



REPAIRING THE ECONOMIC LADDER

A TRANSFORMATIVE INVESTMENT STRATEGY TO
REDUCE POVERTY AND EXPAND AMERICA'S MIDDLE CLASS

JANUARY 24, 2007

FINDINGS AND RECOMMENDATIONS OF MAYOR ANTONIO VILLARAIGOSA,
CHAIR OF THE UNITED STATES CONFERENCE OF MAYORS
TASKFORCE ON POVERTY, WORK, AND OPPORTUNITY

The Charge of the United States Conference of Mayors Taskforce on Poverty, Work, and Opportunity

In the wake of Hurricane Katrina, mayors across the country are actively engaged in new and vibrant efforts to help alleviate poverty, increase living standards in economically distressed areas, and establish policies to expand and strengthen America's middle class. Such efforts, however, have proven to be fragmentary and vary widely across the country. Even those cities that have successfully implemented programs find their efforts hampered by outdated or insufficient state and national policies.

To better address problems of persistent poverty and middle class erosion, mayors believe that this country must forge a common national strategy. To help develop this strategy, and reawaken the national conversation about these issues, the US Conference of Mayors created a Mayor's Taskforce on Poverty, Work and Opportunity in January 2006 and appointed Los Angeles Mayor Antonio Villaraigosa as its chair. Under his direction over the succeeding 12 months, the taskforce set to work creating a bipartisan action plan that sought to integrate federal, state and local strategies, while leveraging maximum business, philanthropic, and individual participation.

Given the scope of the challenges and opportunities before us, we believe that we have to take full advantage of the synergies possible when federal, state and local governments and the private sector are thoughtfully coordinated and work together.

The taskforce's recommendations reflect the mayors' consensus about the need for an action plan that is as pragmatic as it is bold, and that, above all else, is driven by data and guided by best practice.

Each recommendation is grounded in our firm belief that repairing the economic ladder and raising the prospects of tomorrow's workers is a paramount national interest. We believe that a stronger economic ladder will position our country to grow its middle class, while using our resources more efficiently and securing our position in an increasingly competitive global economy.

TASKFORCE FINDINGS

The United States is the most prosperous, economically competitive nation in the world, widely celebrated for providing a sure path to economic opportunity and a middle class life for those willing to “work hard and play by the rules.”

Yet, as mayors of America’s largest cities, we are observing sweeping changes in this country that pose serious new challenges to the mobility of workers into the middle class, as well as to American prosperity in general.

Put simply, the ladder of economic opportunity that has always defined us as a nation is marked today by ever-widening gaps. We see missing rungs in the form of uneven access to essential education opportunities. We see increasing disparities in the availability of good-paying jobs for all people. Meanwhile, more Americans see holes in a basic, coordinated strategy for maintaining America's leading position in the global economy.

At the same time, we also see enormous opportunities on the horizon for the nation’s next generation of workers, which give our country a chance to truly reconceive the traditional pathways to economic success.

Because a growing and resilient middle class is the foundation of a prosperous city, we mayors urgently believe that America must respond to these challenges and opportunities. And, as the stewards of over 80 percent of the nation’s gross domestic product and population, we believe that what benefits metro areas will benefit the country as a whole.

Responding will not come easily. Candidly, our current menu of government programs is far better at sustaining yesterday’s workers than ensuring the futures of tomorrow’s.¹

But, we must respond. The challenges and opportunities before us demand that we continue to aspire for an America where no one is underutilized in the workforce, where everyone has the tools to help them get ahead, and where each American has a genuine opportunity to do better than the last generation. To keep the economic ladder intact and to raise the prospects of tomorrow’s workers, we need to commit ourselves at every level of government and sector of leadership to investing in the skills and talent of our people - - and to do so by using our limited resources as efficiently and as strategically as possible.

This report is the mayors' roadmap for how to reach these goals.

The Challenges

As mayors of the America’s largest cities, we are on the frontlines of sweeping changes undertaking this country, which are posing new challenges to the upward mobility of workers into the middle class, as well as to American prosperity more generally. These challenges include the following:

- Work Is Not Enough to Escape Poverty**

The magnitude of the poverty problem is daunting. More than 37 million people are still officially poor today, despite the fact that more than one-half of poor families are now working.² The reality is that while getting and keeping a job is necessary for any measure of economic opportunity, work by itself is often insufficient to escape poverty.
- Retiring Baby Boomers and Surging Federal Debt Threaten the Sustainability of Public Investments**

Budgetary challenges -- including costs related to the graying of the Baby Boom generation and the surging debt held by the federal government -- loom as massive fiscal obstacles to increasing economic mobility through new public investments.³ In just three years, more than 64 million workers will be poised for retirement, pushing the projected costs of the two major government programs that benefit the elderly, Social Security and Medicare, to more than 15 percent of the national gross domestic product (GDP) by 2030.⁴ The costs of Social Security, Medicare, and Medicaid alone are expected to equal nearly the entire current federal budget within just 23 years.⁵
- Globalizing Trade, Commerce, and Populations Have Driven Down Wages, Spurred the Off-Shoring of Jobs, and Created New Immigration Challenges**

The globalization of trade, commerce, and populations represents another set of challenges. Wages have stagnated or declined for more than 40 percent of this country's workforce,⁶ in part because of the increasing mobility of capital; millions of jobs with low barriers to entry and considerable potential for wage gains and career advancement already have moved abroad.⁷ At the same time, communities across the U.S. are struggling to absorb new waves of immigrants.⁸
- The Rise in Single-Parent Households Threatens the Ability of Families to Provide for the Next Generation of Workers**

Over the last 45 years, the percentage of children living in single-parent households nearly doubled, from 12 percent of all children in 1960 to more than 23 percent in 2005.⁹ Underscoring that trend, one of every three American children is now born to single mothers, including nearly three of every four black children and one-half of all Hispanic children.¹⁰ With just one parent in the house, it is much more difficult for parents to both work and provide childcare; forced to choose, these families endure a poverty rate more than four times that of two-parent households.¹¹

The Opportunities

No one should doubt the significance of the challenges that lie before us. But it would be a misjudgment to allow the magnitude of these challenges to overshadow our prospects to boost economic opportunity and prosperity in the years to come. Here are several reasons why:

- There Is Substantial Progress Already Being Made That We Can Build On**
 Government programs lifted the incomes of over 27 million people above the poverty line in 2004, nearly halving the poverty rate from what it would have been absent these programs.¹² Such a large and widespread impact affirms the power of good ideas matched with political will to help people get ahead. We also know more about how to harness the power of government to improve families' economic circumstances than ever before – as was shown during the 1990s when Congress and the White House worked together to radically reform welfare and enact a large increase in the Earned Income Tax Credit (EITC). In combination, these measures broke the structure of perverse incentives that had helped keep millions of people in poverty. Similarly, federal investments made over the past decade in tearing down and replacing public housing built during the 1950s and 1960s, where poverty had become concentrated, have transformed previously failing neighborhoods into new mixed-income communities with better schools and a new sense of hope. Mayors, too, have rallied across the country behind prosperity campaigns that connect lower income workers to supports that enhance their prospects for mobility, creating billions of dollars in new spending power for these workers and their families.
- Globalizing Trade and Commerce Has Spurred Demand for Highly Skilled Labor and Accountability in Our Educational System**
 Global competition has depressed wages and threatened communities long dependent on economic sectors like manufacturing, but it's had another consequence as well: U.S. employers place a much higher premium on educational attainment and high-value job skills than in the past. Already, more than 60 percent of human resource managers express concern about the availability of skilled workers, reflected in part by the fact that the average time needed to fill a vacant position has increased from 37 to 51 days.¹³ This has spurred new demand for accountability in our educational system, and new, powerful partners are mobilizing behind sweeping new initiatives and reforms.¹⁴ Although much work remains, there are already signs of improvement.¹⁵
- Retiring Baby Boomers Will Create New Job Opportunities**
 The looming retirements of Baby Boom generation workers will cost the federal government trillions of dollars in spending for programs like Social Security and Medicare. But this generational change will also open up millions of job opportunities for the next generation of younger, lower-income workers.¹⁶ Labor economists estimate that by 2020, 20 percent of our workforce will be 55 years or older, up from 13 percent today.¹⁷ Though pension reform, longer life expectancy, and changing work arrangements are likely to keep a large share of these older workers on the job for years to come, Baby Boomer retirements will create more immediate opportunities for career-track work that pays family-supporting wages but does not require a four-year college degree.¹⁸ In addition, as the population ages, millions of new full-time healthcare jobs -- many with

career ladders and family-supporting compensation -- are projected to open up over the next few decades.¹⁹

