THE NEW CENTER

Policy Paper

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Inclusive Capitalism: Expand the Table and Add a Seat

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ABOUT THE NEW CENTER

American politics is broken, with the far left and far right making it increasingly impossible to govern. This will not change until a vibrant center emerges with an agenda that appeals to the vast majority of the American people. This is the mission of The New Center, which aims to establish the ideas and the community to create a powerful political center in today's America.

THE NEW CENTER

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NEW CENTER SOLUTIONS

- Expand the Workforce with Smarter Immigration
- Improve Productivity with Investment in Inclusive Innovation
- Increase Female Labor Force Participation
- Ease Re-entry Into the Workforce for Ex-Offenders and Felons
- Make Financial Literacy Education a National Priority

INTRODUCTION

Despite continued worries about COVID-19, inflation, and supply chain issues, the U.S. economy and the labor market remain surprisingly strong.

There are over 10 million job openings nationally—a record—which is a challenge for businesses but has increased the bargaining power of workers. For the first time ever, without the help of an increase in the federal minimum wage, average pay for supermarket and restaurant workers climbed above $15 an hour.

Even poverty has been cut nearly in half since 2018, thanks at least in part to the temporary expansion of the social safety net during the pandemic which included stimulus checks, increased food stamps, and expanded unemployment insurance.

However, the over $5 trillion in COVID relief funds that Congress has appropriated since March 2020 won't last forever. As America looks toward a post-pandemic world, Washington needs an equal focus on both growing the economy and making it more inclusive. Entrepreneur and founder of the non-profit Operation Hope, John Hope Bryant describes the challenge as "expanding the table and adding a seat."

It sounds obvious but in Washington, Republicans and Democrats increasingly seem to fixate on one priority to the exclusion of the other.

Economic growth is indeed the prerequisite to anything our nation wants to achieve. Any challenge you can imagine—poverty, innovation, economic mobility, our government's fiscal woes—is exponentially easier to solve if America's economy is growing at 3% annually than if it is growing at 2%.

But the promise of the American dream is to provide equal opportunity for all and a chance to achieve more than the generation that came before them. That dream is still out of reach for too many. If you're born to a family in the bottom 20% income bracket today, your chances of making it into the top 20% income bracket are only half as likely as they are in Canada. On top of that, only half of today's 30-year olds make more than their parents did at their age.

If you live in America, your prospects for upward economic mobility vary significantly based on your geography, with cities in the Deep South and Midwest tending to have worse mobility than other regions. Even places less than 15 miles away from each other can have starkly different experiences. One such example can be found in Washington, D.C., where the predominantly black neighborhood of Barry Farm has a life expectancy that is 33 years less than the white, affluent area of nearby Friendship Heights, Maryland.

Where you're born shouldn't determine what you can achieve.

In this paper, The New Center proposes some creative thinking to expand the table by promoting economic growth and adding a seat for those Americans who have been left behind in our economy.

THE PROBLEM

Without a healthy economy that is growing rapidly, our capacity to create a more inclusive system in America isn't possible. Unfortunately, our economy has been slowing down at a steady clip for decades.

In the post-World War II era of the 50s and 60s, the average U.S. GDP growth rate was over 4%.

In the following decades in the 70s and 80s, it dropped to around 3%.

Since the turn of the 21st century, the U.S. has experienced an average growth rate below 2%.

In 2016, the No Labels Policy Playbook for America's Next President forecast what would happen if the U.S. economy grew at a 3% rate between 2016 and 2030:

- The economy would be nearly $3 trillion larger
- Personal income would be more than $2.5 trillion higher
- The government would collect more than $5 trillion in additional revenues

So how do we reverse this trend and get our country on track towards healthy and sustained economic growth? The answer is actually quite simple.

Generally speaking, there are two main ways for an economy to grow. The size of the workforce can increase, or the productivity of the workforce can increase.

To achieve the twin goals of higher economic growth that benefits more people, both sides of this equation need to be tackled. The New Center explains how adopting a smarter immigration system, increasing women's labor force participation, and reducing barriers to employment for felons can help expand our declining workforce, and how more investments in innovation and personal finance education can drive productivity for the jobs of our future.

