Rent is not likely to have a meaningful impact on the national housing market. But by targeting the right communities and focusing on long-term returns instead of short-term profits, this initiative can make a big difference in neighborhoods and cities hit especially hard by the ongoing foreclosure crisis and can help make rents more affordable for thousands of middle-class families.

Ensure a liquid, stable, and affordable U.S. mortgage market by responsibly winding down Fannie Mae and Freddie Mac

Middle-class families rely on homeownership as a source of economic stability and household wealth. In order to ensure that mortgages remain accessible and affordable to the middle class, the federal government must maintain a strong role in the housing market. This includes a regulatory role to oversee the sustainability and affordability of mortgage products to consumers, as well as an explicit guarantee to backstop catastrophic losses on certain mortgage-backed securities.

But the current level of government support to the housing market is unsustainable in the long run, and just about everyone agrees that private investors will eventually have to assume more risk in the mortgage market.

A group of housing finance experts, affordable housing advocates, and leading academics brought together by the Center for American Progress recently released a plan for responsibly winding down Fannie Mae and Freddie Mac and bringing private capital back into the U.S. mortgage market.[158] As the plan points out, through smart regulation and an explicit, limited guarantee on certain mortgage products, the federal government can ensure broad, consistent, and stable access to affordable and transparent mortgage finance.

Perhaps most importantly, the plan preserves the 30-year fixed-rate mortgage, allowing middle-class families to set their housing costs and better plan for their futures in an ever more volatile economy.[159] Creating a stable and affordable mortgage market is a critical component of creating a strong American middle class.

Give deeply underwater homeowners a fighting chance of staying in their homes through mortgage principal reductions with "shared appreciation"

Deeply underwater borrowers—those who owe far more than their home is worth—are at significantly higher risk of foreclosure than borrowers with equity in their home.[160] These families often cannot see the long-term upside from making expensive monthly payments into a bad investment—especially when their income or other expenses come under stress. The clear majority of underwater borrowers are middle-class families, with an average mortgage balance of $219,000 and more than $50,000 in negative equity, according to CoreLogic.[161]

To help deeply underwater middle-class families, the Center for American Progress has recently proposed a principal reduction program called shared appreciation that would help homeowners and incentivize banks to reduce the balance of the mortgage.[162] Under the proposal, Fannie Mae and Freddie Mac would agree to write down the principal on certain deeply underwater loans to 115 percent of the home's current value, immediately putting the borrower within reach of positive equity. In exchange, the borrower agrees to split any future appreciation on the home, payable at the point of resale or refinancing.

As a result, the borrower has a reason to keep paying, middle-class families see their household debt reduced significantly, and the lender or investor benefits if and when home prices eventually stabilize and rebound. Since the borrower has to give up a meaningful share of future home price appreciation, the shared appreciation modification is not particularly attractive to borrowers that don't need it. The policy would help reduce the financial stress of a burdensome mortgage for middle class families and reduce the chance they will default.

Reduce energy and transportation costs

Middle-class families have been hit hard by high and extremely volatile prices for gasoline and home energy. Gasoline prices hit a pre-Memorial Day driving season record high this year, rising to an average of $3.94 per gallon the week of April 2, 2012.[163] Since then prices declined to the average price $3.53 per gallon the week of June 18, 2012. This is still a 7 percent increase from prices at the beginning of the year. These huge price swings take a toll on American families and business that rely on cars or trucks for work, business, and other needs.[164]

Household energy bills—including electricity, natural gas, and, in some places, home heating oil—may not get the same attention as gasoline prices, but they're significant. The average annual energy bill for a single family home in the United States is approximately $2,200.[165] According to a *USA Today* analysis of government data, households paid record prices for electricity in 2011, the fifth consecutive yearly increase above the inflation rate. "The jump has added about $300 a year to what families pay for electricity," says Dennis Cauchon. "That's the largest sustained increase since a run-up in electricity prices during the 1970s."[166]

The total cost of electricity can be challenging for many middle-class households, but the volatility in electricity prices is a more serious problem. Electricity prices are closely linked to natural gas prices. When natural gas swings from $4 per million BTU to $15 and back to $2—as it has in recent years—consumers have a very hard time budgeting for household expenses. We don't expect to see that sort of volatility in the near term, but it's unreasonable to think it will never happen again. Most of our electricity today is generated from fossil fuels that are bought and sold on commodity markets and whose prices fluctuate every day. Electric utilities ultimately pass much of this volatility along to consumers through their electric bills.

High gasoline and energy prices create a burden for the middle class. Gasoline—and energy more generally—is an inelastic product, meaning that consumption of it does not decline very much as prices increase because, for example, a certain amount of driving is built into peoples' lives. So it is very difficult for most people to reduce their driving even when prices are rocketing upwards, just as you can only set the thermostat so low in the winter.[167] Indeed, in April 2011 gasoline prices were up 33 percent compared to April 2010, but driving was down by only 2.4 percent.[168] When gasoline and energy prices rise, many families buy fewer other goods and services or dip into their savings and don't necessarily reduce energy consumption to a notable extent.