- **Economic Growth and Demographic Changes Are Spurring New Opportunities to Build Economically Integrated Neighborhoods**
Planners predict that by 2030, nearly one-half of America's current stock of buildings used to live, work, and shop in will have been built after 2000 to accommodate economic and population growth.²⁰ That represents more than 127 billion square feet of new construction. In addition to the new jobs created by this construction activity, state and local leaders will have an opportunity to create economically integrated neighborhoods that give lower income residents greater access to good schools and quality jobs.²¹

TASKFORCE RECOMMENDATIONS

To respond to these challenges and opportunities, we believe the government must work with its private-sector partners to boost upward mobility and grow the middle class. To do this, we believe that the country must focus more on those initiatives that will lead to a long-term transition in this country from being primarily successful at helping yesterday's workers to also better supporting the prospects of tomorrow's workers

Put plainly, our failures at reducing poverty and boosting economic opportunity are most pronounced among the next generation of workers—those who have the most to gain from government investments and contribute to our future national prosperity, and the most to lose if we do nothing for them.²² Last year, for instance, our federal investments reduced the number of the elderly living below the poverty line by more than 80 percent, lifting over 14 million seniors out of poverty.²³ That's a tremendous accomplishment that we should take pride in as a country. However, federal investments reduced child poverty by just 33 percent last year, leaving nearly one in five children in poverty.²⁴

With this record of success, we are setting ourselves up for diminished economic opportunities, a middle class that is smaller than possible, and future generations of poverty.

Children who grow up in poverty are less likely to go to college and more likely to need welfare and the support of the federal government when they retire.²⁵ They tend to perform poorly in school and are more likely to run afoul of the law than children of wealthier families.²⁶ They are the least likely to succeed at moving up the income ladder.²⁷ They tend to benefit the most from government investments.²⁸ They also bear a tremendous opportunity cost for the nation if left behind in a postindustrial global economy; without a fully mobilized knowledge workforce, America's economic pre-eminence could prove unsustainable.²⁹

To successfully boost economic opportunity and grow a middle class, then, we must broaden the success of our investments in poverty policy from being primarily effective at helping yesterday's workers to also being successful at boosting the prospects of more of

tomorrow's workers. This approach gives lower income Americans the tools to help themselves, positions the government to achieve long-term savings as the need for today's poverty-related programs decline, and -- most importantly -- we believe it to be the best approach to take advantage of some of the key opportunities to reduce poverty that have been created by the sweeping changes of our time described above.

During the last year, we have listened to the recommendations of experts from around the country about how best to broaden the success of our poverty investments and increase economic mobility while successfully competing in the global economy. We have also taken a hard look at the strategies and plans developed by other national organizations to reduce poverty and grow the middle class. And we have closely considered the many ways by which mayors around the country are working to reduce poverty and create economic opportunity in their communities.

In total, we have collected and considered more than 200 different proposals, touching on every level of government and many sectors of the economy, as well as major categories of traditional antipoverty policy, including child care, education, energy, food, health, housing, income enhancements, job training, retirement, savings, and transportation. Most of the recommendations we received are needed and would benefit this country if implemented. But we did not want to provide a laundry list of ideas. We also wanted to recommend only proposals that met specific criteria agreed on by the taskforce. In particular, proposals for action had to be:

- **Grounded in the reality set by our changing world**
- **Supported by evidence or proven on-the-ground results**
- **Demonstrated bipartisan support**
- **Fiscally responsible**
- **Highly leveraged**

On the basis of these criteria, we have settled on three top policy priorities for the federal government, and three additional priorities for state and local governments and the private sector. Each of these priorities is integrated across levels of government and sectors of leadership, and they are meant to complement one another.

No set of actors is likely to read in these recommendations their ideal wish list for collective action to boost economic opportunity and grow a middle class, but we believe that nearly everyone will see something they believe in. The magnitude of the challenges and opportunities we face compels us to be more deliberate, strategic, and consensus-driven about how we choose to act.

The cumulative outcome of these leveraged investments is designed to set us on a course for increasing economic mobility, growing a middle class and strengthening national economic competitiveness.

RECOMMENDATIONS OF THE TASKFORCE

INVESTMENT STRATEGY # 1: **INVEST IN HIGH-QUALITY PUBLIC EDUCATION FOR** **TOMORROW'S WORKERS**

OUTCOME: Tomorrow's workers secure the educational foundation required to be competitive in a global economy.

There is no more powerful predictor of economic success -- and no more powerful weapon against poverty -- than educational attainment.³⁰ The more success a child achieves in school, the less likely he or she is to live in poverty as an adult. The poverty rate of high-school dropouts, for instance, is three times that of those who graduate.³¹ As individuals move into post-secondary schooling and pursue specialized skills, they increase both their own economic prospects and their value to the economy. They are also better positioned to fill the high-skill, high-quality jobs vital to sustaining American prosperity.

Unfortunately, our public school systems are failing to educate a stunningly large share of the nation's next generation of workers. The failures are most egregious in our urban areas, where children from lower income families drop out of school at a much higher rate than their wealthier neighbors.³²

One of every four American children drops out of high school before graduating.³³ In major cities like New York, Los Angeles, and Dallas, fewer than one-half of entering ninth graders graduate high school within four years.³⁴ This adds up to millions of young Americans who reach adulthood with dramatically lower chances for economic success. The overwhelming majority of those who drop out spend much of their lives on the margins of the economy.³⁵

But these problems begin long before high school. Today, more than 45 percent of public school students tested in kindergarten and middle school fail to achieve age-appropriate proficiency in reading and mathematics.³⁶ Only 35 percent of our urban middle schoolers achieve proficiency in math.³⁷ Lower income children consistently perform worse in achievement tests in both subjects than higher income children, and they make-up a disproportionately large share of those who drop out, doing so at twice the overall rate.³⁸ Only one-half of lower income children even begin college, compared with more than 75 percent of higher income children.³⁹

TOP FEDERAL ACTION STEP: INVEST IN HIGH-QUALITY PRESCHOOL FOR EVERY CHILD.⁴⁰

Most education experts agree that a "pre-K to 20" system that provides students with a consistent ladder of learning from pre-kindergarten through college represents an ideal for public education.⁴¹ The most important part of that learning ladder, however, is the first rung. Research has shown that children who enter K-12 schools with no previous classroom time are less prepared to learn than children who attended preschool programs

that helped accelerate their cognitive and emotional development.⁴² The success of Head Start, which offers pre-kindergarten learning to lower income families, is tribute to how effective this approach has been for those who find seats in the program.⁴³

Failure to commit resources for the early education of most of the 48 million children currently in our public school system bears substantial costs in both budgetary and human terms.⁴⁴ Children who do not receive an early education are more likely to struggle as young adults and as adults. They are more likely to perform poorly on achievement tests, to have children as teenagers, to engage in criminal activity, and to face chronic unemployment as adults.⁴⁵

But the potential economic upside to investments in early childhood education is also remarkable. One recent study found that \$2 trillion in new GDP could be generated by 2080 from a new federal investment in high quality, universal pre-school.⁴⁶ Purely in terms of improving the return on public investments, an expanded commitment in this area is probably one of the biggest opportunities this country has to invest in tomorrow's workforce.