NEW CENTER SOLUTIONS

EXPAND THE WORKFORCE WITH SMARTER IMMIGRATION

America needs more people working to keep our economy growing, but the growth of the U.S. labor force is slowing down. It was 1% each year in the 1990s, but is projected to drop to an annual average of 0.6% from 2018 to 2026. Baby Boomers are retiring en masse, and our birth rate is now half what it was 50 years ago. In fact, at 1.73 births per woman, the American total fertility rate has fallen below the rate of replacement. The American Enterprise Institute found that returning the American birthrate to just replacement level (2.1 births) with cash incentives would be "extremely costly" and likely unfeasible. Not to mention that it would of course take decades for children born today to join the labor force. The obvious answer to fix our workforce problem is to welcome more immigrants.

Unfortunately, our current immigration system is broken. Although the dramatic increase in illegal immigration justifiably has grabbed much of Americans' attention of late, our legal immigration system isn't working to meet the needs of our country in 2021 either.

The U.S. currently admits almost five times as many immigrants for family-based reasons as employment-related ones. Our goal should be to shift our targets closer to those of countries like Australia or Canada, which currently has an almost equal split — letting in 27% of immigrants for family-based reasons and 32% for employment-based ones. Like Canada, the U.S. could use multiple criteria to determine which immigrants qualify for merit-based entry, including:

- Education
- English language ability
- Work experience
- Age
- Arranged employment (those who already have job offers)
- Adaptability, which includes previous experience living legally in the United States, or personal connections that would make assimilation easier.

With an immigration policy that specifically focuses on offsetting their aging population and low birth rates, Canada's immigration intake of 0.9% of the population is three times greater than the per capita rate in America. Additionally, the Canadian immigration system gives provinces a quota and the power to admit immigrants as needed, provided they are able to pass a basic background and health check.

The U.S. could stand to increase its immigration intake to at least the per capita rate of Canada, if not higher. A similar program could be set up in the U.S. to delegate authority for merit-based immigration at the state level, where they have a better understanding of the local labor market and can bypass the timely process of single-employer sponsorship.

Of course, a reform like this may not be possible until the U.S. can get a handle on its crisis on the southern border, where the number of migrants picked up by U.S. Border Control recently hit a two-decade high. It can be a hard sell to the American public to increase immigration when they don't feel we have control of our border. It's all the more reason why immigration needs to become a front-burner priority for the White House and Congress, to both find a humane and secure way to address the crisis at our border while also finally adopting a long-term plan to bring in more immigrants to grow our workforce.

Benefits of Immigration

- According to a 2014 paper from the National Bureau of Economic Research, 30 to 50% of the productivity growth that took place in the U.S. between 1990 and 2010 was contributed by immigrants with science, technology, engineering, and math degrees.

- Immigrants are uniquely entrepreneurial, as they are twice as likely to start a business as native-born Americans. And some of these small businesses become very big businesses. Entrepreneurship is the fire that stokes the U.S. economy. In fact, new businesses create all net new jobs in the United States, with immigrant-founded businesses helping to create millions of jobs.

- More than half of all American startups worth $1 billion or more today were founded by immigrants.

- According to a 2015 study published in the Journal of Labor Economics, a 1% increase in the share of foreign STEM workers in American cities was associated with a 7 to 8% increase in wage growth among native-born college-educated workers and a 3 to 4% increase in wage growth in native-born non-college-educated workers between 1990 and 2010.

IMPROVE PRODUCTIVITY WITH INVESTMENT IN INCLUSIVE INNOVATION

U.S. innovation over the past century has largely been driven by the coordinated efforts of government, academia, and private enterprise. Some of the most impactful inventions of the past 50 years including the computer, the microchip, and the internet were as a result of this collaboration. As Walter Isaacson of Time Magazine wrote:

"The first computers were funded by the military, built at the University of Pennsylvania and Harvard, then commercialized by companies such as Univac and IBM. Transistors were invented at Bell Labs, then federal funding for the space and strategic missile programs led private companies such as Fairchild and Intel to devise ways to etch thousands of them onto small silicon chips. And the internet was famously conceived by DARPA and built by research universities working with private contractors such as BBN."

