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

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# Introduction and summary

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 for the middle class and the poor are stagnant or falling, while the costs of life's necessities continue to rise, and the risks of falling behind economically grow. Our country faces a mounting economic opportunity deficit, as 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 them a bigger share of the American Dream—feels like it is slipping out of reach for far too many.

These problems are particularly acute for immigrants and people of color, who are rapidly becoming the majority population of the United States and will certainly be so by 2050.<sup>1</sup> If current racial and ethnic disparities in income, employment, education, health, and other social services continue, we will not fully capitalize on the global economic advantages that we can derive from our increasingly diverse population, and we will not meet the nation's 21st-century workforce requirements.

It is imperative that we chart a course that underscores American ideals of fairness, equity, and opportunity, recognizing that our country's greatest strength has always been our people. In short, we need to rebuild a strong and growing middle class. Doing so is essential for a vibrant democracy and a healthy economy—and for our conception of what America is all about.

Tackling the economic challenges that 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, while highlighting the work of outside researchers, analysts, and advocates and complimenting state policy agendas released by other progressive organizations.

This report contains more than 100 policy reforms that will improve job quality, reduce the costs of health care, reform the tax code, fix the housing market, improve the quality of education, ensure civil rights are respected so that everyone can fully participate in the economy, rebuild our crumbling infrastructure, and strengthen local communities. (see text box below for highlights of these policy reforms)

Our agenda is big and bold and rises to the scale of the challenges we face. Each individual policy in this report would be a big help to the middle class—creating a significant number of jobs, boosting incomes for a large percentage of the population, meaningfully cutting costs for middle-class necessities, considerably lowering the risks of falling behind, and boosting opportunity and fair treatment. Together, the policies approach the scale necessary to start rebuilding the middle class.

The policies will help not only those who are currently in or near the middle class but also those who are struggling to join the middle class. 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.

Our recommendations highlight best practices already in use by at least one, and often several states, as well as more novel approaches where those are needed. There is much here for leaders of all states—these policies are specific and practical so that governors and state legislators can take full advantage of this report. Best practices have often passed with broad-based bipartisan support. Even states that are progressive leaders in some arenas have much to learn from what other states are doing in other areas.

For convenience, the policies in this report are grouped in eight broad categories: improving job quality; ensuring civil rights are respected so that everyone can fully participate in the economy; reforming the tax code so that it fairly and efficiently raises sufficient revenue; stabilizing the housing market, ensuring affordable rental housing, and helping rebuild communities affected by the foreclosure crisis; improving the quality of education for all students; ensuring affordable quality health care for all; rebuilding America's crumbling infrastructure; and strengthening local communities. Yet the policies we detail generally have mul-

multiple benefits and address more than just one aspect of the challenges facing the middle class—including high unemployment, stagnating incomes, rising costs of living, and increased risk of falling out of the middle class. Indeed, our entire agenda is geared toward rebuilding the middle class, creating jobs, and getting the economy going again.

Our policies to reduce the costs of college, for example, do far more than just lower higher-education expenses for middle-class families; they also reduce the risk that students will emerge from college saddled with excessive debt and work to help more people gain the income benefits of a college education. Likewise, policies to address our crumbling infrastructure will not only make our communities safer and create good jobs today; they also will provide the modern infrastructure needed to attract business and grow the economy of the future.

Even policies that may not seem to address more than one theme often do just that. Reducing health care costs not only helps families reduce medical expenses but can also boost worker income: The high cost of health care has caused many employers to divert money away from wage increases and toward health benefits.<sup>2</sup> Policies that can directly boost incomes such as inclusive capitalism, which rewards workers when firms do well, are also associated with greater job stability and fewer layoffs during economic downturns, providing a buffer against risks.<sup>3</sup> Reforming unemployment insurance will not only help prevent families from falling out of the middle class but also will boost spending and create jobs. Rehabbing foreclosed properties to rent out can help create jobs, as well as lower rental costs in certain markets.<sup>4</sup>

Tackling the economic challenges our country faces will require bold action, and 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, or COWS, the national high-road strategy center. That agenda dovetails well with the numerous federal policies to rebuild the middle class that American Progress has previously detailed. Indeed, as state governments adopt policies to rebuild the middle class, policymakers should encourage even stronger standards and experimentation at the municipal level by ensuring that state-level reforms set a floor—not a ceiling.