Addressing high and volatile gas and energy prices requires strategies to reduce commodity speculation that drives up oil prices, help families reduce energy use, and give people more and better alternative transportation and energy choices.

The 2009 Cash for Clunkers program was successful in speeding up the purchase of new fuel-efficient vehicles and creating 42,000 jobs.

Decrease gasoline bills while increasing transportation alternatives

To help families cope with high and volatile gasoline prices, we must take steps to make gas prices more stable and affordable, while investing in alternatives that give middle-class Americans more transportation choices. In order to stabilize volatile gas prices, the Commodities Future Trading Commission should reduce oil speculation by raising margins and regulating speculative activity.[169] For this to be effective, the commission needs sufficient resources to effectively enforce these and other market safeguards. Congress needs to appropriate that additional funding.

The federal government should also encourage consumers to drive more fuel-efficient or alternative-fuel vehicles. The 2009 Cash for Clunkers program was successful in speeding up the purchase of new fuel-efficient vehicles and creating 42,000 jobs.[170] We recommend restarting the program and expanding it to include a broader range of oil-saving activities such as purchasing alternative-fuel vehicles and taking older vehicles in for major maintenance, including the installation of high-flow air filters, and other fuel-saving measures.

In addition the government can help provide commuters more affordable public transit options by reinstating incentives for employers to offer greater transit benefits. Workers were allowed to exclude (for income and payroll tax purposes) up to $230 per month in employer-provided commuting benefits, whether for parking, mass transit, or vanpooling until 2012. But due to a historic quirk in the tax code, the benefit for mass transit and vanpooling (though not parking) shrunk to $125 starting this year. The recently enacted Moving Ahead for Progress in the 21st Century (MAP-21), H.R. 4348, fails to restore this tax deduction.[171]

Decreasing oil speculation and increasing affordable transportation alternatives would provide a significant benefit to middle-class Americans. Oil speculation is estimated to increase the price of gas by 15 percent, so limiting this activity could save families significant money at the pump.[172] Fixing the public transit loophole would save middle-class transit riders about $45 per month, for whom transit expenses can be a sizeable part of the household budget.[173]

Create a clean energy standard and increase America's renewable energy consumption to 35 percent

The federal government should create a clean energy standard that requires 35 percent of America's energy needs be met by renewable energy and energy efficiency improvements by 2035. This goal of "35 by '35" will not only ensure the growth of strong markets for technologies such as wind and solar but also reduce utility costs and volatility.

Clean energy standards hold significant potential to save middle-class consumers significant money. The largest utility company in Colorado, Xcel, says that the state's renewable energy standard will save their consumers as much as $118 million by 2021.[174] And renewable energy such as wind and solar power are not subject to rapid price spikes. Once the electricity generation is built, the fuel is free. In contrast, traditional energy sources have wildly fluctuating prices.

What's more, renewable energy, unlike fossil fuels, has no fuel cost. This means that when you build a wind turbine or install a solar panel, you know exactly how much the electricity from that project will cost for the next 20 years or even longer.

Create retrofit financing fund structures for single and multifamily homes

Federal, state, and local governments can help middle-class families save millions in energy costs by creating home retrofit financing funds to improve the energy efficiency of homes. The HOME STAR program would provide middle-class families with discounts to make energy and water efficiency improvements to their homes.[175] The program would provide $5 billion to $6 billion in grants to states to provide revolving loans, interest rate reductions, and other financial products to support widespread deployment. HOME STAR gives homeowners a choice of two types of incentives:[176]

- The SILVER STAR incentive would provide rebates for the purchase and installation of specific energy-saving equipment such as furnaces and water. Rebate amounts would range from up to $1,500 per qualified installed measure, capped at 50 percent of project costs, or $3,000—whichever is less.

- The GOLD STAR incentive goes a step further and would reward whole-home retrofits based on predicted energy savings. Homeowners could receive $3,000 for modeled savings of 20 percent, plus $1,000 for each additional 5 percent of modeled energy savings, with incentives up to $8,000 not to exceed 50 percent of total project costs.