A new federal investment in early education would need to be coordinated with more-targeted extant commitments that provide childcare -- notably Head Start, which is currently funded at \$6.8 billion and serves approximately 8 percent of the nation's three-year-olds and 12 percent of four-year-olds.⁴⁷ It would also need to be integrated with the approximately \$3 billion that 40 states invest annually in some form of early education, which provide care for three percent of the nation's three-year-olds and 17 percent of the nation's four-year-olds.⁴⁸ In total, more than 50 percent of the nation's current three- and four-year-olds are estimated to have access to some form of public or private nursery or preschool program.⁴⁹

However, both access to and the quality of pre-schools varies greatly across the states. States have widely disparate standards for teachers and curriculum; many preschool programs provide only a half-day of service, and most do not provide for preschool during the summer, even though working parents still need these services.⁵⁰ Similarly, lack of sufficient funding in Head Start has limited enrollment of eligible children; and may weaken the program's effectiveness. These inconsistencies all reduce the effectiveness of the nation's current investments in preschool education.

To maximize the benefits of early childhood education, the taskforce recommends making an initial investment of \$22.9 billion in universal early childhood education grants to state programs.⁵¹ States would use these grants to boost the current enrollment of three- and four-year olds in preschools, and awards would be conditional on states agreeing to the following provisions:

- Rigorous educational standards for preschool providers, including class size, staff ratios, and staff qualifications (a minimum of a B.A. degree for the head teacher and an associate's degree for the assistant teacher)
- Extended hours of service to accommodate the schedules of working families

- Subsidized services through the summer for children of lower income families
- Expanded access to quality preschool, particularly among three-year-olds for whom enrollment is substantially lower than among four-year-olds.

We estimate that this funding will boost enrollment among three- and four-year olds in publicly funded preschool programs to about 4 million children, including about 75 percent of preschool-aged children living in families who earn below the median income.⁵²

The taskforce recommends these additional federal priority actions:

- Adopt the federal policy recommendations made by the National Academies to improve K-12 science and mathematics education by recruiting more qualified teachers and setting higher standards for students.
- Reform the No Child Left Behind Act to address disincentives for high-quality teachers to teach at poorly performing urban schools.
- Fully fund English as a Second Language (ESL) programs in public schools
- Fund demonstration projects designed to improve teacher quality across all grades of public schools.

TOP STATE AND LOCAL ACTION STEPS: INVEST IN HIGH QUALITY WORKFORCE TRAINING FOR TOMORROW'S WORKERS

The main path of high school education, with its focus on college preparation, does not speak to the aspirations or plans of millions of students. The school-wide Career Academies model for K-12 education, by contrast, does address some of these goals by placing greater focus on preparation for jobs and careers, emphasizing career exploration through vocationally oriented instruction in fields from graphic design and information technology to healthcare and teaching.⁵³ Career Academies typically serve between 150 and 200 high school students, combining traditional curricula with career-oriented training that is designed to better prepare students to move into the labor force. The approach also combines classroom learning with on-site experience. High-performing Career Academies maintain partnerships with regional employers to both make students aware of their career options and provide work-based internships and other learning opportunities.

Research indicates that students -- especially young men -- who matriculate through a Career Academy fare better after high school than those of similar circumstances who do not. One recent study found that earnings for participants were higher by an average of \$212 per month than for youth who did not participate, an 18 percent difference in annual compensation.⁵⁴

The benefits of the Career Academy approach go beyond earnings. Program participants have shown higher rates of both high school completion and postsecondary enrollment than the national average.⁵⁵ Employers also realize value by helping to inform the school

curricula in their communities, better preparing the next generation of workers for jobs in their businesses.

For these reasons, the taskforce recommends that states and local government provide up to \$650 per student in a K-12 public school, or about \$32 billion in total spending across the states, for schools that adopt the high-quality, standards-based Career Academy curriculum.⁵⁶ The schools should conform to state-determined standards of practice, and establish clear guidelines for evaluation of program effectiveness, including benchmarks for college and career success and student achievement.

State and local governments should partner with private-sector stakeholders to invest in expanding access to career exploration and preparation through Career Academies and other strategies.⁵⁷ Within a few years, we believe that savings related to improved student performance spurred by the new investment in early childhood education can finance the public component of this investment.

The taskforce recommends these additional state and local priority actions:

- Adopt state policy recommendations made by the National Academies to improve K-12 science and mathematics education by recruiting more qualified teachers and setting higher standards for students
- Fully fund ESL in public schools
- Fund demonstration projects designed to improve teacher quality across all grades of public schools.
- Consider options for reforming K-12 education bureaucracies to achieve savings and greater effectiveness.

We believe these investments should be directed at public rather than private schools. Of the approximately 53 million children currently in our K-12 system, only 5 million attend private schools.⁵⁸ The entirety of the non-public system lacks the capacity to absorb the students in failing public schools. Building that capacity would waste enormous investments already made in the nation's public schools infrastructure.

TOP PRIVATE-SECTOR ACTION STEPS: INVEST IN K-12 WORKFORCE DEVELOPMENT.

Business leaders recognize that our public schools must succeed because our nation's schools are educating their future workforce.⁵⁹ **To maximize the effect of investments in early education by the federal government and Career Academies by state and local government, the taskforce recommends that regional employers enlist as vested partners in the success of these programs.**

Specifically, the taskforce recommends these actions by business leaders:

- Invest in workforce education and career exploration counseling to high school students.

- Encourage employees (especially within large businesses) to participate in workforce development programs available in high schools, particularly those with lower college attendance rates.
- Work with local leaders to develop appropriate curriculum that is responsive to regional workforce trends.
- Collaborate with state education and workforce leaders to identify key regional job trends.
- Work with educators to develop appropriate curriculum.
- Support federal and state standards-based education.

INVESTMENT STRATEGY #2:

INVEST IN THE LIFE-LONG EDUCATION AND SKILLS DEVELOPMENT OF TOMORROW'S WORKERS

OUTCOME: Tomorrow's workers participate and succeed in a competitive and changing economy

Our nation faces the prospect of acute skills shortages. Three-quarters of new job growth will require some training and education beyond high school. Yet between 2000 and 2020, the number of workers with at least some college education is projected to increase by just 4 percent. By contrast, between 1980 and 2000, this number rose by nearly 20 percent.⁶⁰ Statistics like these have labor market experts very concerned that we are facing the prospect of a “skills gap” in the U.S. workforce.⁶¹ By one estimate, the U.S. faces a shortfall of 14 million workers for skilled jobs by 2020, as job demands continue to rise but the education level of the workforce remains static.⁶²

Unfortunately, the nation's current tools to address these shortages are too ineffective and inefficient to address this critical need. Chief among these shortcomings, a college education is increasingly unaffordable to a large portion of the public. Since 1980, the inflation-adjusted cost of tuition at a four-year public college has increased by more than 190 percent;⁶³ during that same time, median family income increased by only about 18 percent.⁶⁴ The result is a class bias in educational attainment: as of 2005, only 19 percent of working-age adults with incomes below the median income had earned a college credential compared with more than 46 percent of higher income adults.⁶⁵