From Left to Right: John Bardeen, William Shockley, and Walter Brattain, Inventors of the transistor at Bell Labs
Source: AT&T; photographer: Jack St., New York, New York.

The National Science Foundation (NSF), which was established in 1950 under President Harry Truman, was built upon the idea that government funding of basic research in academia and research labs could then empower private corporations to produce revolutionary innovations. One such example of the NSF's success in spurring innovation was a result of simply funding two Stanford graduate students in their research on indexing web pages on the internet. Four years later, Larry Page and Sergey Brin would use their systems developed at Stanford with NSF funding to incorporate as Google.

However, federal R&D investment from the likes of the NSF and others has been declining in the U.S. for the past 60 years. And nearly half of federal R&D spending goes to just six states. The demographic inequality in federal innovation investment is even worse than this geographic inequality. According to the Brookings Institution, only about 7.4% and 6.6% of National Science Foundation and National Institutes of Health grant awards are respectively given to Black and Latino or Hispanic innovators. Luckily, there is bipartisan agreement that inclusive federal investment in innovation ought to be a legislative priority.

Expanding the table through economic growth is next to impossible without the productivity gains of innovative new technologies. This insight underpinned the Senate's June 2021 passage of the U.S. Innovation and Competition Act (USICA) by a strong bipartisan vote of 68-32. Senate Majority Leader Chuck Schumer (D-NY) described the $250 billion bill as a "once-in-a-generation investment in American science and American technology".

The centerpiece of the bill strengthens the National Science Foundation by establishing a new NSF Directorate of Technology and Innovation whose responsibility is to lead the U.S. in the development of critical technologies such as artificial intelligence, cybersecurity, and quantum computing. This dedicated funding includes Geographic Diversity Initiatives and dedicated funding to Regional Technology Hubs to address some of the inequality in the U.S. innovation system.

Supporters of the USICA also say these investments will be critical to maintaining America's technological edge against a rising China. Though the bill passed the Senate in the spring, it still awaits a vote in the House.

While federal investment could lay the foundation for growth, building new businesses in left-behind areas of America requires more available private capital. However, nearly 75 percent of all venture capital investment goes to just three states: California, New York, and Massachusetts. Directing VC funding towards other growing regional technology hubs has the potential to unlock more inclusive economic growth opportunities across the country as a whole.

Organizations like Revolution, a Washington D.C.-based venture firm created by America Online founder Steve Case, have made it their mission to develop this wider geographic network of business and civic connections.

Although the big three (California, New York, and Massachusetts) still make up a vast majority of VC funding, 14 other states saw at least $1.5 billion raised by companies headquartered there in 2020. States including Michigan, North Carolina, and Colorado have seen some of the fastest percentage growth in overall VC investment last year. Continuing to build on this progress by coordinating federal and private investment in promising new businesses and technologies will be the key to improving productivity and increasing inclusive economic growth in the U.S.

INCREASE FEMALE LABOR FORCE PARTICIPATION

Women's labor force participation in the U.S. hit a 33-year low in January 2021 as a result of the pandemic. In the span of a year, between February 2020 and February 2021, women lost over 5.4 million net jobs. The labor participation rate of women remains 2 percentage points below what it was pre-pandemic, with a particularly negative impact on women in low-wage jobs, working mothers, and women of color compared to the impact on men.

According to CBS News, "before the pandemic, women consisted of more than 50% of the country's workforce, underlining their importance to the economy. But that number has dropped sharply as many women, particularly mothers of young children, have been furloughed or laid off. Many others have had to choose between showing up at front-line jobs or caring for their children who, with daycare centers closed and school underway remotely, would otherwise be left without supervision."

There is ample evidence that the burdens of child care which have been exacerbated by the pandemic are having real consequences on women's labor force participation. For example:

- A 2020 report from McKinsey found that 1 in 4 women were considering leaving the workforce or downsizing their career.
- In a 2020 survey from the Boston Consulting Group, parents reported spending an additional 27 hours each week on household chores, childcare, and education since before the pandemic. A majority of this burden has been shouldered by women, who on average spend 15 hours more on domestic work than men each week.
- Syracuse University found that over 80% of U.S. adults who were not working because they were providing care for children not in school or daycare were women.
- Economists at the University of Pennsylvania found evidence that child care closures caused an increase in unemployment among mothers of young children in the short term, and that this impact on employment persisted after shutdown orders were lifted.

