

# States at Work: Progressive State Policies to Rebuild the Middle Class

### **Report Summary**

Karla Walter, Tom Hucker, and David Madland with Nick Bunker and David Sanchez March 2013

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## Introduction

As our country inches its way out of the Great Recession and looks toward the future, it is clear that we need a new framework to guide our economic growth. The old trickle-down economic model of the past several decades is failing nearly everyone, save those at the very top. Incomes have been stagnating, inequality has deepened, and it has become harder to gain a foothold in the middle class.

According to research from 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.<sup>1</sup> As a result, the United States has less economic mobility than almost every other high-income country in the world.<sup>2</sup>

Good government at every level—local, state, and federal—can play a critical role in rebuilding the American middle class and getting the country back on track to broadly shared prosperity.

Our full report, "States at Work: Progressive State Policies to Rebuild the Middle Class," focuses on what states can do. State governments have tremendous power and responsibility in the American political system. Adoption of the proposals in this report will help states fulfill their obligation to significantly improve the lives of residents.

The report presents policies that states can adopt to help those who are currently in or near the middle class, as well as those who are struggling to join the middle class—helping restore the idea that if you work hard, you can achieve the good life, exemplified by a secure paycheck that grows year after year, a nice home in a safe neighborhood with decent schools, retirement savings, health care, some leisure time to spend with friends and family, and the ability to send your kids to college and pass along to them a bigger share of the American Dream.

Specifically, our recommended policies would create a significant number of jobs, boost incomes for a large percentage of the population, meaningfully cut costs for

middle-class necessities, considerably lower the risks of falling behind, and boost opportunity and fair treatment for all. Together, these policies approach the scale necessary to start rebuilding the middle class.

Additionally, focusing on both current and future members of the middle class is especially important, given existing racial and ethnic disparities and the dramatic demographic changes taking place over the next few decades, with immigrants and people of color on pace to become the majority share of the U.S. population before 2050.

Yet the weakened state of the middle class hurts all of us by stifling our country's economic growth and undermining our democracy.<sup>3</sup> 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.

Every level of government has its own unique and necessary role in forming the communities in which everyone has the opportunity to thrive. While much attention is paid to the federal government, states retain significant powers, and their actions have a major impact on people's lives—from providing essential infrastructure and fostering economic activity to providing for the general health and well-being of their residents.

The full report includes more than 100 policy reforms to:

- Improve the quality of existing jobs
- Ensure civil rights are respected so that everyone can fully participate in the economy
- Reform the tax code so that it raises sufficient revenue fairly and efficiently
- Stabilize the housing market, ensure affordable rental housing, and help rebuild communities affected by the foreclosure crisis
- Improve the quality of education for all students
- Ensure affordable, quality health care for all
- Rebuild America's crumbling infrastructure
- Strengthen local communities

The policies we recommend are specific and practical so that governors and state legislators can take full advantage of this report and tailor the policies to the legal and political context in their home states. There is much here for leaders of all states—even states that are on the progressive forefront in some arenas have much to learn from what other leading states are doing in other areas. In many cases, the best practices we outline in this summary and detail in our full report have often passed with broad-based bipartisan support. By adopting these approaches, states can form a groundswell that moves the country as a whole in a more progressive direction.

Tackling the economic challenges our country faces will require bold action, but no single report can cover all the progressive policies that state governments should adopt. This report represents the Center for American Progress Action Fund's best thinking on policies that state governments can undertake to rebuild the middle class. It also highlights the work of outside researchers, analysts, and advocates, and complements state policy agendas released by other progressive organizations.

#### **Examples of State Successes**

Many states are already blazing the trail toward a more equal and prosperous future. The recommendations contained within this summary document are drawn from a full report, which highlights best practices already in use by at least one—and often several states and advances more novel approaches that states are empowered to take. Some specific examples that can be adapted to the legal and political context of a given state include the following:

- Connecticut ensures that service workers can earn up to 40 hours of paid sick leave annually so they don't have to choose between working while sick or losing their jobs.<sup>4</sup>
- California helps workers save for a secure retirement through its Secure Choice Retirement Savings Program.<sup>5</sup>
- 12 states invest in immigrant families by passing state-level "DREAM Acts" authorizing qualified undocumented students to attend state colleges and universities at the in-state tuition rates,<sup>6</sup> and three

states—California, New Mexico, and Texas—also provide access to public sources of financial aid.<sup>7</sup>

- 16 states are encouraging all eligible citizens to exercise their right to vote by creating online voter registration.<sup>8</sup>
- Kentucky, North Carolina, and Texas are among states improving public safety, reducing crime, and controlling spending by adopting criminal justice reinvestment strategies.<sup>9</sup>
- 18 states and the District of Columbia are acting to significantly increase access to health care by implementing affordable insurance exchanges.<sup>10</sup>
- New York is helping homeowners and small businesses increase energy efficiency while creating good jobs for qualified workers by passing the Green Jobs/Green NY Act.<sup>11</sup>

Moreover, no single state can address all the problems we face alone. Accordingly, we will soon release a companion progressive agenda for local governments authored by the Center on Wisconsin Strategy, the national high-road strategy center. As state governments adopt policies to rebuild the middle class, policy-makers should also encourage even stronger standards and experimentation at the municipal-level by ensuring that state-level reforms set a floor, not a ceiling. These reforms dovetail well with the numerous federal policies to rebuild the middle class that the Center for American Progress has previously detailed.<sup>12</sup>

The policies in this summary and our larger report are of vital importance to the future our country and should be a top priority for policymakers.

Below we present a summation of the policies states can adopt to rebuild the middle class. For more details on each policy and examples of states with best practices, please see our full report.

# Improve the quality of existing jobs

Ensuring that jobs provide good pay, benefits, and security is an essential component of rebuilding the middle class.

Income for the typical American 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 to 2009.<sup>13</sup> Moreover, in recent decades, any income gains made by the middle class have been primarily the result of increased working hours and not higher wages, according to data analysis from the Brookings Institution.<sup>14</sup>

As a result of stagnating 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 declining for decades. It is currently at its lowest level since the government began keeping track of the statistic in 1967.<sup>15</sup> What's more, the share of households actually making near the median income has been in decline for four decades, according to calculations from Alan Krueger, the chairman of the president's Council of Economic Advisors.<sup>16</sup> This means that jobs are increasingly at jobs in the middle.

Likewise, by other measures of job quality, American workers are not faring particularly well. In the area of paid leave, for example,

either the top or the bottom of the scale, with fewer and fewer 42%

#### unlike most every other developed economy, many American workers are not guaranteed the ability to stay home when sick or to take leave to care for a new baby or aging parent.<sup>17</sup> Boston College's National Retirement Risk Index estimates that 51 percent of households are at risk of having an insecure retirement.<sup>18</sup>

#### **FIGURE 1** The shrinking middle class

The share of households earning a middleclass income has been in decline for the past four decades



Source: Alan Krueger, "The Rise and Consequences of Inequality," Speech at Center for American Progress, Washington, D.C., January 12, 2012

There are a number of reasons why too few jobs provide for a middle-class standard of living, but a major reason is that workplace standards have failed to keep pace with changes in the economy and no longer help balance power in the economy. To boost job quality and ensure jobs pay adequate wages and provide necessary benefits, there are a number of actions that states can take, including setting and enforcing basic minimum workplace standards, updating policies to reflect modern realities such as the prevalence of two-earner families, and encouraging high-road business practices. Let's turn to these now and explore some of the specific actions.