High school graduates trying to pay for college currently turn to an array of credit and subsidies provided by the federal and state governments and private institutions. Aid from these sources has increased, but borrowing to pay for college is not a viable long-term solution because the debt payments will eventually be cost-prohibitive for many graduates.⁶⁶ Already students from lower income families are finding they cannot afford college because costs have increased so much faster than the caps for federal subsidies such as Pell Grants.⁶⁷

In addition, workforce skills training programs are inadequately resourced to meet current workforce needs. The Workforce Investment Act (WIA), the nation's largest program for

providing skills training, can only afford to provide training for less than 1 percent of the nation's workforce.⁶⁸

In the short term, Congress and the President should act to shore up the funding shortfalls that have hampered the positive potential of programs such as Pell and WIA and provide incentives for public-private partnerships in workforce development.⁶⁹ For the longer haul, the taskforce urges a focus on solutions that address the scale of the problem. For this reason, we are recommending three coordinated investments by federal, state, and local policymakers along with their private sector partners to address workforce skills shortages and enhance the upward mobility of tomorrow's workers. Together, these investments are designed to leverage the power of the market and co-investors to significantly expand the number of future workers who have access to funding for education and workforce development.

TOP FEDERAL ACTION STEPS: INVEST IN A LIFETIME LEARNING SAVINGS ACCOUNT FOR EVERY CHILD

We recommend that the federal government open a savings account for every child born in this country, depositing up to \$500 at the child's birth and providing an annual income-indexed match of up to \$500 for deposits made by family and third parties, until the child's 18th birthday.⁷⁰ To create a powerful new incentive to complete high school, recipients will not be able to access these accounts until they graduate. We believe this will lower the dropout rate, which is higher than 50 percent in some cities.⁷¹ Funds can be used only for higher education or career training.⁷² In addition, withdrawn funds in this account should be tax free.

In addition to providing a tremendously powerful new resource for individuals to invest in their own college-level education and career-directed workforce training, we anticipate that these savings accounts will have several additional benefits. The first is that by shifting resources to consumers instead of government-subsidized workforce providers, these accounts will create an incentive among existing training institutions to more meaningfully compete with each other for clients and meet higher, market-based performance standards. One possible byproduct of this proposal is that these training institutions will organize into more effective regional workforce intermediaries, offering something close to a full continuum of services -- from job placement and retention services to assistance in obtaining vocational certificates and two- and four-year college degree programs.⁷³ We discuss other secondary effects below.

We anticipate that the first-year cost of this program will be \$2.1 billion.⁷⁴ Assuming a participation rate similar to other voluntary federal programs, and modest annual growth in the number of children born, we anticipate the public cost of this program will reach \$23.9 billion within 18 years.⁷⁵

Assuming a conservative annual return of interest -- the return on a 10 year Treasury note -- and an 80 percent participation rate among all families, total funds in the lifetime learning accounts held by tomorrow's workers will be valued at over \$900 billion within

18 years.⁷⁶ *The initial federal investment of \$2.1 billion for the first year of this program will have compounded in the lifetime learning accounts to more than \$58 billion available for the first class of graduating seniors to spend on higher education or workforce skills training.* These savings accounts would represent over \$30,000 for each American high school graduate from a family earning below the median income to invest in college or skills building -- or nearly one-half of all graduating seniors in 18 years (2.1 million children).

The returns from this investment are substantially larger than a traditional federal program designed to boost the affordability of education and workforce training because this program leverages the market to compound the value of this investment over time. In this way, it provides an incentive for families and for third-party investors to share the costs of this government investment over time in a more cost-effective manner than the current practice: an immediate subsidy from the government to educational institutions or individuals.

We believe that the value of these government investments is large enough to warrant a competitive bidding process among financial service companies for these accounts. As part of the selection criteria, we recommend that the federal government grant to state and local governments the authority to work with regional financial service providers to identify neighborhoods underserved by bank branches. On the basis of this evaluation, state and local officials should require financial institutions bidding on the lifetime learning accounts to include goals for bringing branches into these neighborhoods with the deposits received as part of this program, and to provide a profile of the product line that they will offer and market in branches used by lower income clients. Among the policies and product offerings we believe should be included are for banks to accept non-traditional official identification; make accounts available for clients with past account problems older than one year; carry no monthly balance requirements; and have a low-cost overdraft protection plan with rates comparable to industry averages for credit cards. We recommend that the federal government use this information as part of the selection criteria.

In this way, a federal investment in lifetime learning accounts can leverage another worthwhile secondary effect: to increase the participation of lower income families in mainstream financial services. Currently, lower income adults are much less likely to possess a checking or savings account than higher income adults. According to the Federal Reserve, more than 65 percent of families earning less than \$30,000 did not have a savings account in 2004, and more than 23 percent did not have a checking account. By contrast, only 29 percent of families earning more than \$120,000 lacked a savings account in 2004, and virtually every family had a checking account.⁷⁷

Lacking access to and understanding of mainstream financial services, many lower income families turn to high-priced financial service providers.⁷⁸ Collectively, these providers are estimated to process about 280 million transactions per year, worth about \$78 billion in revenue and at least \$10 billion in fees.⁷⁹ These fees alone, collected primarily from lower and moderate income families, add up to more than twice the value

of America's annual spending on the Workforce Investment Act.⁸⁰ Steering more families into mainstream financial services will capture a portion of this revenue for family savings.

In addition, the taskforce recommends the following federal priority actions:

- Increase the value of the Pell Grant for today's low-income students who cannot participate in lifetime learning accounts.
- Consider consolidating existing higher education tax credits, such as the Hope Scholarship, the Lifetime Learning Credit, and the higher education deduction, into a single consolidated College Tax Credit that could be used at accredited colleges or universities by students and workers seeking to start or continue their educations; and in conjunction with the lifetime learning savings accounts.
- Significantly reform the Workforce Investment Act by increasing funding, strengthening regional and private-sector coordination, and improving outreach to immigrants.
- Provide tax credits to employers and financial institutions that match savings of low-income employees and consumers.
- Increase 401(k) participation by encouraging companies to auto-enroll employees.

TOP STATE AND LOCAL ACTION STEPS: MAKE BANKS AND CREDIT UNIONS ACCESSIBLE TO TOMORROW'S WORKERS

One recent study of 24 percent of the U.S. population found that nearly 70 percent of lower income neighborhoods lack a mainstream financial service establishment, compared with about 50 percent of all other neighborhoods.⁸¹ Without access to these establishments, it is more difficult for lower income families to save for and invest in their future and the futures of the next generation of workers.

Therefore, the taskforce recommends that state and local leaders work with their private-sector partners to designate underserved neighborhoods, and leverage the value of the federal savings account investments (and other incentives such as the New Markets Tax Credit and Banking Development Districts) to bring more branches and responsible banking products into those neighborhoods.⁸²

Similar efforts in New York State have successfully spurred dozens of banks to open in previously underserved markets.⁸³

We also recommend that state and local leaders work with participating banks to help market these products in lower income neighborhoods, and help connect new banking customers in underserved markets to financial education. Their top objective should be to ensure that the customers in these neighborhoods with new branches become successful, lifelong financial service clients.

The taskforce recommends these additional state and local priority actions:

- Consider adopting New York’s Banking Development Districts program.
- Evaluate how effective state regulations have been in deterring abusive practices in the financial services industry.
- Fund statewide evaluations of financial education curricula to identify best practices.
- Build financial education criteria into high school graduation requirements, so that students understand how to use and maximize the potential of their lifetime learning savings accounts.