According to an analysis conducted by Gallup, "when put in context with the disproportionate increase in non-working women, [there] is strong evidence that many women have left work (and left the labor force altogether) because of child care responsibilities, and this explains a substantial portion of the gap between women and men, who are less likely to have left work for reasons related to child care."

The decline in women's labor force participation doesn't just hurt women either.

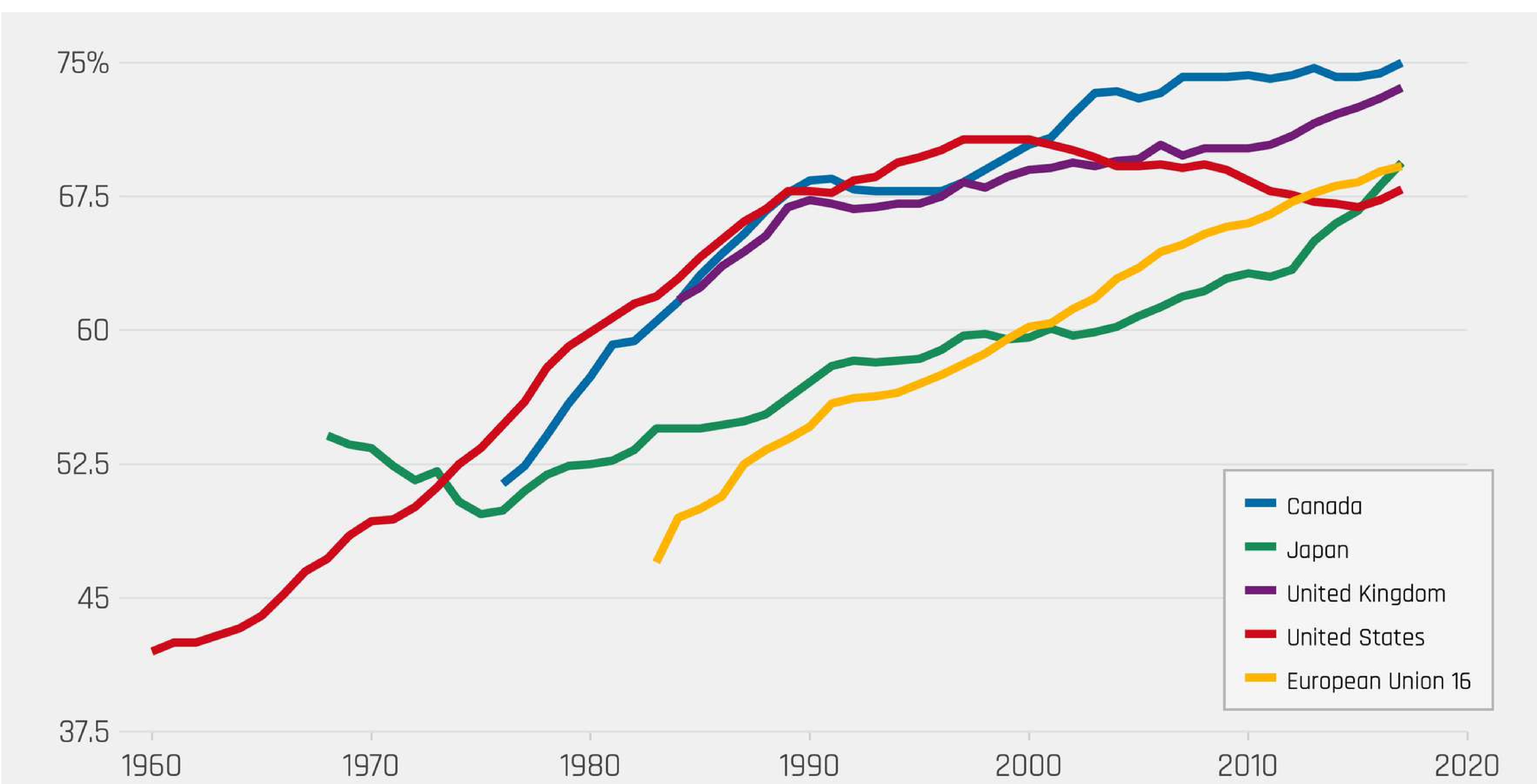
Every 10 percent increase in women working is associated with a 5 percent increase in wages for all workers as overall labor force productivity increases. Additionally, raising the U.S. women's labor force participation to a rate similar to that of Canada, Germany, and the United Kingdom (around 70%) would bring more than 4.85 million women into the workforce. That amounts to $650 billion per year that the U.S. economy is missing out on. And without the increase in women's earnings over the past 40 years, 91% of the total income gains experienced by middle-class families would be wiped out.