The HOME STAR program would save 3 million American families as much as $9.5 billion over 10 years on their home energy and water bills.[177] Additionally, the labor for retrofits would boost employment in the hard-hit construction sector,[178] and the goods used in retrofits are more than 90 percent domestically manufactured.[179]

Create middle-class jobs

The Great Recession officially ended in June 2009, but the jobs situation has yet to fully rebound. More than three years into the recovery, the United States still has 4.9 million fewer jobs than it did at the beginning of the recession in December 2007. The private sector has been adding jobs for the past 28 months, but the pace is not nearly strong enough.[180]

The labor market has a long way to go before it returns to full health. The unemployment rate has been above 8 percent for the past three years, the longest period at that level in the post-World War II era.[181] While the number of unemployed persons per job opening has declined since the end of the recession, the ratio is still twice as high as it was before the Great Recession.[182] At the current rate of employment growth, the economy won't recover all the jobs it lost until after 2025.[183]

The main impediment to continuous and strong job growth is the lack of demand for goods and services in our economy. Throughout the recession a survey of small businesses conducted by the National Federation of Independent Business has shown that the number one concern for these firms has been a lack of sales.[184] Similarly, economists—including those aligned with both political parties—agree that the lack of demand is the central problem in the economy.[185]

Injecting more demand into the economy would create more job openings and therefore spur employment growth. Dozens of policies in this report would boost demand by spurring the purchase of fuel-efficient cars, freeing up spending money by reducing mortgage payments for millions of families, and ensuring that people who lose jobs receive unemployment insurance and are able to buy basic necessities. All of these and other policy recommendations in this paper would help spur a virtuous cycle that creates jobs.

But we can and should also take direct action to promote job creation. The federal government can boost demand and job growth through direct purchases of goods and services, by putting teachers back in the classroom, and by rebuilding our crumbling infrastructure. We can also more directly encourage firms to keep employees on payrolls by promoting job-sharing policies that provide the flexibility that both employers and employees are seeking.

Rehire all teachers laid off in aftermath of Great Recession

Due to the severe impact of the Great Recession, state and local governments have slashed spending in order to balance budgets. The casualties of these cuts include tens of thousands of jobs, including those for teachers. The loss of these middle-class jobs not only harms the economy in the short term but also undermines the long-term growth of economy by weakening our education system. The federal government should create a fund that would let state and local governments rehire teachers at their 2008 levels. This would result in approximately 498,000 teachers getting their jobs back.[186]

The hiring of half a million teachers would have an immediate effect on our economy, as it would introduce desperately needed consumer demand into the economy. The program would also immediately create thousands of middle-class jobs. Teachers are solid members of the middle class, with an average yearly compensation of approximately $50,000.[187] Increasing the rolls of public schools would strengthen the middle class immediately. The increased number of teachers would also reduce the student-to-teacher ratio.[188]

Using Bureau of Economic Analysis data on teacher compensation, we estimate that rehiring 498,000 teachers would have a direct cost of $35 billion. These figures are for one year, and the overall cost of the hiring may be larger due to implementation costs, but we believe our estimate is a reasonable starting point for the cost of the program.

Create jobs by rebuilding America's infrastructure

Increasing investments in America's physical infrastructure such as roads, bridges, railroads, and ports is an important part of boosting job creation in our economy. These investments are critical to our overall economic competitiveness, as the grade the American Society of Civil Engineers gave our infrastructure was a "D," and Center for American Progress analysis estimates that an additional $129.2 billion in investments is required over the next 10 years.[189] Boosting infrastructure spending would also help reduce our country's job gap. Increasing investments to our recommended levels would create an estimated 2.4 million jobs a year.[190]

Infrastructure investment is a particularly effective form of job creation and economic stimulus. A Congressional Budget Office report on the American Recovery and Reinvestment Act found that infrastructure created the second-most economic activity per dollar spent;[191] only direct government purchase of goods and service had a higher bang for the buck. Increased investments would not only directly put people back to work but also would spur demand for supplies and goods and services the newly employed workers buy.

A Congressional Budget Office report on the American Recovery and Reinvestment Act found that infrastructure created the second-most economic activity per dollar spent.

Our proposal for infrastructure investment has several components, but the largest aspects include increasing federal expenditures, restructuring funding formulas based on objective measures of costs, needs, and benefits, and the creation of a national infrastructure bank.[192] The federal share of the increased investments would be $48 billion, which would be paid for in several ways. Federal allocation formulas would be adjusted to make sure that investments are made on a rational basis instead for political reasons. And a national infrastructure bank would help increase private investment in infrastructure and ensure that necessary large-scale and multistate infrastructure projects are undertaken.

A conservative estimate predicts these increases would create approximately 2.4 million jobs a year.[193]

Promote job sharing to save existing jobs and create new ones

Job sharing helps boost employment by spreading out work hours among a greater number of people while keeping pay constant. If workers' purchasing power is held constant even as they work fewer hours, then more total people will be employed in the economy. Estimates indicate that each dollar spent on work sharing produces a $1.70-boost to the economy.[194] Job sharing can also benefit overburdened workers and help struggling employers reduce costs, while maintaining morale and retaining valuable employees so that they can more easily ramp up when the economy improves.