TOP PRIVATE-SECTOR ACTION STEPS: MAKE FINANCIAL SERVICES EASILY ACCESSIBLE TO ALL AMERICAN WORKERS

Lifetime learning deposits will provide a substantial benefit to banks by creating new customers for their products and by creating tremendously valuable federally backed deposits that cannot be withdrawn until the account holder’s 18th birthday. Until that time, banks are free to invest those deposits and earn returns from them.

In exchange for this benefit from government deposits, the taskforce recommends that banks work with state and local leaders to identify lower-income neighborhoods that are underserved by mainstream financial institutions and open branches in a sample of these markets with appropriate products for underserved markets.

Business leaders also should develop and market products that are appropriate to lower income consumers, such as acceptance of non-traditional official identification, product availability for clients with past account problems older than one year, no monthly balance requirements, and a low-cost overdraft protection plan with rates comparable to industry averages for credit cards.

INVESTMENT STRATEGY #3:

INVEST IN ECONOMIC OPPORTUNITIES FOR TOMORROW’S WORKERS

OUTCOMES: More of tomorrow’s workers grow up in upwardly mobile families and in communities connected to job-advancement opportunities

Tomorrow’s workers will start entering the labor force in 16 years. Left unaddressed, they will likely grow up in economically distressed neighborhoods, surrounded by millions of adults who are working hard and “playing by the rules,” but not getting ahead. This is the wrong message to be sending to tomorrow’s workers about the payoffs they can expect from hard work and the economic opportunity they can expect after completing high school or college. It also means that millions of families will be unable to invest in the futures of tomorrow’s generation of workers through a match in the lifetime learning accounts; and that there will be fewer economic opportunities for tomorrow’s workers than is possible, because fewer Americans will have the resources to invest in new jobs in the years to come.

One important reason workers are not getting ahead today is because of expanding global economic competition, which has exacerbated longstanding mismatches between the wages of lower-skilled workers and the costs of living. In fact, over 40 percent of America's workforce has had stagnant or declining wages in recent decades.⁸⁴ Even the median wages of college graduates have recently started to stagnate after multi-decade increases, pointing to the widespread wage effects of global competition. This makes it more difficult for workers to buy the necessities they need to support work and their economic mobility. In many areas of the country, Americans are spending far more than one-third of their income for rent, and home ownership is entirely out of reach.⁸⁵

As important, many of the lower income families that are able to afford assets such as cars to get to better jobs or houses to pass on to future generations, end up paying steep prices because of unchecked market problems. In 2004, for instance, more than 4.2 million lower income homeowners paid higher than average prices for their mortgages, and more than 70 percent of lower income households with an auto loan paid higher than average prices.⁸⁶ These higher costs of living drain away the buying power of wages, cutting into families' ability to get ahead through work.

Together, these trends add up to serious consequences for millions of tomorrow's workers because they curb the economic opportunities that they can expect to find when they come of age. They curb families' abilities to invest in tomorrow's generation of workers, and they trap millions of tomorrow's workers in families that live below the poverty line, carrying lifelong consequences for both the children and the country as a whole. Children who grow up in poverty are less likely to go to college and more likely to need welfare and the support of the federal government when they retire.⁸⁷ They tend to perform worse in school and are more likely to run afoul of the law than children of wealthier families.⁸⁸ They also are the least likely to succeed at moving up the income ladder.⁸⁹

Given these circumstances, the taskforce recommends coordinated investments by government policymakers and the private sector to boost economic opportunities for tomorrow's workers. At the federal level, the taskforce believes that the focus should be on building on the success of proven strategies to more ably make work pay for lower wage workers. At the state and local level, the Taskforce believes that the focus should be on better connecting low-wage workers to work supports and rebuilding communities with economic opportunities and fairly priced goods and services.

TOP FEDERAL ACTION STEPS: BOOST THE EARNED INCOME TAX CREDIT AND MINIMUM WAGE

The taskforce recommends three immediate federal actions. First, the federal government should invest \$19 billion in a substantial expansion of the EITC that would better reward hard-working, lower income families and expand eligibility for single adults who are living in the same communities as the families of tomorrow's generation of workers.

The EITC is the nation's largest wage-support program for low-income workers, currently benefiting more than 21 million of America's workers, or approximately 15 percent of the country's labor force. The EITC, however, is not an effective support for all low-income workers in the communities of tomorrow's workers: more than 98 percent of the benefits go to families, essentially leaving out low-wage, childless workers. This adds up to millions of workers who are living in the same communities as the families of tomorrow's workers who are working hard and "playing by the rules," but not getting ahead. In fact, as recently as 2002, the IRS estimated that the 4 million EITC claims filed for households with no children received a paltry maximum credit valued at \$399.

Families, too, benefit unevenly from the current EITC program. Two-worker families are much less likely to qualify for the EITC than one-worker families, which pose a large disincentive for both parents to marry and participate in the workforce. The result is that the EITC sends a signal to low-wage workers that they should have children, but not get married.

Together, this means that too many of our nation's next generation of workers will grow-up surrounded by millions of adults that are working hard and "playing by the rules," but not getting ahead. Over time this will depress the available economic opportunities for tomorrow's workers when they are ready to enter the workforce. Fewer workers will be able to invest in jobs and economic growth; segments of tomorrow's generation of workers will grow-up without the role models needed to inspire a belief in hard-work; and families have too few resources to invest in the futures of tomorrow's generation of workers through a match in the lifetime learning accounts.

For these reasons, the taskforce recommends that the maximum benefit for childless, single adults be increased from \$399 to \$1,600 and that two-income households be allowed to deduct the lower of the two incomes from their eligibility. We estimate that these policy changes would cost an additional \$19 billion if fully implemented.⁹⁰

Second, federal policy should better reward work by raising the minimum wage. Because the minimum wage has not risen with inflation, its value is now more than 30 years behind the cost of living. Without an increase in the minimum wage, the additional EITC benefit will provide a market incentive to create low-wage jobs. For this reason, we recommend that the minimum wage be increased to \$7.25.

Third, we recommend the formation of a panel to evaluate the creation of a Comprehensive Family Tax Credit, which pools together the many different policies that currently support lower income, working families. In recent years, most of the major new policy expansions that benefit lower and middle income households have happened in the tax code -- from the EITC to the Child Care Tax Credit to numerous education and health policies. Most of these subsidies have disparate eligibility standards, are difficult to understand, have different levels of marketing success, and vary between nonrefundable and the more useful refundable tax credits.⁹¹ To expand access to these

important policies and ease administrative burdens and costs, we propose that a panel be created to study the creation of a Comprehensive Family Tax Credit.

The taskforce recommends these additional federal priority actions:

- Make the mortgage interest deduction available to those who do not itemize their deductions
- Increase and make refundable the federal Saver's Credit, which provides matching contributions to families, providing further incentives for families to save.
- Consider the federal adoption of California's "ReadyReturn" program, which would greatly simplify tax compliance for the great majority of Americans who do not itemize their taxes.
- Create a single, consolidated Jobs Tax Credit to create jobs in high-poverty areas.
- Pass strong mortgage lending protections based on state regulations, which guard against price-gouging practices by unscrupulous brokers and lenders.

TOP STATE AND LOCAL ACTION STEPS: REBUILD COMMUNITIES WITH ECONOMIC OPPORTUNITIES

State and local leaders should connect workers to the benefits provided by the federal government, including the EITC and other work supports.⁹² Too many of these programs are underused, which cuts into the efficiency and effectiveness of these existing federal investments.