The solution here is straightforward. The U.S. needs to make it much easier for women, especially women of color, to access high-quality and affordable childcare. Reducing the disproportionate burden of caregiving and housework on women would open up their participation in paid work. Additionally, since 95% of jobs in the child care industry are held by women, investing in child care has the added benefit of creating more jobs for women looking to get back into the workforce.

Although expanding childcare benefits is a key plank of the Democratic-only reconciliation package being debated in Congress, there is a huge opening for bipartisan agreement on this issue if a few brave legislators are willing to walk through it. Earlier this year, Sen. Mitt Romney (R-UT) introduced his Family Security Act, which would provide families a monthly benefit of as much as $350 per child. And in the previous Congress, Sens. Kyrsten Sinema (D-AZ) and Bill Cassidy (R-LA) introduced a bipartisan Paid Parental Leave plan.

Both bills could provide the foundation for a bipartisan solution to build a more robust childcare support system in America.

Since 2000, U.S. Women's Labor Force Participation Has Declined



Source: Washington Center for Equitable Growth

EASE RE-ENTRY INTO THE WORKFORCE FOR EX-OFFENDERS AND FELONS

Almost one in three adults in the U.S. has a criminal record. For these individuals, finding a job can be an enormous challenge, even at a moment when over 10 million jobs are available nationally. Nearly 9 in 10 employers, 4 in 5 landlords, and 3 in 5 colleges use background checks to screen for applicants' criminal records. An arrest record without conviction still decreases an individual's employment prospects, and these impacts are disproportionately felt by families and communities of color due to their higher rates of arrests and convictions for low-level offenses.

Shutting so many people out of the labor force damages America's entire economy. According to the Center for Economic and Policy Research, the U.S. economy could gain between $78 billion and $87 billion in annual GDP and nearly 2 million more workers if former prisoners and felons had the same employment prospects as the rest of the working-age population.

So how has the U.S. attempted to address this problem? The FIRST Step Act, passed under President Trump in 2018 with broad bipartisan support (87-12 vote in the Senate), aimed to cut unnecessarily long sentences and improve conditions in federal prisons. Although this law has helped reduce the U.S. prison population and demonstrated the possibility for bipartisan consensus on criminal justice reform, it hasn't directly addressed the challenges facing felons after prison. One popular policy solution aimed at lowering the barrier to employment for ex-offenders and felons includes so-called "Ban the Box" (BTB) or "fair-chance" legislation.

Although there is some variation in their implementation, BTB policies generally delay questions about criminal history and background checks until late in the hiring process in order to give individuals with a criminal history a better chance at getting hired. Thirty-four states and over 150 cities nationwide have passed some form of BTB legislation, and 75% of the U.S. population live in an area governed by BTB legislation. Effective in December 2021, thanks to the Fair Chance to Compete for Jobs Act of 2019, most federal agencies and contractors will be prohibited from asking for information about a job applicant's criminal record until after they receive a conditional job offer. The ubiquity of BTB legislation in the U.S. might be cause for celebration if not for the fact that it might be having the opposite effect its supporters hoped.