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

Approximately 12 million people are unemployed, and the unemployment rate has been higher than 7.5 percent for four years, the longest sustained period of high unemployment since the Great Depression.<sup>5</sup>

Even for those with jobs, the economy has, for the most part, failed to deliver. Income for the typical household has stagnated over the past few decades and has actually fallen over the past 10 years: Median income for working-age households—meaning half of the population makes more, and half makes less—fell by 1.9 percent during the supposedly good economic recovery of 2001 to 2007 and fell by another 4.6 percent during the Great Recession of 2007—2009.<sup>6</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 on the decline for decades. It is currently at its lowest level since the government began keeping track of the statistic in 1967.<sup>7</sup>

At the same time that incomes have stagnated, costs of living and risks for middle-class families have both increased dramatically. According to the Senate Committee on Health, Education, Labor and Pensions, between 1970 and 2009 the costs of gas went up by 18 percent, health care by 50 percent, college by 80 percent, and housing by 97 percent, net of overall inflation.<sup>8</sup>

The percentage of Americans who lost ground economically by either experiencing a major loss in income or incurring large out-of-pocket medical expenses has rapidly increased over the past two decades, reaching almost 19 percent in 2011, the last year for which complete data are available. That's up from 14 percent in 1986, according to research by Yale political scientist Jacob Hacker.<sup>9</sup> Not surprisingly, most Americans haven't been able to save enough for retirement, and the risk of falling behind in retirement has increased significantly: The percentage of working-age households that are at risk of being unable to maintain their preretirement standard of living in retirement rose to 51 percent in 2009—up from 32 percent in 1983, according to the Center for Retirement Research at Boston College.<sup>10</sup>

Finally, it is becoming harder for Americans to join the middle class. According to research by Bhashkar Mazumder of the Federal Reserve Bank of Chicago, the likelihood that a child born poor will rise into the middle class has declined significantly over recent decades.<sup>11</sup> As a result, the United States has less economic mobility than almost every other high-income country.<sup>12</sup>

The scale of these problems is much greater for people of color. Communities of color suffer from elevated high school dropout rates, economic insecurity, and lack of quality health care, while wealth gaps expand to record highs between whites and communities of color—the largest gap, in fact, since the government began publishing such data in 1984.<sup>13</sup> What’s more, in 10 states and the District of Columbia, the majority of children are children of color, and it is expected that by 2019 the majority of children in the United States will be of color.<sup>14</sup>

The weakened state of the middle class hurts all of us by stifling our country’s economic growth and undermining our democracy.<sup>15</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.

In the American political system, states have tremendous power and responsibility. This proposed policy agenda will help states fulfill their responsibility to significantly improve the lives of their residents. This set of proposals is of vital importance to the future our country and should be a top priority for policymakers.

## A sampling of policies included in this report

This report presents a middle-class agenda that is big and bold, and rises to the scale of the challenges we face. Doing so will require state governments to take a comprehensive approach, undertake a diverse set of reforms to improve job quality; reduce the costs of health care; reform the tax code; fix the housing market; improve the quality of education; ensure civil rights are respected so that everyone can fully participate in the economy; rebuild our crumbling infrastructure; and strengthen local communities.

Some of the policies described in the report are new ideas, while others have already been tested at the state level but merit much wider adoption. The examples below are emblematic of the sort of policies included in this report representing both the breadth and types of policies needed to rebuild the middle class:

- Prevent millions of workers from having to choose between going to work while ill or risking their jobs by staying home when sick by passing paid sick leave legislation
- Lift workers out of the ranks of the working poor, boost the wages of higher-wage workers, and ensure that living standards increase as the economy grows by raising and indexing the minimum wage to one-half the average wage and broadening its coverage
- Provide greater retirement security for workers and cut the costs of saving for retirement in half compared to a traditional 401(k) by creating a collective defined-contribution retirement plan— a hybrid plan that combines the best features of pensions and 401(k)s
- Ensure that when companies do well, so do their workers by encouraging private-sector businesses to share ownership with their workers or adopt other types of inclusive capitalism programs
- Invest in immigrant families by passing state-level DREAM Acts to permit qualified undocumented students to attend state colleges and universities at the in-state tuition rates and to access public financial aid
- Ensure that hard work is rewarded by enacting a state-level, refundable earned income tax credits
- Protect unemployment insurance and put it on a sustainable funding path by adopting state-level reforms
- Help rebuild the communities hardest hit by the foreclosure crisis by scaling up statewide land-banking efforts and assisting local entities with funding to stabilize at-risk neighborhoods and to keep homes occupied
- Eliminate funding disparities that contribute to unequal educational outcomes by adopting a state-centralized funding system
- Ensure that students make well-informed higher education choices by ensuring in-state colleges and universities provide important cost and outcome information via college “nutrition” labels
- Ease transfers across post-secondary institutions and guarantee that an associate’s degree fulfills the first two years of core studies at public four year institutions by adopting a statewide articulation agreement
- Reduce health care costs and improve outcomes by significantly curtailing the use of fee-for-service payment systems
- Strengthen families and improve economic security for gay<sup>16</sup> and transgender families by enacting marriage equality legislation
- Create good jobs and help transition communities to the “green economy” by creating training programs and certification requirements for clean energy installation, energy efficiency retrofits, and green operations and maintenance jobs
- Improve government efficiency and ensure that social service programs help communities by adopting social impact bonds
- Help small businesses and in-state entrepreneurs by combining all statewide funding opportunities for technology, business development, economic development, and workforce training into a single common application