# Ensure that working families are able to take sick leave and care for young children and elderly relatives

Millions of American workers are torn between their responsibilities to care for young children or elderly relatives at home while simultaneously meeting their obligations to their employers. American family structures have changed dramatically during the past two generations. Women comprise nearly half of the workforce today,<sup>19</sup> and in nearly two-thirds of families with children, the mother is either the breadwinner or shares that responsibility with her partner.<sup>20</sup> Almost 60 percent of the estimated 43.5 million caregivers for aging relatives in the United States also work outside the home.<sup>21</sup>

In order to ensure that workers are able to meet both their caregiving and workplace responsibilities, state legislatures should pass laws to:

- Allow all workers to earn paid sick days as Connecticut is moving towards with its law allowing service workers to earn paid sick leave
- Ensure paid leave for all workers to care for a new child or a seriously ill family member, or to recover from their own serious illness or pregnancy

### Raise standards for government contracting

States procure hundreds of billions of dollars in goods and services each year, contracting for everything from janitorial services to database management to highway construction.<sup>22</sup> By applying best practices to government contracting, state governments can raise and uphold job standards, ensure that only law-abiding companies receive government contracts, improve the quality of services

provided to the government, and prevent waste of taxpayer dollars.<sup>23</sup> Moreover, these laws should have broad applicability to all government spending, and state governments should institute strong enforcement measures, including strict penalties, adequate inspectors, up-to-date information regarding wages, and a private right of action for workers.

State governments can uphold high standards by:

- Enacting policies and instituting procedures to carefully review decisions to contract out government work
- Enacting strong wage and benefit standards
- Enacting and enforcing responsible contractor requirements to weed out companies with histories of fraud, waste, and abuse
- Using best-value contracting to evaluate bidders based on important performance factors such as the contractors past performance or technical expertise.

### Raise the minimum wage

The federal minimum wage—at its current rate of \$7.25 per hour,<sup>24</sup> or slightly more than \$15,000 per year for a full-time worker—fails to provide an adequate level of self-sufficiency. All totaled, 10.5 million Americans are now counted among the working poor.<sup>25</sup> Additionally, the real value of the minimum wage has declined sharply during a period of increased worker productivity. The inflation-adjusted value of the minimum wage has declined by 31 percent since 1968, while productivity has increased by 123 percent.<sup>26</sup> By increasing the minimum wage, research shows that states can also stimulate their economies, as the additional dollars added to the paychecks of minimum-wage workers tend to be spent quickly and usually produce a multiplier effect that boosts local economies.<sup>27</sup>

States should adopt strong minimum wage laws that:

- Raise minimum wage rates above the federal standard
- Index the rate so that legislative inaction doesn't decrease its value
- Expand the state minimum wage coverage to workers who, under federal guidelines, are allowed to be paid less than minimum wage—for example, tipped employees and home care workers

### Protect workers from wage theft and discrimination

Employers should not be able to cheat workers out of wages they are owed or discriminate against them due to employment status, personal financial difficulties, sexual orientation, or because they are pregnant. These kinds of practices hurt those who are directly affected, depriving them of income and career advancement opportunities.<sup>28</sup> Additionally, this sort of law breaking shortchanges taxpayers and harms law-abiding businesses that are forced to compete with unscrupulous businesses.<sup>29</sup>

State governments can protect workers by:

- Preventing wage theft by passing and adequately enforcing laws that ban employers from "misclassifying workers" as independent contractors or paying them under the table at rates lower than the minimum wage
- Banning employment discrimination against the unemployed and those with poor credit
- Banning employment discrimination against gay<sup>30</sup> and transgender workers, as well as pregnant women

### Protect unemployment insurance and use it to avoid layoffs

Unemployment insurance helps cushion the blow of job loss for workers who lose their jobs through no fault of their own and helps fight recessions by allowing unemployed workers to continue to spend money on essentials when the economy needs more demand. In 2009 alone unemployment benefits prevented 3.3 million families from falling into poverty and reduced the gap in economic output caused by the Great Recession by about one-fifth.<sup>31</sup> Unfortunately, years of a declining tax base have denied the system an adequate source of revenue, and high levels of unemployment and a weak labor market recovery have strained the system. Many states have depleted their trust funds and have had to borrow funds from the federal government in order to continue paying out benefits.<sup>32</sup>

State governments should protect unemployment insurance and put it on a sustainable funding path; modernize program rules to provide fair and adequate benefits; and use unemployment insurance to avoid layoffs by adopting the following reforms:

- Enact legislation to raise and index the wage base subject to state unemployment taxes to the average state wage
- Enact legislation to adjust the minimum and maximum tax rates to ensure the trust fund is prepared for a severe economic recession
- Close legal loopholes that allow firms to unfairly lower their unemployment tax rates
- Eliminate requirements that force laid-off workers to wait until their second week of unemployment to collect benefits and often deny unemployed workers their first week of benefits entirely
- Expand the use of shared work programs to avoid layoffs and reduce unemployment during a recession

### Boost retirement security

Far too many Americans lack adequate retirement savings—which will burden both families and governments in the future. States already expecting to face increased pressure on their social services from a growing population of retirees may now face additional risk because of the inadequate retirement savings of many of those retirees. Indeed, the California legislature recently concluded that, "The lack of sufficient retirement savings poses a significant threat to the state's already strained safety net programs and also threatens to undermine California's fiscal stability and ongoing economic recovery."<sup>33</sup>

Compounding the problem is that a formerly solid pillar of the employer-based retirement savings framework—pension plans for state employees—are not fully funded, due in large part to the decline of the stock market during the Great Recession.<sup>34</sup> On average, state plans are around 75 percent funded,<sup>35</sup> but there is significant variation in funding ratios, ranging from just 45 percent funded in Illinois to 100 percent funded in Wisconsin.<sup>36</sup> This means that in some state plans, current assets are not sufficient to pay all promised benefits, which poses challenges for workers, retirees, and taxpayers.

To address these dual retirement challenges, states should:

 Increase retirement savings options for private sector workers as California is taking steps towards by enacting its Secure Choice Retirement Savings Program<sup>37</sup>

- Shore up the underfunded retirement plans of public-sector workers by making necessary changes to fix state plan finances, reforming plans so they are secure for the long haul
- Avoid drastic changes to state pension plans—for example, moving to a defined contribution plan—that will actually cost more money and undermine retirement security

# Ensure that when companies do well, workers also do well by promoting inclusive capitalism

Inclusive capitalism programs—such as granting workers an ownership stake or a share of profits based on workers' collective performance—help ensure that workers are rewarded for the wealth they help generate.<sup>38</sup> These programs not only benefit workers but research shows that firms and investors also receive tangible benefits from sharing with their workers, including increased productivity, profitability and likelihood of survival, greater worker loyalty and effort, lower turnover rates, and a greater willingness on the part of workers to suggest innovations.<sup>39</sup> Specifically, inclusive capitalism includes everything from worker cooperatives and employee stock ownership programs to broad-stock options and profit sharing.

State governments should encourage companies to adopt broad-based sharing programs by:

- Funding programs to increase awareness of inclusive capitalism and provide technical assistance to private-sector businesses adopting these programs
- Passing legislation to designate privileged company structures for companies with inclusive capitalism
- Creating programs to provide direct government financing and encouraging private lending to companies with these structures

# Ensure civil rights are respected so everyone can fully participate in the economy

The increasing diversity of our country will create many opportunities, but we must make a concerted effort to fully extend the promise of the American Dream to everyone.