One study published in 2018 by Amanda Agan and Sonja Starr in the Quarterly Journal of Economics found that BTB policies actually encouraged racial discrimination in the hiring process. Their study used 15,000 fictitious job applications sent to employers in New Jersey and New York before and after the adoption of BTB legislation. Each application varied by having either a distinctly black or distinctly white name and also randomly varied whether they had a felony conviction. Unsurprisingly, criminal records were confirmed to be a major barrier to employment as employers that asked about an applicant's criminal history were 63% more likely to call applicants with no record. More alarming, however, was the finding that white applicants went from receiving 7% more callbacks than black applicants before BTB to receiving 43% more callbacks after BTB went into effect.

In a more recent study published in 2020 by Jennifer Doleac and Benjamin Hansen in the Journal of Labor Economics they too found evidence of increased statistical discrimination “against groups that are more likely to include recently incarcerated ex-offenders, particularly young, low-skilled black and Hispanic men.” Since interviewing is costly for employers, there is an incentive to avoid interviewing ex-offenders and felons that would likely be rejected upon a criminal background check. As BTB prevents employers from seeking information about an applicant’s criminal record, they instead avoid interviewing demographic groups that include young, low-skilled black and Hispanic men that are more likely to have been recently incarcerated. Using the variation in adoption and timing of state and local BTB policies, their study found that BTB reduces the probability of employment for young black men without college degrees by 3.4% and for young Hispanic men without degrees by 2.3%.

If Ban the Box policies aren't working to ease re-entry into the workforce and increase the employment rate for ex-offenders and felons, what might work?

Rather than reducing the information available to employers through BTB policies, there is substantial evidence that providing more information to employers can be an effective means in reducing their hesitations or concerns about hiring individuals with a criminal record. One such example of this type of policy includes “Certificates of Relief”, “Certificates of Rehabilitation”, or “Certificates of Good Conduct”. Although the name and requirements can vary, these rehabilitation certificates are generally earned by ex-offenders who satisfy certain statutory requirements and provide a court with evidence of one’s accomplishments and good character and awarded by a state’s judiciary or parole board.

These certificates help ex-offenders by giving them an official award of good character from the court, removing automatic occupational licensing bars for those with criminal records, and also by protecting employers from liability suits that claim negligent hiring. A 2016 study from Yale Law and Policy Review assessing the effectiveness of certificates of relief found that having a certificate of relief increased the likelihood of an ex-offender receiving an interview invitation or job offer more than threefold. However, only 16 states and the District of Columbia currently have certificates of rehabilitation and only one state provides interstate reciprocity of their certification