But, there are larger opportunities afoot for state and local leaders to broaden economic opportunities for tomorrow's workers brought about by the massive surge in construction that is predicted to occur over the next couple of decades. In fact, planners predict that between 2000 and 2030, nearly half of all buildings where Americans currently live, work, and shop will be built to accommodate economic and population growth.⁹³ This "rebuilding of America" represents a chance to reshape countless communities around the country, replacing areas of concentrated poverty with mixed-income neighborhoods with better services and a higher quality of life.

This construction boom represents a significant opportunity to extend economic mobility to communities that have not shared in American prosperity. The cumulative effects of poverty along with the high cost of housing have consigned many low-wage and poor families to economically distressed communities that are disengaged from the mainstream economy and offer sub-par education options to their children. We know that living in a struggling neighborhood can lead to lower levels of employment by separating people from work geographically; or a spatial mismatch between work and their homes.⁹⁴ Illegal work then replaces legal employment. Public safety suffers. Schools deteriorate. Health outcomes decline.⁹⁵

With 127 billion projected square feet of new construction by 2030, state and local leaders have a dramatic opportunity to shape diverse neighborhoods with assets that will

support safe, healthy, and prosperous communities for tomorrow's workers. Land use regulations and the breadth of planning procedures including zoning, comprehensive plans, and infrastructure control along with housing and building regulations are among the many tools state and local leaders can use to shape development.⁹⁶ How they use these tools has real consequences. Research has demonstrated that how communities physically are developed also shapes how they grow economically. For instance, the concentration of poverty fostered by public housing in the 1950s and 1960s helped create an environment of minimal economic opportunity and hopelessness among residents.⁹⁷

To take full advantage of this opportunity, the taskforce recommends that state and local governments use their power to encourage the development of diverse neighborhoods that hold greater economic opportunities for tomorrow's workers.

In addition, the taskforce recommends these state and local priority actions:

- Leverage underused assets in inner-city neighborhoods, particularly those neighborhoods with unmet market demand.
- Work with private sector partners to identify state and local regulatory barriers to economic development.
- Use federal tax incentives to promote well-paying jobs and economic development.
- Make resources available to connect families to the work supports that they are eligible to receive including the EITC, food stamps, energy assistance, and childcare assistance.
- Consider funding Housing Trust Funds to ensure that sufficient affordable housing exists for America's working families.

TOP PRIVATE-SECTOR ACTION STEPS: RE-EVALUATE MARKET OPPORTUNITIES IN UNDERSERVED MARKETS

In 2004, lower income families in this country earned more than \$650 billion.⁹⁸ Yet, the private sector often passes up market opportunities in lower income neighborhoods and with lower income consumers because of higher costs of doing business and assumptions about insufficient market demand. Weak underlying methods often used to assess demand in lower income communities contribute to these mistaken assumptions about market potential, as Federal Reserve Board Chairman Ben Bernanke recently noted.⁹⁹ Even when such assessments are accurate, public policy can be leveraged to subsidize market demand so that it becomes profitable for businesses.

To foster economic opportunity in lower income neighborhoods, the Taskforce recommends that the private sector work with leaders in state and local government to identify unmet market opportunities and help craft the public policy needed to address those markets.

The Task Force recommends these additional private-sector priority actions:

- Explore nontraditional methods to assess market demand in underserved, lower income markets.
- Study successful business models in lower income, emerging markets.
- Commit a share of venture capital and other capital investments to new, lower-income markets.

CONCLUSION

The recommendations in this report are research-based, financially sound, and urgently needed. As U.S. mayors, we will work to implement them and urge our colleagues at the state and federal level as well as business leaders in our communities to help us achieve these goals.

In the past, when Americans have aligned our policies with our values -- investing in quality public education, rewarding hard work, and building communities of opportunity - our progress has been real and dramatic.

Yet, to better respond to the opportunities and challenges for our next generation of workers, we will need an investment from today's generation of workers. At the federal level, if our top recommendations are adopted in their entirety, we estimate they will initially cost about \$44 billion.

In the short term, the federal government can draw on any number of opportunities to create revenue for these programs. But over the long term, we believe that by better preparing struggling Americans to help themselves, we will position the government to pay for these programs through the long-term savings created as the need for today's poverty-related programs declines over time, along with the many ancillary costs associated with poverty -- savings that will also likely pay for the costs borne by state and local governments as well. We can also expect the labor force to be more fully utilized and productive, which will position the next generation of workers to better pay for the substantial health and income security costs of retiring workers from today's labor force. Experts predict, for instance, that an investment in high-quality, universal preschool alone will yield over \$2 trillion in additional GDP by 2080.

Fundamentally, then, this proposal asks that the federal government make short-term investments for substantial, long-term gains. This is the path to an America where no one is underutilized in the workforce, where everyone has the tools to help themselves get ahead, and where each American aspires to do better than the past generation. This is the path that will repair the economic ladder of mobility and raise the prospects of tomorrow's workers. And, it is the path that positions America to grow its middle class, use its resources more efficiently, and secure its competitiveness in a global economy.

ENDNOTES

¹ Greg J. Duncan and Jeanne Brooks-Gunn. 1999. *Consequences of Growing Up Poor*. New York: Russell Sage Foundation.

² U.S. Census Bureau, Current Population Survey, 2005, Annual Social and Economic Supplement. Table POV06: Families by Number of Working Families Members and Family Structure: 2004, Below Poverty, All Races; Note that the official poverty rate (provided by the Current Population Survey, 2006 Annual Social and Economic Supplement) in 2005 was 12.6 percent, leaving 37 million people in poverty. But, this does not include the impact of federal investments to reduce poverty, like the earned income credit and unemployment insurance. Once these other sources of income are factored in, the poverty rate is lower than the official estimate. But, any measure of poverty is hotly contested because of the complexity associated with defining poverty. To get a better sense of this dilemma, please refer to: John Iceland. 2005. *Workshop on Experimental Poverty Measures*. Washington, DC: National Academy Press; and Gary Burtless. 1999. "Political Consequences of an Improved Poverty Measure." *LaFollette Policy Report*, Vol. 10, no. 1.

³ Importantly, the surge in per-capita health care spending is at least as important a cause of soaring federal health expenditures as the graying of the baby-boom generation.

⁴ Alice Rivlin and Isabel V. Sawhill. 2005. *Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenge*. Washington, DC: The Brookings Institution; The Conference Board, "America's Aging Workforce Posing New Opportunities and Challenges for Companies," September 19, 2005; and Mitra Toossi. 2002. "A century of change: the U.S. labor force, 1950-2050." Bureau of Labor Statistics, Monthly Labor Review.

⁵ Congressional Budget Office, The Long-Term Budget Outlook, Government Printing Office, December 2005.

⁶ Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto. 2006. *The State of Working America 2006/2007*. Washington, DC: The Economic Policy Institute.

⁷ See, for instance: Alan S. Blinder. 2006. "Offshoring: The Next Industrial Revolution?" *Foreign Affairs*, March/April 2006; Susan M. Collins and Lael Brainard. 2005. "Brookings Trade Forum 2005: Offshoring White-Collar Work — The Issues and the Implications." Washington, DC: The Brookings Institution; Forrester Research TechStrategy (TM), John McCarthy, Research Brief, November 11, 2002, "3.3 Million US Services Jobs to Go Offshore;" and Diana Farrell. 2007. *Offshoring: Understanding the Emerging Global Labor Market*. New York: McKinsey Global Institute.

⁸ For instance, see: Deborah W. Meyers, Doris Meissner, and Marc R. Rosenblum. *Immigration and America's Future: Report of MPI's Independent Task Force*. New York: Migration Policy Institute; Audrey Singer. 2004. "The Rise of New Immigrant Gateways." Washington, DC: The Brookings Institution

⁹ U.S. Census Bureau, Current Population Survey, Historical Time Series Report on Families, Table FM-2: All Parent/Child Situations, by Type, Race, and Hispanic Origin of Householder or Reference Person: 1970 to Present.