By 2050 the majority of Americans will be people of color, and many of them will be immigrants or the children of immigrants.<sup>40</sup> Unfortunately, the core economic problems that the middle class faces stagnating incomes, rising risks and growing costs for necessities such as health care and higher education—are more acute for people of color.<sup>41</sup> If current racial and ethnic disparities in income, employment, education, health, and other social services continue, the United States will be losing out on the potential contributions of these Americans.

Currently, there are many barriers standing in the way of the full inclusion of many Americans in the economy. The nation's extremely high level of incarceration—nearly

#### FIGURE 2 The racial and ethnic composition of the United States, 1970–2050

- Other and multiracial
- Asian American and/or Asian Pacific Islander
- Latino or Hispanic (of any race)
- Black or African American
- Non-Hispanic White



Sources: Data for 1970 and 1980 from Statistical Abstract of the United States. Data for 1990, 2000, and 2010 from the U.S. Census Bureau.Data for 2020 through 2050 from the U.S. Census Bureau Population Projections by Race and Ethnicity (2008). 1 out of 100 American adults are in jail or prison<sup>42</sup>— is costly for state government budgets and a waste of human potential. Immigrants face discrimination, as many states have passed draconian immigration laws, and are denied important social services, including higher education. At the same time, same sex couples are denied a marriage license in most states, which denies them the rights and responsibilities, as well as the economic benefits afforded by marriage.

States must take proactive steps to bring down barriers—for example, passing laws to establish marriage equality and encouraging all eligible residents to vote—but they must also be sure not to erect new obstacles. Yet several states have passed laws requiring voters to show photo identification, despite evidence that voter fraud is incredibly rare.<sup>43</sup> These laws disproportionally affect people of color and low-income voters.<sup>44</sup> These barriers can have economic ramifications. Likewise, bans of same sex marriage also have considerable economic consequences for the entire state economy.<sup>45</sup> New York's marriage equity law, for example, is estimated to have generated \$259 million for the New York City economy in the first year after it was enacted.<sup>46</sup>

Improving opportunities for all Americans—including people of color, immigrants, and gay and transgender Americans—is not only a moral obligation, it also is an economic necessity. Here's what should be done to bring down these barriers to civil rights and expand opportunity for all.

### End marriage discrimination by enacting marriage equality

State laws grant hundreds of rights and responsibilities to married couples. Many of these rights are fundamental to a family's security, including the ability to qualify for family discounts for medical insurance, to visit one's spouse in the hospital after an accident or an illness, to make medical decisions on a spouse's behalf if necessary, to automatically inherit a spouse's property, and even to be legally recognized as the parent of an adopted child. Yet in most states, laws or even constitutional amendments bar same-sex couples from getting married,<sup>47</sup> meaning thousands of same-sex couples are denied access to basic legal rights that are granted to legally married straight couples.

State governments should end marriage discrimination by:

 Enacting freedom to marry laws that allow same-sex couples to obtain marriage licenses and recognizing legal marriages between same-sex couples that were performed in other states<sup>48</sup> • Enacting laws granting some state-level spousal rights to same-sex couples such as civil unions and domestic partnerships—in states where political realities prevent passage of full marriage equality

### Protect immigrants from discrimination

The United States is a nation of immigrants. In 2010 there were nearly 40 million foreign-born people living in America.<sup>49</sup> While undocumented immigrants only make up about 5 percent of the nation's workforce,<sup>50</sup> a number of states have passed discriminatory, anti-immigrant initiatives over the past two years that hurt not only undocumented workers but documented and native-born workers, as well. These policies terrorize families and communities while inhibiting states' economic growth. Rebuilding the middle class means enacting policies that view immigrants not only as individuals with civil rights but also as economic assets to the nation. To offer equal opportunity to all, state governments must expose and counter discrimination, whether it appears in outdated statutes and government policies or in daily practices in the commercial marketplace.

State governments can protect immigrants from discrimination by:

- Passing legislation to limit state enforcement of federal programs such as Secure Communities, when these immigration enforcement programs undermine community safety rather than prevent serious crime
- Enacting laws to prohibit racial profiling and government use of E-Verify—the national internet database of eligible workers that has been plagued with accuracy and completeness problems<sup>51</sup>
- Enforcing health, safety, and worker protection laws without regard to immigration status

### Invest in the most vulnerable within the immigrant workforce

Undocumented immigrants function on the fringe of our economy without access to government services. Undocumented youth who graduate from public high schools often face significant barriers in accessing affordable post-secondary education, and undocumented workers are often prohibited from obtaining driver's licenses in most states, hampering their ability to travel to job sites, participate in the workforce, or establish credit or open a bank account. This hurts everyone in our community. Inability to access affordable post-secondary education, for example, means that too often the state's best and brightest students are confined to low-paying, dead-end jobs, unable to fulfill their economic potential. And when undocumented immigrants drive without licenses—and consequently without insurance—premiums for insured drivers increase.<sup>52</sup>

State governments should enact reforms to allow undocumented workers to participate in state's economy by:

- Passing a state-level "DREAM Act" to permit qualified undocumented students to attend state colleges and universities at the in-state tuition rate and to access public financial aid
- Enacting laws to ensure qualified residents, regardless of immigration status, may be issued drivers licenses, or alternatively laws to provide substitute identification cards for undocumented workers in states where issuing driver's licenses regardless of immigration status would be politically infeasible
- Requiring government agencies to provide services without regard to immigration status and provide translation services

# Invest in proven criminal justice methods and provide pathways out of the criminal justice system

Too often state government crime reduction polices are extremely costly but do not make our communities safer or help provide offenders a pathway out of crime. Incarceration spending is growing at unsustainable rates and directly contributing to state budget shortfalls; state prisons and local jails are filled over capacity <sup>53</sup> often with individuals who pose little threat to public safety; and too many communities are plagued by a seemingly unending cycle of violence and drug abuse. Well-designed drug treatment, community corrections, and crime prevention programs cost far less and are far more effective than incarceration at reducing crime and providing offenders a pathway to a productive future.

Increasingly, bipartisan coalitions in state governments are adopting sensible reforms that cut state corrections spending while making communities safer and giving individuals convicted of nonviolent crimes the resources they need to reintegrate into their communities, including:

• Enacting laws to implement criminal justice reinvestment strategies that use data to target and drive state corrections and prevention programs

- Repealing mandatory minimum-sentencing laws for nonviolent drug users
- Funding programs to leverage police intelligence and community involvement to improve safety
- Increasing funding and instituting systematic reforms of the indigent defense system so that everyone receives a fair trial

Strengthen democracy by encouraging full participation in elections

In order to strengthen our democracy, state leaders should focus on encouraging all eligible citizens to vote. Yet more than a dozen state legislatures passed laws infringing on Americans' right to vote in the past two years.<sup>54</sup> Supporters of voting rights have spent considerable energy trying to fight these voter suppression efforts, and progressive coalitions in a number of states are coming together to pass legislation to help increase voter registration, including states as geographically and politically diverse as New York, Utah, California, and New Hampshire.

States should encourage all eligible citizens to vote by enacting legislation to:

- Allow eligible citizens to register to vote online, as well as at polling locations on Election Day
- Encourage registration of youth by requiring public schools to help register young voters and providing preregistration for youth obtaining their driver's licenses at state departments of motor vehicles locations so they will be automatically added to the voting rolls once they turn 18 years old.