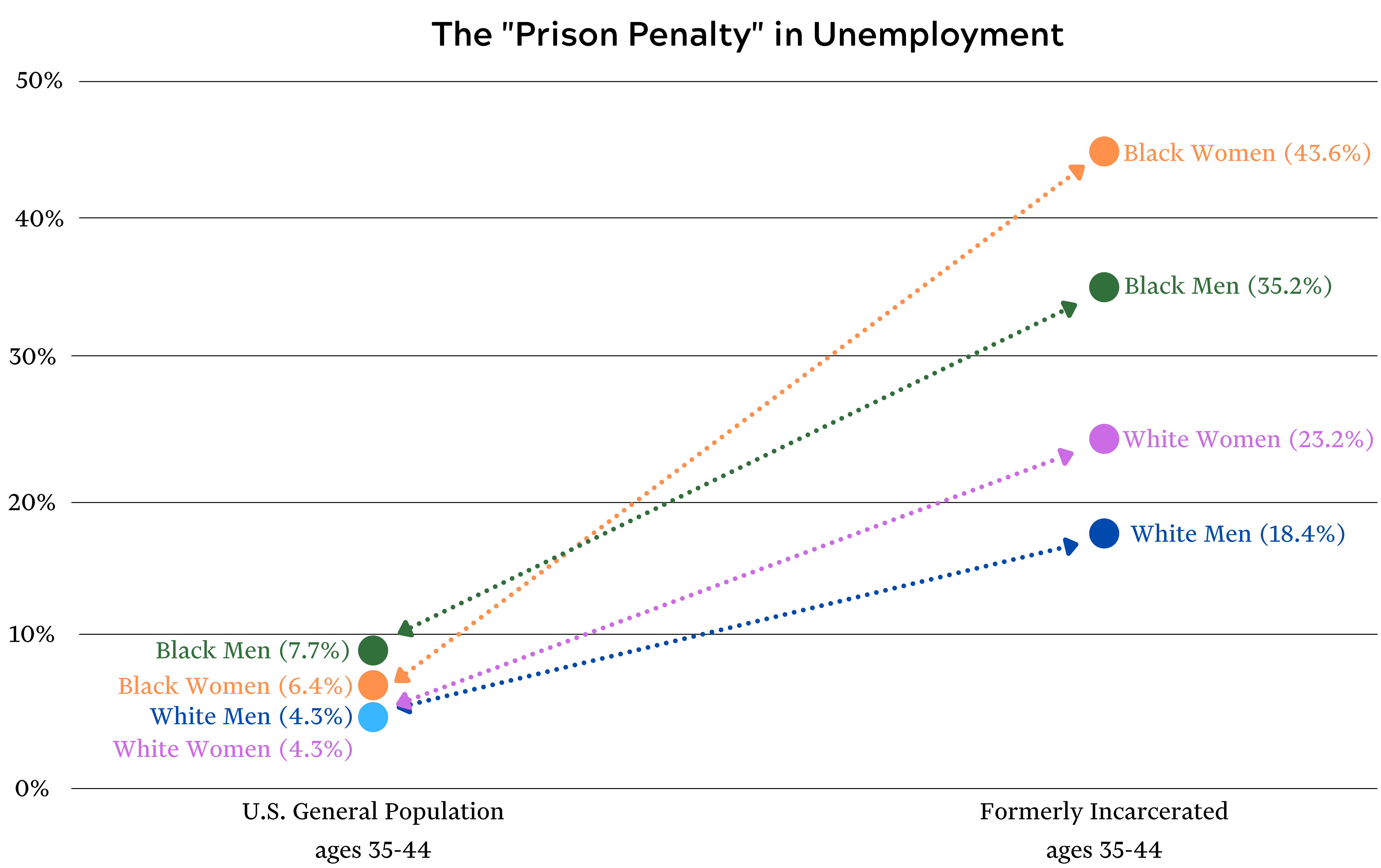
Another policy alternative is “clean slate laws,” which provide a chance for certain ex-offenders to have their criminal records expunged or sealed. Most states have a process enabling ex-offenders to petition to have certain criminal records expunged or sealed, but the process is often costly and difficult to navigate. Research from the University of Michigan estimates that less than 10% of individuals eligible to clear their criminal record are successful in doing so. Clean slate laws make use of technology to automatically clear an individual’s criminal record after a certain period of time that they remain crime-free. Early evidence of the effectiveness of clean slate laws indicates that ex-offenders are 11% more likely to be employed and are earning 22% higher wages a year after having their criminal record cleared.

There has been a strong bipartisan consensus at the state level to adopt clean slate policies that remove barriers to economic opportunity for ex-offenders in places like Pennsylvania, Virginia, Utah, North Carolina, and Michigan.

A similar bipartisan consensus may also be emerging at the federal level. The Clean Slate Act, which was recently reintroduced to both houses of Congress in April 2021 by Senator Bob Casey (D-PA), Senator Joni Ernst (R-IA), Rep. Lisa Blunt-Rochester (D-DE), and Rep. Guy Reschenthaler (R-PA), would establish a process for clearing federal records by petition and begin automatically clearing the record of low-level and nonviolent offenses such as drug possession.

Finally, the prison system can do more to prepare prisoners with the skills and education needed to integrate back into the workforce upon release. Research from the Vera Institute of Justice shows that greater access to postsecondary education in prison reduces recidivism rates—participants in these programs are 48 percent less likely to recidivate—and could cut state prison spending across the country by as much as $365.8 million annually. Estimates from the RAND Corporation indicate that for every $1 spent on correctional education, between $4 and $5 is saved on reincarceration costs. In an effort to make prison education more accessible, the Obama administration launched the Second Chance Pell experiment in 2015, which saw 22,000 incarcerated students receive federal financial aid. In late 2020, Congress agreed to lift the 26-year ban on federal financial aid for incarcerated students starting on July 1, 2023.