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## Endnotes

- 1 Bureau of the Census, "2012 National Population Projections: Table 6. Percent Distribution of the Projected Population by Race and Hispanic Origin for the United States: 2015 to 2060" (2012), available at <http://www.census.gov/population/projections/data/national/2012/summarytables.html>.
- 2 Katherine Baicker and Amitabh Chandra, "The Labor Market Effects of Rising Health Insurance Premiums." NBER Working Paper 11160 (National Bureau of Economic Research, 2005).
- 3 B. Craig and J. Pencavel, "The Behavior of Worker Cooperatives: The Plywood Companies of the Pacific Northwest," *American Economic Review* 82 (5) (1992); B. Craig and J. Pencavel, "The Objective of Worker Cooperatives," *Journal of Comparative Economics* 17 (2) (1993); Douglas Kruse, Richard Freeman, and Joseph Blasi, "Do Workers Gain by Sharing? Employee Outcomes under Employee Ownership, Profit Sharing and Broad Based Stock Options." In Douglas Kruse, Richard Freeman, and Joseph Blasi, eds., *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options* (Chicago and London: The University of Chicago Press, 2010); Rhokeun Park, Douglas Kruse, and James Sesil, "Does Employee Ownership Enhance Firm Survival?" In Viginie Perotin and Andrew Robinson, eds., *Advances in the Economic Analysis of Participatory and Self-managed Firms* (Greenwich: JAI Press, 2004); Margaret Blair, Douglas Kruse and Joseph Blasi, "Is employee ownership an unstable form? Or a stabilizing force?" In Thomas Kochan and Margaret Blair, eds., *Corporation and Human Capital* (Washington: The Brookings Institution, 2000); National Center for Employee Ownership, "Largest Study Yet Shows ESOPs Improve Performance and Employee Benefits" (2002).
- 4 Alon Cohen and others, "Rehab-to-Rent Can Help Hard-Hit Communities and Our Economy: What to Consider When Converting Vacant Foreclosed Homes into Affordable, Energy Efficient Rentals" (Washington: Center for American Progress, 2012).
- 5 Bureau of Labor Statistics, *Current Population Survey* (Department of Labor, 2012).
- 6 Economic Policy Institute, "The State Of Working America: Income for Working-age Households Drop More Than 10% in the 2000s" (2011).
- 7 U.S. Census Bureau, *Historical Income Tables: Households* (Department of Commerce, 2011), table H-2, available at <http://www.census.gov/hhes/www/income/data/historical/household/>.
- 8 Senate Health, Education, Labor and Pensions Committee, *Saving the American Dream: The Past, Present, and Uncertain Future of America's Middle Class* (2011).
- 9 Jacob S. Hacker and others, "Economic Security at Risk: Findings from the Economic Security Index" (New Haven, Connecticut: Economic Security Index, 2010); Economic Security Index, "ESI Update: Economic Security Improves in 2011" (2012).
- 10 Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass, "The National Retirement Risk Index: After the Crash" (Chestnut Hill, MA: Center for Retirement Research at Boston College, 2009).
- 11 Bhashkar Mazumder, "Is intergenerational economic mobility lower now than in the past?" (Chicago: Federal Reserve Bank of Chicago, 2012).
- 12 Miles Corak, "Inequality from Generation to Generation: The United States in Comparison." In Robert Rycroft, ed., *The Economics of Inequality, Poverty, and Discrimination in the 21st Century* (Santa Barbara, California: ABC-CLIO, forthcoming).
- 13 Paul Taylor and others, "Twenty-to-One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics" (Washington: Pew Research Center, 2001); Christian Weller, Julie Ajinkya and Jane Farrell, "The State of Communities of Color: Still Feeling the Pain Three Years into the Recovery," (Washington: Center for American Progress, 2012).
- 14 Children's Defense Fund, "The State of America's Children Handbook" (2012).
- 15 "The Middle Class: The Engine of Economic Growth," available at [http://www.americanprogress.org/issues/economy/economic\\_outlook/middle\\_class](http://www.americanprogress.org/issues/economy/economic_outlook/middle_class) (last accessed July 2012); David Madland, "Growth and the Middle Class," *Democracy Journal* 20 (2011); Heather Boushey and Adam Hersh, "The American Middle Class, Income Inequality, and the Strength of Our Economy: New Evidence in Economics" (Washington: Center for American Progress, 2012); Ronald M. Glassman, *The Middle Class and Democracy in Socio-Historical Perspective* (Boston: Brill, 1995).
- 16 In this report, the term "gay" is used as an umbrella term for people who identify as lesbian, gay, or bisexual.



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