# Reform the tax code so that it raises sufficient revenue fairly and efficiently

The Great Recession left state budgets in tatters. The recession resulted in huge budget deficits as states saw their revenues from taxes and other sources plummet. Even after the official end of the recession, state revenue levels are still below prerecession levels. According to the Center on Budget and Policy Priorities, revenues were 5.5 percent below their prerecession levels as of the first quarter of 2012.<sup>55</sup>

These persistently low levels of revenue resulted in state governments slashing government spending, reducing the provision of important services, and laying off thousands of government employees. Important investments in the future, such as education, suffered as state governments worsened the unemployment situation. Thirty-five states are now funding education at levels below spending levels in 2008.<sup>56</sup> Yet these types of forward-looking investments not only help state economies in the long term but also help prevent layoffs and even create jobs in the short term.

Additionally, as extensively documented by the Center for Budget and Policy Priorities, problems of insufficient revenue collection are further exacerbated by outdated state tax systems that fail to tax a multitude of services; budgeting processes that do not scrutinize all forms of spending—including programmatic expenditures made in the form of tax breaks; and insufficient state "rainy day" funds.<sup>57</sup>

Beyond these collection problems, state revenues also

### FIGURE 3 The regressive nature of state taxes



State and local taxes hit poor and middle-class families hardest

Source: Institute on Taxation and Economic Policy, "Who Pays?: A Distributional Analysis of the Tax Systems in All Fifty States" (2013).

come from regressive tax systems. In contrast to the federal tax system, where the wealthy generally pay a greater proportion of their incomes than do the middle class and the poor, state tax systems force those at the middle and the bottom to pay a greater share of their incomes than those at the top. According to the Institute on Taxation and Economic Policy, "even the least regressive states generally fail to meet what most people would consider minimal standards of tax fairness."<sup>58</sup> The regressive nature of state tax systems is largely due to a heavy reliance on sales taxes. Furthermore, the corporate income tax is raising less money than it did in the past. Corporate income taxes raised 10.2 percent of total state revenue in 1979, but that figure declined to 6.5 percent by 2005.<sup>59</sup> This decline has taken place as corporate profits have risen by almost 80 percent.<sup>60</sup>

State governments must reform their tax codes to ensure that everyone—including the wealthy and corporations—pays their share and that middle-class and poor families are not unfairly burdened.

# Ensure that individual income tax systems are fair and produce adequate revenue

Outdated state tax structures and exemptions that favor the rich have allowed low- and middle-income families to shoulder an unfair tax burden and have weakened the tax base of states. The state income tax is the primary revenue generator available to state and local governments through which it's possible to tax wealthy residents at a rate higher than low- and middle-income residents. To achieve greater fairness in a state's tax code, it is critical that individual income taxes be more progressive to help balance the cumulative regressive effect of many other state taxes and reflect the fact that incomes are growing faster at the top.<sup>61</sup> But most state income taxes are not implemented in a way that makes the overall tax burden progressive.

State governments should enact income tax reform laws that modernize the tax code and make it fairer and more effective at raising needed revenue by:

- Increasing income tax progressivity by setting graduated tax brackets with a meaningful difference between the lowest and the highest rates
- Ensuring that the wealthy pay their fair share by creating a millionaires' tax

bracket, taxing capital gains at the same rate as wages, and retaining or restoring a state estate or inheritance tax

• Providing relief for working families by establishing a strong state-level earned income tax credit and other targeted low-income tax credits, reforming the dependent care tax credit, and creating property tax circuit breakers for home-owners and renters

### Reform the corporate income tax to prevent tax avoidance

The corporate income tax used to provide a sustainable, reliable revenue stream for the more than 40 states that have such a tax. Between 1979 and 2005, however, corporate income tax revenues fell from 10.2 percent to 6.5 percent of total state tax revenue<sup>62</sup> even though corporate profits rose by nearly 80 percent during that period.<sup>63</sup> The effect of this tax avoidance means state governments miss out on billions in lost revenue, and that states either cut government services or raise personal income taxes, corporate income tax rates, or other revenue streams to make up for to the uncollected revenue.<sup>64</sup>

The problem of tax avoidance is underscored by a 2011 report by Citizens for Tax Justice and the Institute on Taxation and Economic Policy that looked at 265 Fortune 500 companies. According to the report, if these companies had paid the average state corporate tax rate (6.2 percent) on the \$1.33 trillion in U.S. profits that they publically reported between 2008 and 2010, they would have paid \$82.6 billion in state corporate income taxes over a three-year period.<sup>65</sup> Instead, these companies paid less than half that amount—\$39.9 billion.<sup>66</sup>

States must aggressively crack down on tax avoidance strategies by updating and enforcing corporate tax laws to keep pace with new tax avoidance approaches. States can do so by:

- Requiring increased corporate tax disclosure to give lawmakers the information they need to assess the effectiveness of their tax codes and economic development incentives
- Passing combined reporting so that multistate corporations cannot shift instate income to subsidiaries in states with no corporate income tax
- Closing legal loopholes so that out-of-state partners in certain types of businesses pay their fair share
- Ensuring that profitable corporations cannot use tax avoidance to pay no state

taxes at all by reforming the alternative minimum tax and repealing tax breaks that provide no benefits to the state<sup>67</sup>

### Increase sales tax revenues and fairness

Forty-five states and the District of Columbia levy a sales tax and nearly all of them count on the sales tax to supply a major portion of their state budget—making up an average of 31 percent of state revenue.<sup>68</sup> Yet states collect far less than they could because the sales tax applies to the sale of tangible goods but not to the sale of most services. Additionally, even revenues from the sale of tangible goods are being eroded by the increasing use of the Internet as a virtual marketplace. While the expansion of the sales tax is clearly one way to raise revenues, policymakers should keep in mind that sales tax is most often a regressive tax and work to minimize the negative effects of a sales tax expansion on middle- and low-income residents.

Policymakers can increase sales tax revenues and ensure high-income residents pay their fair share by passing legislation to:

- Create a luxury tax for high-end goods and services, either as a surtax above a fixed amount or as a tax applied to specific high-end items
- Close loopholes that allow large Internet retailers with in-state affiliates to avoid state sales taxes

### Raise tobacco taxes and fund cessation programs

Tobacco use is the leading cause of preventable death in the United States and is associated with 400,000 deaths of smokers annually—more than AIDS, alcohol, car accidents, illegal drugs, murders, and suicides combined. Further, another 50,000 people die annually due to illness attributable to secondhand smoke.<sup>69</sup> Tobacco use also imposes a tremendous health care burden for state governments as well. The Medicaid payments alone due to tobacco use cost \$30.9 billion annually—\$13.3 billion of which are borne by state governments.<sup>70</sup>

States can save lives and reduce government costs by:

- Enacting legislation to raise taxes on cigarettes as high as possible
- Investing a significant portion of the revenue generated by the tax and tobacco settlement funds into tobacco cessation programs

# Stabilize the housing market, ensure affordable rental housing, and help rebuild communities affected by the foreclosure crisis

While the American housing market is beginning to recover from the bursting of the housing bubble, the housing market remains in a significant hole. The housing crash resulted in approximately \$7 trillion in lost household wealth—causing deep harm to families, as housing has long been the largest source of wealth for the middle

class.<sup>71</sup> In addition to almost 4 million completed foreclosures, the crash in housing prices has also resulted in millions of households owing more on their mortgage than the value of their home. These "underwater" homeowners have seen their largest source of wealth evaporate and are left struggling with the aftermath.