An effective solution to the challenges faced by ex-offenders re-entry into the workforce should therefore include greater access to post-secondary education, a nationwide rehabilitation certification program, as well as automatic federal expungement of low-level criminal records. Taken together they provide the most promising solution to the goal of reducing barriers to employment for ex-offenders and felons.



Source: Prison Policy Initiative

MAKE FINANCIAL LITERACY A NATIONAL PRIORITY

Expanding personal finance education is urgent at a moment when consumers are responsible for more financial decisions than ever before. The financial sector is becoming increasingly complex, and each new financial product or service that enters the market makes financial decision-making even more difficult. With the cost of post-secondary tuition on the rise, student debt has increased by more than 100% in the past decade, totaling over $1.7 trillion today. Creating a more inclusive economy can't happen if Americans don't have the basic financial knowledge necessary to navigate these important decisions. And worryingly, it appears many Americans aren't equipped with that knowledge:

- In 2019, 63% of Americans reported that they didn't understand how a 401(k) worked.
- In 2020, 27% of Americans reported that they didn't know their credit score could affect their car insurance rates, and 31% didn't know it could affect their options for cell service plans.
- In 2020, 27% of millennials with student loan debt said they did not understand the terms of their loans when they took them out.
- In 2018, only 16% of millennials (aged 18-37) could answer three questions about basic personal finance concepts correctly.
- While the U.S. is the world's largest economy, it ranks 14th in financial literacy behind Singapore and the Czech Republic. Only 57% of U.S. adults are financially literate as of 2015.

In a 2018 survey conducted by the Financial Industry Regulatory Authority, 56% of credit card owners reported that they had chosen a card without comparing it to offers from other companies. In the same survey, 35% of credit card owners reported that they had only paid the minimum on their credit card bill at some point in the previous year, resulting in interest charges. NerdWallet predicts that the average household with credit card debt will pay $1,155 in interest in 2021.

It's no surprise that 83% of parents believe high schools are not doing enough to help their kids become financially savvy. Only 21 states require high school students to take a personal finance class, which differs from an economics class in that it focuses on real-world financial concepts that students will inevitably encounter in life—debt, credit cards, budgeting, and saving, for example. And only 24 states require high schools to offer personal finance classes at all.

But the good news is that, in schools where they are offered, personal finance classes are working. In a 2019 study, Montana State University economists found that students in states with financial education requirements were more responsible with student loans, more likely to apply for scholarships and aid, and less likely to hold credit card balances later in life. Another study conducted at the University of Wisconsin-Madison's Institute for Research on Poverty found that students who took mandated personal finance courses were less likely to take out high-risk payday loans, which can come with interest rates of up to 400%. "It's a social justice issue," Nan Morrison, President and CEO of the Council for Economic Education, told CNBC. "Better education equips kids with the tools to make better decisions, to understand their first paycheck and take better care of themselves and their families."

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The state of Utah presents a potential model for personal finance education that could be worth emulating at a national level. In the wake of the Great Recession in 2008, Utah became the first state to mandate a financial literacy course for high school graduation. Almost a decade later, Utah was the highest-ranked state in the nation for financial literacy education in high school and received an 'A+' grade from Champlain College's Center for Financial Literacy 2017 Report Card. The success of their education model is attributed to incredibly robust standards that are required for students in order to graduate and receive their diplomas.

Utah students are required to pass an online 72-question finance test and provide instructors with 16 credit hours of training in order to teach the class. The impact of Utah's education model can be observed in the financial decision-making for financing a college education. According to a Utah System of Higher Education report, Utah is 17 percent below the national average in the portion of college pupils that take out student loans and 21 percent below the national average in the amount they borrow. Adopting Utah's successful model at the national level could help to prepare young Americans to make better financial decisions that keep them financially secure throughout their lifetime.

CONCLUSION

Building an economy that provides the opportunity for all Americans to prosper requires equal dedication to increasing economic growth and bringing into the fold those left behind.

Prioritizing one goal over the other limits our ability to solve today's biggest policy challenges. Eradicating poverty, increasing technological advancement, and promoting economic mobility are impossible without the commitment to each economic principle.

Expanding the table and adding a seat to our economy will help to realize the American Dream for those who have lost faith in its promise.