¹⁰ U.S. Department of Health and Human Services, National Center for Health Statistics. 2005. "Trends in nonmarital childbearing by race and Hispanic origin, 1970-2003 Health, United States, 2005, Table 10.

¹¹ U.S. Census Bureau, Current Population Survey, Historical Poverty Tables. Table 4. Poverty Status Status of Families, by Type of Family, Presence of Related Children, Race, and Hispanic Origin: 1959 to 2005.

¹² Arloc Sherman. 2005. "Public Benefits: Easing Poverty and Ensuring Medical Coverage." Washington, DC: Center on Budget and Policy Priorities; also see U.S. Census Bureau, Income Surveys Branch. 2006. "The Effects of Government Taxes and Transfers on Income and Poverty: 2004." Washington, DC.

¹³ Corporate Advisory Board; for a publicly available resource that makes essentially the same case, please see: National Academies. 2006. *Rising Above the Storm: Energizing and Employing America for a Brighter Economic Future*. Washington, DC: National Academies Committee on Science, Engineering, and Public Policy.

¹⁴ David J. Hoff. October 18, 2006. "Big Business Going to Bat for NCLB: Competitiveness is Cited as Reason to Retain Law." *Education Week*, Vol. 26, Issue 8, Pages 1-24.

¹⁵ For evidence of progress made in selected states, see Paul E. Peterson and Martin R. West. 2003. *No Child Left Behind? The Politics and Practice of School Accountability*. Washington, DC: The Brookings Institution; for more recent evidence see: National Center for Education Statistics, 2004 Trends in Academic Progress.

-
- ¹⁶ Mitra Toossi. 2002. "A century of change: the U.S. labor force, 1950-2050." Bureau of Labor Statistics, Monthly Labor Review.
- ¹⁷ Mitra Toossi. 2002. "A century of change: the U.S. labor force, 1950-2050." Bureau of Labor Statistics, Monthly Labor Review.
- ¹⁸ Barbara Butrica, Simone G. Schaner, and Sheila R. Zedlewski. 2006. "Enjoying the Golden Work Years." The Retirement Project, Perspectives on Productive Aging, Number 6. Washington, DC: The Urban Institute; and Richard W. Johnson and C. Eugene Steuerle. 2006. "Promoting Work at Older Ages The Role of Hybrid Pension Plans in an Aging Population." Pension Research Council Working Paper; for an excellent profile of how local government and private sector leaders can respond to these job opportunity trends, please refer to: David Jason Fischer. 2006. "Chance of a Lifetime." New York, NY: Center for an Urban Future.
- ¹⁹ Bureau of Labor Statistics, 2006, Career Guide to Industries: Health Care, Outlook. Also see: Daniel Gitterman, Joanne Spetz, and Matt Fellowes. 2004. "The Other Side of the Ledger: Federal Health Spending in Metropolitan Economies." Washington, DC: The Brookings Institution. For an example of a local effort to strengthen the career ladders in this industry, please refer to Berkeley Policy Associates. 2003, Evaluation of the Healthcare Career Ladder Training Program (HCCLTP), City of Los Angeles Community Development Department.
- ²⁰ Arthur C. Nelson. 2005. "Toward a New Metropolis: The Opportunity To Rebuild America." Washington, DC: The Brookings Institution.
- ²¹ Bruce Katz. 2004. "Neighborhoods of Choice and Connection: The Evolution of American Neighborhood Policy and What It Means for the United Kingdom." Washington, DC: The Brookings Institution; Kathryn L.S. Pettit, G. Thomas Kingsley. 2003. "Concentrated Poverty: A Change in Course." Washington, DC: The Urban Institute. Mayors are already working to address the job opportunities; for instance, in March 2005, Mayor Bloomberg announced the creation of the Commission on Construction Opportunity.
- ²² Greg J. Duncan and Jeanne Brooks-Gunn. 1999. *Consequences of Growing Up Poor*. New York: Russell Sage Foundation.
- ²³ Arloc Sherman. 2005. "Public Benefits: Easing Poverty and Ensuring Medical Coverage." Washington, DC: Center on Budget and Policy Priorities; also see U.S. Census Bureau, Income Surveys Branch. 2006. "The Effects of Government Taxes and Transfers on Income and Poverty: 2004." Washington, DC.
- ²⁴ Arloc Sherman. 2005. "Public Benefits: Easing Poverty and Ensuring Medical Coverage." Washington, DC: Center on Budget and Policy Priorities; also see U.S. Census Bureau, Income Surveys Branch. 2006. "The Effects of Government Taxes and Transfers on Income and Poverty: 2004." Washington, DC.
- ²⁵ Duncan, Greg J., W. Jean Yeung, Jeanne Brooks-Gunn, and Judith R. Smith. 1998. "How Much Does Childhood Poverty Affect the Life Chances of Children?" *American Sociological Review* 63(3): 406-23; and Austin Nichols. 2006. "Understanding Recent Changes in Child Poverty." *New Federalism*, Series A, No. A-71. Washington, DC: The Urban Institute.
- ²⁶ See contributions to: *Children and Poverty*, Volume 7, Number 2, Summer/Fall 1997, A publication of The Woodrow Wilson School of Public and International Affairs at Princeton University and The Brookings Institution.
- ²⁷ Samuel Bowles, Herbert Gintis, and Melissa Osborne. 2005. *Unequal Chances: Family Background and Economic Success*. New York: Russell Sage and Princeton University Press; and Isabel V. Sawhill and Daniel P. McMurrer. 1998. *Getting Ahead: Economic and Social Mobility in America*. Washington, DC: The Urban Institute. See also: Gary Burtless and Ron Haskins. 2007. "Inequality, Economic Mobility, and Social Policy in America," The Brookings Institution (forthcoming).
- ²⁸ James Heckman and Dimitriy Masterov, "The Productivity Argument for Investing in Young Children", Working Paper No. 5, Invest in Kids Working Group, October 2004.
- ²⁹ William T. Dickens, Isabel V. Sawhill, and Jeffrey Tebbs. 2006. "The Effects of Investing in Early Education on Economic Growth." Working Paper. Washington, DC: The Brookings Institution; and see publications by the Committee for Economic Development, Invest in Kids Working Group. For a more broad assessment, see: Peter R. Orszag and Michael Deich. 2006. "Growth, Opportunity, and Prosperity in a Globalizing Economy." Washington, DC: The Brookings Institution.
- ³⁰ Isabel V. Sawhill and Adam Thomas. 2001. "A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families." Washington, DC: The Brookings Institution

³¹ U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. "Table POV29: Years of School Completed by Poverty Status, Sex, Age, Nativity, and Citizenship: 2005."

³² Council on Great City Schools.

³³ Jay P. Greene and Marcus A. Winters. 2005. "Public High School Graduation and College-Readiness Rates: 1991–2002." New York, NY: The Manhattan Institute; but see: Lawrence Mishel and Joydeep Roy. 2006. *Rethinking High School Graduation Rates and Trends*. Washington, DC: Economic Policy Institute.

³⁴ Council on Great City Schools.

³⁵ U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. "Table POV29: Years of School Completed by Poverty Status, Sex, Age, Nativity, and Citizenship: 2005."

³⁶ Perie, M., Grigg, W.S., and Donahue, P.L. 2005. *The Nation's Report Card: Reading 2005* (NCES 2006–451). U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics. Washington, D.C.: U.S. Government Printing Office; U.S. Department of Education, Institute of Education Sciences. 2005. *The Nation's Report Card: Mathematics 2005*. Washington, D.C.: U.S. Government Printing Office.