Homeowners aren't the only Americans being squeezed by the housing market. Renters are paying an increasingly larger share of their income toward housing as rental prices have skyrocketed and earnings have stagnated. Fully 18 percent of all American households are severely burdened—paying more than 50 percent of their income for housing—but 27 percent of renters are severely cost burdened, which is more than twice the rate for homeowners.<sup>72</sup>

Policies are needed not only to deal with the aftermath of the housing bubble but also to deal with long-term problems in the housing market, both for homeowners and renters. Reforming the housing market will require action at the federal level but state governments can help address current housing problems while building the foundation for a more sustainable housing market and rebuilding communities.

#### FIGURE 4 Nearly one in four U.S. homeowners is "underwater"

Percent of mortgages by equity level, second quarter 2012



### Prevent unnecessary foreclosures

The foreclosure crisis has hit American homeowners hard: Banks and other financial institutions have completed approximately 3.9 million foreclosures since the financial crisis began in September 2008, with another 1.4 million loans still in the foreclosure process as of September 2012.<sup>73</sup> These foreclosures are costly for investors and devastating to homeowners and communities. The median investor loses more than \$75,000 during foreclosure;<sup>74</sup> the value of a house falls by 27 percent;<sup>75</sup> and most foreclosed borrowers will not return to homeownership for at least a decade.<sup>76</sup> The costs of foreclosure also spill over into state and local economies by reducing the value of neighboring houses, destroying consumer credit and purchasing power, and costing local governments billions of dollars in lost property taxes, and increasing expenses to fight crime and prevent health hazards.<sup>77</sup> The very presence of a foreclosed home, for example, can reduce the value of other homes in the neighborhood by 1 percent.<sup>78</sup>

Yet too often foreclosures are unnecessary. When the homeowner would like to stay in the home and has the capacity and willingness to continue to pay, state governments can prevent unnecessary foreclosures by:

- Enacting strong regulations to ensure that mortgage servicers—companies that manage mortgages for the investors that own most loans in America, and that process payments, handle modifications and foreclosures, and provide customer service to borrowers—appropriately review all homeowners for loan modifications or other alternatives
- Requiring servicers to enter into mediation with borrowers before foreclosure
- Assisting local entities in the communities hardest hit by the foreclosure crisis to purchase nonperforming loans, keep homes occupied, and rebuild neighborhoods

### Expand the supply of affordable and sustainable housing

Middle- and low-income Americans face a housing affordability crisis: 37 percent of Americans pay more than 30 percent of their income for housing (a moderate burden), while 18 percent pay more than half (a severe burden).<sup>79</sup> The crisis hurts the broader economy as unaffordable rents are depressing demand for goods and services. Lower-income families in unaffordable housing units spend 50 percent less on clothes and health care and 40 percent less on food compared to families in affordable units.  $^{\rm 80}$ 

At the same time there is an urgent need to increase the energy efficiency of our affordable housing stock, much of which was built with only limited energy efficiency considerations in mind. This will benefit the planet, lower energy costs for low- and moderate-income residents, and make owners of affordable rental housing more likely to preserve the units as affordable.

State policymakers can help expand the supply of affordable and sustainable housing for low- and middle-income Americans by:

- Encouraging the rehabilitation of vacant homes and land through land banks that acquire, manage, and develop vacant land and homes
- Providing financing for local entities to purchase and rent vacant and foreclosed properties so that wealth can stay in the neighborhoods rather than flow to private investors outside the community<sup>81</sup>
- · Financing energy-efficient retrofits of multifamily properties
- Requiring municipalities to adopt inclusionary zoning laws to provide sufficient affordable housing
- Providing tax incentives to encourage the development of affordable housing units

### Help families access homeownership

The foreclosure crisis and resulting credit crunch has hit middle-class and lowincome homeowners hard. With so many families losing their homes, the U.S. homeownership rate has fallen from 69 percent in 2004 to 65 percent in the first quarter of 2012—the lowest level in 15 years.<sup>82</sup> Responsible families who want to buy a home face a difficult environment due to the lack of availability of credit: Lenders originated about \$505 billion in home purchase loans in 2011, compared to a peak of \$1.5 trillion in 2005.<sup>83</sup> Moreover, credit standards have gotten much tighter since the crisis began, with the average borrower credit score for a Fannie Mae-backed loan rising from 716 to 762 between 2007 and 2011.<sup>84</sup>

State governments can help working families to access homeownership by:

• Expanding down payment and closing cost assistance programs that provide loans and grants to low- and moderate-income borrowers

### Protect tenants during foreclosure

Tenants living in rental properties often face eviction when their building goes through foreclosure. In an effort to protect the rights of tenants, Congress passed the Protecting Tenants at Foreclosure Act of 2009, which states that new owners of a property cannot require tenants to vacate until the conclusion of their prior lease, or for at least 90 days after they are notified (whichever is later).<sup>85</sup> The law is an important step toward protecting tenants during foreclosures, but numerous problems remain, including inconsistent state-level enforcement,<sup>86</sup> continuing ignorance of renters' rights during foreclosure,<sup>87</sup> and loopholes that allow new owners to evict tenants despite the law. Also, the act will expire on December 31, 2014, and few states have enshrined the protections in the act in their state law.<sup>88</sup>

State governments can ensure that tenants' rights are respected during foreclosures by:

- Enforcing and passing legislation to make permanent and strengthen the Protecting Tenants at Foreclosure Act
- Ensuring that tenants know their rights by increasing public education and outreach

### Use National Mortgage Settlement funds to support housing

In February 2012 federal prosecutors and 49 state attorneys general finalized the National Mortgage Settlement with the nation's five largest mortgage servicers, which required the servicers to pay \$2.5 billion directly to the states.<sup>89</sup> The settlement specifies that these funds are intended to "compensate the States for costs resulting from the alleged unlawful conduct of the Defendants"<sup>90</sup> by giving them funds "to avoid preventable foreclosures, to ameliorate the effects of the foreclosure crisis, (and) to enhance law enforcement efforts to prevent and prosecute financial fraud."<sup>91</sup> Yet many states are using their funds to fill their budget gaps rather than to revive ailing communities and support the housing recovery.

State policymakers should dedicate as much settlement money as possible to housing-related issues including:

- Providing housing counseling to prospective and current homeowners and renters
- Funding legal aid for borrowers facing foreclosure
- Encouraging principal reduction

# Improve the quality of education for all students

An educated workforce has long been at the heart of American economic success. The American public school system was one of the first to focus on providing a high school education to all children and programs such as the G.I. Bill and Pell Grants have helped expand access to college. These policies helped build the greatest middle class the world has ever seen.

The United States, however, is no longer a world leader in terms of education as our high school students score poorly compared to other countries and our college graduation lead has evaporated. Unlike many other advanced economies, the United States does not offer universal preschool. This gap in education means that many young children do not have access to organized learning activities before age 4, when 85 percent of core brain development happens.<sup>92</sup> Our K-12 education system is also failing students due to inequitable funding and teachers who lack support and adequate training while students have too little time in the classroom. Likewise, our higher education system is in need of reform as the price of tuition continues to rise, completion rates for bachelor degrees stagnate, and student debt reaches troubling levels.

## FIGURE 5 Share of the world's college graduates

Comparing the United States, China and India, 2000 to 2020



Source: Donna Cooper, Adam Hersh, and Ann O'Leary, "The Competition that Really Matters: Comparing U.S., Chinese, and Indian Investments in the Next-Generation Workforce" (Washington: Center for American Progress and Center for the Next Generation, 2012)

States can't reform the educational system top to bottom by themselves, but they can take significant steps at all stages of the education system.