Promoting job sharing that creates jobs requires policies to ensure that workers do not lose income from their reduced hours. This can be accomplished in two ways, which can be implemented in conjunction. One way is through the unemployment insurance system. This system allows workers to receive benefits if their hours have been reduced, not just if they lost their job, but this program is currently not widely used—in large part because until recently program rules were unclear. Only 24 states have opted into the "short-time compensation" program within their unemployment insurance system.[195] The Obama administration recently provided clearer guidance on the short-time compensation program, which should help increase take up, especially if coupled with increased education efforts.[196]

A second way is through a tax credit that could also be used to promote reducing employees' hours in lieu of laying off workers. Employers could earn the tax credit if they reduce employee hours but do not reduce compensation or total employment.[197] If the average tax credit is $2,000, then an outlay of $42.9 billion in tax credits would lead to an estimated 1.3 million jobs per year.[198]

Focus policymakers on the middle class

The weakened state of the middle class is perhaps the single most important issue facing policymakers today. The decline of the middle class harms not just those who are struggling but also all Americans because a strong middle class is essential for a vibrant democracy and a healthy economy—and for our conception of what America should be about.[199]

Despite the centrality of the issue, policymakers have done relatively little to address the situation. Indeed, while the middle class has received some debate, they have not been the subject of the kinds of institutional reforms that have been used to ensure that Congress places a top priority on the issue, as, for example, has been done for the budget deficit. Drawing attention to the specific problems of the middle class and how policies would affect the middle class would be helpful in steering the policy conversation.

To ensure that the middle class is at the top of the agenda and a key part of the day-to-day discussions of policymakers, we propose several institutional reforms.

Require middle-class impact statements

We recommend the creation of middle-class impact statements for major pieces of legislation. Lawmakers should know how a bill would affect the middle class before they vote on it.

The statements, produced by the Congressional Budget Office, would detail how a proposed piece of legislation would affect incomes for the middle class or the costs and risks of core middle-class necessities such as health care, retirement, education, and housing, and would be required before a bill could be scheduled for a floor vote. Legislation that would affect health care policy, for example, would be studied to see how it would change costs and coverage for middle-class families.

The proposal is analogous to the requirement that the Congressional Budget Office produce budget estimates for bills that would affect the federal budget. As with budget estimates, the requirement would simply be that Congress has this important information available, not that votes need to be altered because of the information.

Just as budget hawks measure the merits of a policy by how much it reduces the deficit based on a Congressional Budget Office score, policymakers would have a reliable guideline for how a proposed piece of legislation would affect the middle class. As a result, debate on pending legislation would be better informed and more likely to focus on the middle class.

Create a bipartisan commission on the middle class

We propose the president create a national bipartisan commission on the state of the middle class. The commission would be composed of elected officials, academics, business leaders, union officials, and other individuals.

The commission would be responsible for producing a report that describes the state of the middle class, traces the causes for the current situation, and then proposes policy solutions, and would deliver this report nine months after it is convened. The report will be delivered to the president and then published on the commission's website, where it will be available free of charge to the public. The president should secure the agreement of the Senate and the House of Representatives to bring the policy recommendations supported by a supermajority of the commission members to the floor for an up-or-down vote.

While commissions can sometimes be used to avoid responsibility, minimize public debate, and have the effect of pushing off urgent problems to a later date, the state of the middle class is a ripe subject for a successful commission. The state of the middle class is already the subject of public debate, so the issue is unlikely to be buried by a commission and rather would benefit from the stature of a commission.

Indeed, policymakers are already offering proposals to address aspects of our focus on the middle class and would likely be encouraged to do even more if a commission were created because no successful politician can totally pawn off responsibility to a commission on an issue so central to the concerns of voters. Finally, even if the commission doesn't result in legislation signed into law, it can still be a success if it significantly focuses elected officials and the public on the state of the middle class.

Conclusion

Though the American middle class is in trouble—facing stagnant incomes and growing costs and risks—there are solutions that will make a big difference in people's lives and start to rebuild the middle class. This report describes 35 policies that would strengthen our middle class by helping address the challenges Americans face in achieving and maintaining a middle-class standard of living.

The policies would help lower college education costs, update workplace standards to match the needs of 21st-century dual-income families, create more middle-class jobs, boost retirement income security, and rein in health care costs. These policies are the kinds of bold, aggressive action that America needs.

Passing this agenda is critical not just for those who are struggling but also for all Americans because a strong middle class helps our economy and democracy thrive. Elected officials should push to implement these 35 policies right away.

About the author

David Madland is the Director of the American Worker Project at American Progress. He has written extensively about the economy and American politics in such places as *The Washington Post* and *Los Angeles Times,* appeared frequently on CNN, CSPAN, and Fox News, and has been a guest on dozens of radio talk shows across the United States. Madland writes regularly about unions, retirement policy, and public opinion. His current work focuses on the importance of the middle class to the economy and democracy, as well as policies to restore the strength of the middle class.

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