### Establish high-quality child care and preschool for all

High-quality care from birth through early education is essential for all American children, without which children can suffer learning deficits and other disadvantages that can last a lifetime. Eighty-five percent of core brain development happens before age 4.<sup>93</sup> Also, high-quality early education and care helps students to overcome many of the disadvantages associated with poverty, such as dropping out of school, becoming a teen parent, being arrested for a violent crime, and failing to attend college.<sup>94</sup> Yet families bear a significant economic burden to care for young children and too few American 3- and 4-year-olds have access to high-quality early education. Only 4 percent of 3-year-olds and 28 percent of 4-year-olds were enrolled in public early education programs in 2011.<sup>95</sup>

State governments must strengthen child care and preschool quality in order to ensure all students have a chance at success by:

- Moving to a universal public pre-K model that is fully integrated into the existing public education system by significantly increasing program funding and enacting stronger state-level oversight
- · Boosting the accessibility and affordability of quality infant and child care
- Developing consistent learning standards in early education for academic, social, and emotional skills
- Focusing applicable state agencies on the goal of providing universal development screening so that developmental disabilities are detected and treated in early childhood

### Strengthen K-12 education

Students should be able to succeed no matter where they go to school. Yet public school quality varies tremendously within states and school districts. Too many public schools are not succeeding due to inequitable funding; teaching staff with insufficient training and support; and the lack of time spent on high-quality instruction. As a result, student performance suffers, teachers churn through schools, and dropout rates climb—and too many children leave high school unprepared. This hurts American students—particularly students of color, low-income students, and immigrants that too often attend failing schools—who must graduate with the knowledge and skills necessary to get a good job and move onto

postsecondary training. It also hurts the American economy, which depends on public schools to create a skilled workforce that can compete globally.

State governments can strengthen our K-12 education system by:

- Ensuring equitable funding to poor jurisdictions—ideally by passing legislation to adopt a state-centralized system of financing that allocates funding based on student need
- Providing funding and removing legal barriers to school districts to strengthen professional development, mentoring opportunities, and evaluation of teachers; and to allow collaboration among districts, teachers, and their representative unions to develop performance pay programs
- Collecting and incorporating teacher feedback as a first step to improving teacher recruitment and retention policies
- Strengthening teacher preparation programs by improving the accountability system for teacher education programs
- Providing funding to school districts to extend the school day and year to level the playing field for students from disadvantaged backgrounds

### Make higher education and continuing education available to all

Today's economy places unprecedented demands on America's higher education system. Our future competitiveness will largely depend on whether we increase the education and skill level of the American workforce. Yet the skyrocketing cost of higher education saddles many students with excessive debt, while putting college out of reach for millions of Americans—creating a severe threat to America's ability to meet the challenge of expanding higher education access. Additionally, too often universities and colleges are not providing sufficient support to ensure that students are successful and receive the training they need to find a good job.

State governments must maximize opportunities for every high school student to succeed in college or receive some sort of postsecondary training, as well as the ability of adult workers to diversify the skills they will need to compete in a dynamic economy. In order to do so, states must:

• Lower higher education costs and help students finish college faster by enact-

ing legislation to help give credit for prior learning and ease transfers across postsecondary institutions

- Ensure students have needed technical skills and strengthen regional economies by funding and helping to build training partnerships between community colleges and industry
- Empower prospective students by enacting legislation to ensure public, nonprofit, and for-profit colleges and universities provide students with standardized information concerning their likelihood of graduating, finding employment, and paying off student debt
- Protect students from low-performing colleges and universities by upholding strong oversight in the state authorization process and preventing failing schools from receiving state-level student aid
- Explore how to create high-quality, low-cost online higher education programs—or identify open courseware programs that are equivalent to existing college courses—and develop a process for students to use those online programs and courses to earn college credit
# Ensure affordable, quality health care for all

Reform of the American health system took a huge step forward with the passage of the Patient Protection and Affordable Care Act in the spring of 2010. The law, which is still being implemented, will address some of the biggest problems in our health care system, such as high costs and the millions of Americans who lack health insurance.

States play a key role in ensuring health care reform is properly implemented and can take additional steps to bring costs down and improve the quality of care.

The United States continues to pay much more for health care than any other developed country, as we spend \$7,960 per person compared to \$3,182 per person for the average developed country while only getting similar results at best.<sup>96</sup> In short, the health care system is incredibly inefficient and in need of more payment and delivery reform.

The extremely high cost of health care is harmful to the budgets of middle-class families and employers, as well as governments that bear a significant portion of overall health care expenses. As a result, reducing health care costs would be good for families, businesses, and taxpayers.

#### FIGURE 6 The United States spends much more on health care than other developed countries

Total expenditure on health as percent of GDP, 1980–2010



The Affordable Care Act addresses critical problems by expanding coverage to millions of Americans while taking steps to reform the health insurance industry and how we pay for health care. These changes will require considerable work from state governments to implement reforms over the next few years. Not only should states fully implement the Affordable Care Act reforms, but they should also improve upon these reforms and address other challenges in the health care system.

## Optimize the implementation of the Affordable Care Act

By far the most significant recent legislation affecting health care delivery is the Patient Protection and Affordable Care Act of 2010. This historic legislation sets the United States on a path to provide all Americans with access to health care. Major provisions of the law prevent insurance companies from discriminating against patients based on pre-existing conditions; allow young adults to stay on their parents' insurance until age 26; significantly expand Medicaid coverage for low-income individuals and families; and provide assistance to ensure that middle-income Americans that currently do not have health insurance can afford to purchase it.

State leaders can play a major role in implementing two key provisions of the Affordable Care Act, by:

- Leveraging their knowledge of local health insurance markets by passing legislation or signing executive orders to design and run their own state health insurance exchanges
- Participating in the expansion of state Medicaid programs so that low-income residents will gain needed coverage

## Lower health care costs

The huge and rapidly increasing cost of health care is a significant threat not only to the health care system, but also to our ability to invest in other priorities. State governments oversee the purchase of billions of dollars of health care services every year through state Medicaid programs, Children's Health Insurance Programs, other state-only health programs, and through state employee health care plans. All this spending, however, does not make a difference when it comes to health care outcomes. Health care spending varies significantly in different areas of the country. Yet looking within the United States, there is no correlation between spending and better outcomes.<sup>97</sup>

State governments can reduce spending while improving health care quality by adopting the following reforms (many of which were profiled in "A Systemic

Approach to Containing Health Care Spending," an article authored by the Center for American Progress and outside experts in the August 2012 edition of *The New England Journal of Medicine*) to:<sup>98</sup>

- Limit the growth in health care spending by promoting privately negotiated payment rates within state global spending targets while ensuring that spending targets are set at an appropriate level to provide quality care and access
- Encourage quality care rather than volume of health care services by encouraging alternatives to solely fee-for-service payments
- Expand the use of nonphysician providers by enacting legislation to allow nonphysician providers to offer the full range of care in which they have been trained
- Improve outcomes and reduce costs for some of the sickest and poorest Americans by funding and experimenting with programs to better integrate care for patients eligible for both Medicare and Medicaid

## Lower prescription drug costs

Prescription drugs made up about 10 percent of total health care spending in the United States in 2010.<sup>99</sup> State governments shoulder a significant portion of the costs of providing prescription drug benefits to state employees, Medicaid enrollees, and beneficiaries of other prescription drug assistance programs. In order to drive down these costs, state governments have adopted innovative reforms to produce cost savings for government. Still, there is more that can be done to lower prescription drug prices. The Center for American Progress' analysis of American Enterprise Institute data finds that maximizing generic drug substitution could save Medicaid overall up to \$7.6 billion over 10 years.<sup>100</sup> That is just one example of potential savings.

State governments can lower prescription drug costs for consumers and government by:

- Experimenting with strategies to negotiate lower prescription drug purchase prices, such as joining multistate purchasing pools, establishing a pharmaceutical cost-management council, negotiating directly with pharmaceutical companies, and using preferred drug lists
- Promoting safe generic alternatives, including generics for biologics
- Providing doctors with unbiased information on drugs by creating a prescriber education program

## Address mental health coverage

Mental health disorders are extremely common and affect an estimated 57.7 million Americans in a given year.<sup>101</sup> But historic lack of attention, misunderstanding, and years of stigma has helped make mental illness a hugely neglected public health issue. Moreover, state governments facing severe budget shortfalls have made the problem worse by significantly cutting funding of mental health services in recent years. States cut more than \$1.6 billion in general funds for mental health services between fiscal year 2009 and fiscal year 2012.<sup>102</sup>

State legislatures should work to restore funding for mental health services. In addition states can significantly help Americans with mental illness by:

- Setting high minimum standards for insurance plan mental health care coverage so that patients don't experience gaps in coverage
- Funding uniform, statewide mental health data collection and outcomes measurement to inform policy decisions, maximize return on investment, and avoid negative outcomes such as hospitalizations, arrests, and suicides
- Addressing the growing needs of veterans—with high rates of posttraumatic stress disorder and depression—by creating thorough service delivery, referral, and coordination initiatives

# Rebuild America's crumbling infrastructure

America's infrastructure is in a dire state. Bridges are crumbling, our highways need repair, and our power grids are out of date. Increasing our investments in

infrastructure is critical for the short-term and long-term health of our economy and our middle class. In 2009 the American Society of Civil Engineers gave America's infrastructure a grade of "D," while analysis by the Center for American Progress estimates that we need to invest \$129.2 billion more per year in infrastructure over the next 10 years just to meet our country's infrastructure repair and improvement needs.<sup>103</sup>

Boosting investments in infrastructure and facilitating the growth of the clean-energy and energy-efficiency industries are very effective ways of boosting economic growth and increasing job growth. In a report on the American Recovery and Reinvestment Act, the Congressional Budget Office wrote that spending on infrastructure created the second-most economic activity for each dollar spent.<sup>104</sup> This power comes from the fact that economic activity is created by the direct hiring of workers to build the infrastructure as well as the boost from the spending of those newly hired workers.

The long-term health of the economy is also helped by strong public infrastructure. Public infrastructure helps boost the productivity of workers and businesses in the private sector.

Well-maintained roads, for example, allow goods and people to move quickly between location increasing productivity and reducing costs.<sup>105</sup> The increased productivity results in stronger economic growth and rising wages for workers. Over the longer term, the entire economy would be wealthier and the middle class stronger.

#### FIGURE 7 The employment power of infrastructure investments

An estimated 2.4 million jobs created with \$129.2 billion more infrastructure spending, based on 2009 data



Source: Donna Cooper, "Meeting the Infrastructure Imperative: An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation's Infrastructure" (Washington: Center for American Progress, 2012).

## Rebuild infrastructure to create jobs and spur the economy

Aging schools, roads, bridges, and water and sewer systems put the public's health and safety at risk and undermine our future economic growth. Nearly one of every four United States bridges is structurally deficient or functionally obsolete;<sup>106</sup> 4,000 of the nation's dams are in need of repair; <sup>107</sup> and insufficient freight rail infrastructure results in 39,000 additional truck trips to the Port of Los Angeles alone each day.<sup>108</sup> Moreover, infrastructure investment holds the promise of accelerating the sluggish economic recovery. Infrastructure spending pumps money into local economies by creating work for private-sector companies and good-paying construction jobs. Given today's historically low interest rates, this is an opportune time for state governments to catch up on their backlog of infrastructure priorities.

State governments can create jobs and spur economic growth by significantly increasing infrastructure spending. In order to do so, states should:

- Formalize the state infrastructure planning and financing process; create pathways for public involvement; and use infrastructure plans to identify and achieve specific policy goals
- Maximize public infrastructure investment in the face of severe budget shortfalls by considering the following legislative strategies: raising the gas tax; using Grant Anticipation Revenue Vehicles to spend future federal highway grants funding now;<sup>109</sup> and increasing toll and user fees
- Increase outside investment in infrastructure through state employee pension fund investments
- Increase funding for water infrastructure upgrades by ensuring that state revolving loan funds maintain a balanced investment portfolio

## Increase the use of renewable energy to help the middle class

State governments are facing a tremendous opportunity. After decades of experimentation, state governments can now adopt proven strategies to conserve electricity and grow their renewable electricity industry. By doing so they will reduce carbon pollution and slow the process of climate change; clean the air and protect public health; and grow their economies by creating thousands of reliable, permanent, high-wage jobs.<sup>110</sup> And a more diverse electricity sector that incorporates many different kinds of renewable power sources would move the country away from its current dependence on large, centralized fossil fuel power plants—the kind of plants that are most vulnerable to extreme weather events like Superstorm Sandy.

State governments can adopt a variety of strategies to speed the conversion to renewable energy, which would protect consumers and create good jobs—including:

- Helping to create a market for clean energy by enacting and implementing strong state renewable portfolio; encouraging the use of contracts that allow owners of renewable electricity facilities to sell their power to utilities at a predictable, fixed price over a long period of time; and adopting other strategies to encourage smaller energy generators—such as homes and small- and medium-sized businesses—to maximize the amount of renewable energy they generate through renewable electricity via clean power sources
- Helping facilitate private-sector financing of renewable energy projects by establishing state-level financing vehicles which allow the government to combine public resources with private-sector funding
- Ensuring renewable-energy and energy-efficiency jobs are good jobs and go to qualified workers by passing legislation to invest in job training and require workers to get proper certification

Use energy-efficiency improvements to save money and drive job growth

Americans use huge amounts of energy simply to heat, cool, and light indoor spaces. Buildings account for about 40 percent of total energy consumption in the United States and about 70 percent of total electricity consumption; they are also responsible for 40 percent of carbon dioxide emissions.<sup>111</sup> States stand to enjoy huge fiscal savings by improving their energy efficiency through programs to ensure all new state facilities are built "green," and retrofitting existing buildings. And in the private sector, increasing energy efficiency can help significantly reduce costs for U.S. industries thereby increasing global competitiveness and keeping jobs in the United States. Moreover, investment in energy improvements could generate thousands of new, high-wage jobs for workers retrofitting, constructing, and maintaining energy-efficient buildings. State governments should tap into the short-term and long-term benefits of improving energy efficiency by:

- Creating incentives for utility companies to promote efficiency by enacting energy-efficiency resource standards and decoupling profits from electricity sales
- Enacting legislation to establish high-performance building standards for new construction and major rehabilitation projects as well as building operations and maintenance with the broadest reach possible
- Increasing residential and small business energy efficiency by enacting legislation to establish a goal for energy retrofits; funding programs to ensure that the state reaches the goal; and training a skilled workforce to install, maintain, and operate renewable energy systems
- Helping industries become more competitive by funding a program to help companies incorporate energy-efficiency improvements into their "lean" production strategies
- Encouraging local school districts to adopt an energy conservation and management program

## Strengthen local communities

While many communities have flourished in the past few decades, others have faced hard times and struggled to adapt to the realities of a new economy. Many local economies have not fully bounced back from the decline of employment in major industrial sectors like manufacturing. The well-paying, middle-income, middle-skill jobs have slowly faded away. The lack of jobs means less revenue for state and local governments, which in turn leads to cuts in important government sources, such as education. After these cuts, residents leave the state and the process repeats itself.

Instead of succumbing to their current situation, many states have taken proactive steps to help strengthen their communities and boost development in local economies. These programs help small business, spur innovation, boost local lending, improve the efficiency of community investments, and help low-income workers keep more of their money—all helping create the foundation for long-term economic growth. These programs, in conjunction with others detailed in this summary and our larger report, can help many local communities get back on the path to economic prosperity.



Source: Business Dynamics Statistics, US Census Bureau

## Use state policy and assets to drive innovation and entrepreneurship

All too often states seek to boost economic development by offering ever-increasing tax breaks even though this is unlikely to be a long-term winning strategy. At best, this strategy simply encourages businesses to move from other states, and even its effectiveness at that is questionable.<sup>112</sup> More problematic: The strategy does not necessarily drive new innovation, which is important for long-term economic development that sustains high-quality jobs. Nor does it attract the best kind of businesses—those led by high-road business owners and executives who know that their bottom line is better served in the long run by settling in areas with a skilled workforce and modern infrastructure, rather than the place that offers the biggest tax break. And these tax breaks are too often quite costly—eroding the state tax base for little public benefit.<sup>113</sup>

States are better served by investing in the human capital, infrastructure, partnerships, and culture that can help catalyze the formation of innovation clusters and create new businesses, new products, and new jobs. State governments can do so by:

- Investing in technology incubators, accelerators, and regional innovationanchor institutions that reward local entrepreneurs with direct support through direct grants or seed capital—as well as indirect supports such as counseling, office space, and technical or legal assistance
- Financing innovation and commercialization programs on public university campuses in order to ensure that academic research facilitates the creation of new companies, technologies, and jobs in regional markets
- Improving coordination of existing programs to support small business with regional growth initiatives, research, technology, and workforce-development programs in order to make the most of each of these efforts
- Streamline and modernize government services—including licensing, registration, and certification processes—for small businesses and start-ups

## Spur local lending

In the wake of the Great Recession, small businesses are in a difficult situation. The economy is recovering, but finding a loan to start or grow a small business is difficult. Unlike large business that can raise money in the stock or bond markets, small businesses are reliant upon bank loans.<sup>114</sup> Yet the number of small-business loans has been on the decline since 2008, according to data from the Federal Deposit Insurance Corporation analyzed by the Small Business Administration.<sup>115</sup> Cheaper, more readily available bank loans would help entrepreneurs start new business as well as finance expansions of already existing small business.

State governments can help increase the flow of capital to local businesses by:

- Enacting legislation to establish a publically owned state bank to spur local economic activity and facilitate small-business growth by partnering with private banks to offer small business loans
- Creating a "lend local" program that encourages private banks to lend to local, small businesses

## Use social impact bonds to improve outcomes

Social impact bonds are an innovative new form of funding social service programs that pays for what actually works.<sup>116</sup> In general, governments pay upfront for services to be completed, not for the actual outcome of the services. Too often this method results in overly prescriptive guidelines that prevent the use or development of more effective delivery models. The social impact bond model instead pays depending upon the outcome of the service, with the government setting an outcome they want achieved relative to a specific population and contracting with an external organization that pledges to achieve that outcome and is paid based on its results. State governments should begin to experiment with these programs while ensuring that they do not drive down government standards, including job standards for program workers.

In order to design a successful social impact bonds program and help uphold high standards, state governments should:

- Ensure state budgets can allow for proper use of social impact bonds by allowing multiyear payments for these bonds and ensure unspent funds will revert to designated programs
- Guarantee that payments will actually be made upon success in order to assuage the concerns of external parties
- Encourage innovation by ensuring that intermediaries—rather than the government—choose service providers while upholding high job-quality standards for all workers

## Protect residents from predatory lending and unfair financial practices

Millions of working families struggle to pay bills and balance their family budgets every month. Short-term loans—such as those offered by payday lenders, auto-title loan companies, and rent-to-own contracts—promise struggling Americans access to the funds or goods needed to provide for their families. And for the unbanked, often the only way to access the money they earn is by paying high check-cashing fees. Fees and interest for these high-cost products erode working families' paychecks and can weigh borrowers down with debt that is hard to escape. It is estimated that 76 percent of payday loans are "churned"—meaning borrowers repeatedly take out payday loans to pay off previous loans—with the fees from churning netting lenders \$3.5 billion annually, according to the Center for Responsible Lending.<sup>117</sup> This helps create a cycle where families, overwhelmed by debt, cannot build up the savings they need to withstand even a minor financial emergency.

In addition, financial institutions are allowed to share private information about an individual—including what he or she has purchased recently, how much he or she has borrowed, and whether he or she pays back her loans on time—with other private companies.<sup>118</sup> Banks are required to disclose the information to customers and allow them to opt out of the information sharing, but this process puts the burden on customers to protect their privacy.

State governments can help prevent this cycle of debt and promote savings by adopting the following legal reforms:

- Ban payday loans and auto-title loans that charge extremely high interest rates
- Treat rent-to-own contracts as credit transactions and subject them to interestrate caps and truth-in-lending requirements
- Require that financial institutions receive affirmative consent from consumers before they share or sell consumers' personal information to other institutions, such as retailers, airlines, and telemarketers<sup>119</sup>

## Conclusion

Americans believe in an economy that works for everyone. But the American promise—the idea that if you work hard, you can achieve the good life, exemplified by a secure paycheck that grows year after year, a nice home in a safe neighborhood with decent schools, retirement savings, health care, some leisure time to spend with friends and family, and the ability to send your kids to college and pass along to them a bigger share of the American Dream—is slipping out of the grasp of far too many.

State governments have a tremendous responsibility to help restore this promise and can be part of the solution to rebuild a strong and growing middle class. Progressive state leaders can help chart a course that underscores American ideals of fairness, equity, and opportunity, recognizing that our country's greatest strength has always been our people. Doing so is essential for a vibrant democracy and a healthy economy—and for our conception of what America is all about.

Our report, "States at Work: Progressive State Policies to Rebuild the Middle Class" presents a middle class agenda that is big and bold, and rises to the scale of the challenges we face. Adoption of the proposals in this report will help states fulfill their obligation to significantly improve the lives of residents by strengthening the middle class and the economy.

## About the authors

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Tom Hucker has served in the Maryland House of Delegates since 2007, where he has successfully championed progressive legislation that created the first statewide living wage law in the nation; the first state law to ban arsenic antibiotics from agriculture, and a significant expansion of free, voluntary pre-Kindergarten. He is also a strong advocate on renewable energy, consumer safety, health care access and mental health services, human trafficking, and housing discrimination issues.

Hucker currently serves on the Maryland House Economic Matters Committee and co-chairs the Joint Committee on Federal Relations. He serves on the Board of Directors of the Progressive States Network. Previously, he founded and directed Progressive Maryland, the state's largest grassroots advocacy group for working families. Hucker received his bachelor of science from Boston College.

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