³⁷ Council of Great City Schools.

³⁸ Perie, M., Grigg, W.S., and Donahue, P.L. 2005. *The Nation's Report Card: Reading 2005* (NCES 2006–451). U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics. Washington, D.C.: U.S. Government Printing Office; U.S. Department of Education, Institute of Education Sciences. 2005. *The Nation's Report Card: Mathematics 2005*. Washington, D.C.: U.S. Government Printing Office; U.S. Department of Commerce, Bureau of the Census, Current Population Survey (CPS), October (1972–2003), via <http://nces.ed.gov/pubs2006/2006062.pdf>; but see: Lawrence Mishel and Joydeep Roy. 2006. *Rethinking High School Graduation Rates and Trends*. Washington, DC: Economic Policy Institute.

³⁹ U.S. Department of Education, National Center for Education Statistics. "Student Effort and Educational Progress: Table 29-1. Percentage of high school completers who were enrolled in college the October immediately after completing high school, by family income and race/ethnicity: 1972–2004."

⁴⁰ To be sure, there are countless other interventions at the federal, state, and local level needed to improve the success rate of our nation's schools, including the need to support the professionalization of public school teachers, reforms to the No Child Left Behind Act, improvements to curriculum, and more efficient use of school resources. But, an investment in early education, combined with improved vocational training in high school, is one of the most cost-effective, transformative investments that America needs to make to improve the nation's school system.

⁴¹ See, for instance, Isabel Sawhill. 2003. *One Percent for the Kids: New Policies, Brighter Futures for America's Children*. Washington, DC: The Brookings Institution. We are particularly indebted in this section to the work of several scholars, whose thoughts are reflected in the book cited above as well as: Julie Issacs. 2006. "Cost-Effective Investments in Children." Unpublished Manuscript. Washington, DC: The Brookings Institution.

⁴² Flavio Cunha, James Heckman, Lance Lochner and Dimitriy Masterov. 2005. Interpreting the evidence on life cycle skill formation." Discussion Paper 05-02, University College London.

⁴³ U.S. Department of Health and Human Services. (2001, January). Head Start FACES: Longitudinal Findings on Program Performance. Third Progress Report; E. Garces, D. Thomas, and J. Currie. (2002, September). Eliana Garces; Duncan Thomas; Janet Currie "Longer-Term Effects of Head Start." *The American Economic Review*. 92, 4: 999-1012.

⁴⁴ Census CPS School Enrollment Reports: Historical Tables, Table A-1. School Enrollment of the Population 3 Years Old and Over, by Level and Control of School, Race, and Hispanic Origin: October 1955 to 2004.

⁴⁵ Lynn A.M. Karoly, M. Rebecca Kilburn, and Jill S. Cannon. 2005. *Early Childhood Interventions: Proven Results, Future Promise*. Santa Monica, CA: RAND Corporation; Steve Aos, Roxanne Lieb, Jim Mayfield, Marna Miller, and Annie Pennucci. 2004. *Benefits and Costs of Prevention and Early Intervention Programs for Youth*. Washington State Institute for Public Policy; Steven W. Barnett, Cynthia Lamy, and Kwanghee Jung. 2005. "The Effects of State Pre-Kindergarten Programs on Young Children's Readiness in Five States." New Brunswick, NJ: National Institute for Early Education Research.

⁴⁶ William T. Dickens, Isabel V. Sawhill, and Jeffrey Tebbs. 2006. "The Effects of Investing in Early Education on Economic Growth." Working Paper. Washington, DC: The Brookings Institution.

⁴⁷ U.S. Department of Health and Human Services, Administration of Children and Families; the cost of this investment would be recovered much more quickly if existing federal investments were incorporated into a new commitment for universal pre-K; for instance, see: Julie Issacs. 2006. "Cost-Effective Investments in Children." Unpublished Manuscript. Washington, DC: The Brookings Institution.

⁴⁸ W. Steven Barnett, Jason T. Hustedt, Kenneth B. Robin, and Karen L. Schulman. 2006. *The State of Pre-school 2005*. The National Institute for Early Education Research

⁴⁹ U.S. Census Bureau, Current Population Survey, October 2004, Enrollment Status of the Population 3 Years Old and Over, by Sex, Age, Race, Hispanic Origin, Foreign Born, and Foreign-Born Parentage: October 2004.

⁵⁰ Minnesota and New Mexico, for instance, have enrolled less than a quarter of their three- and four-year olds in some type of federal or state pre-school service; whereas Oklahoma and Kentucky have enrolled more than forty percent of the state's kids in this age group.

⁵¹ In particular, families earning less than the median income would receive a 100 percent subsidy for preschool care (estimated to cost about \$8,500 per-child, or the same average cost of children participating in Head Start). Families earning above the median income would receive a 50 percent subsidy. As part of this \$19.4 billion package, we estimate that year-long and extended hours of care for working families earning less than 130 percent of the poverty line would cost \$2.3 billion. Using data from the Census Bureau and the Federal Reserve, we estimated that 47 percent of children in 2004 lived in families who earned an income below the national median; 53 percent lived in those with incomes above that median. We also assume that all of the more than 740,000 three and four year olds enrolled in Head Start remain in Head Start, and that none of the current \$6.8 billion spent on Head Start is integrated into this program. For the children not enrolled in Head Start, then, we assumed that there would be a 70 percent participation rate among 4 year-olds from families with incomes below the median, and a 50 percent participation rate among families who earned at or above the median income. Among three year olds, we assumed a 60 percent participation rate among families with income below the median income; and a 40 percent participation rate among families at or above the median. Both sets of estimated participation rates were derived from reported enrollment in universal preschool programs in Oklahoma and Georgia, along with estimates of program participation rates in other public programs aimed at lower income families, like the Earned Income Tax Credit. We also assume that the costs will be offset by current state spending on three and four year olds. Additional cost offsets, such as rolling in childcare related spending for Title I, TANF (\$3 to \$5 billion a year), the federal Child Care and Development Fund (\$5 billion), and the Head Start spending (\$6.8 billion a year) may be worth considering.

⁵² Please see the discussion in the preceding footnote.

⁵³ For a more detailed overview of this initiative than is possible in this report, please refer to: David Stern, Charles Dayton, Robert Lenz, and Susan Tidyman. 2002. *Implementing Career Academies Schoolwide: 2001-2002 Developments Promising Practices*. Career Academy Support Network: University of California at Berkeley.

⁵⁴ James J. Kemple and Judith Scott-Clayton. 2004. "Career Academies: Impacts on Labor Market Outcomes and Educational Attainment." New York: MDRC.

⁵⁵ James J. Kemple and Judith Scott-Clayton. 2004. "Career Academies: Impacts on Labor Market Outcomes and Educational Attainment." New York: MDRC.

⁵⁶ This estimate is available from cost-estimates available from the Career Academy Support Network: University of California at Berkeley and an estimate of the number of children in K-12 from the United States Department of Education.

⁵⁷ There are thousands of these academies already in place, so there is as much a need to lift-up and implement the best practices of these schools as there is to create new paths to vocational training in schools.

⁵⁸ Census CPS School Enrollment Reports: Historical Tables, Table A-1. School Enrollment of the Population 3 Years Old and Over, by Level and Control of School, Race, and Hispanic Origin: October 1955 to 2004.

⁵⁹ David J. Hoff. October 18, 2006. "Big Business Going to Bat for NCLB: Competitiveness is Cited as Reason to Retain Law." *Education Week*, Vol. 26, Issue 8, Pages 1-24.

⁶⁰ Analysis by Anthony Carnevale, 2006 of Current Population Survey (1992-2004) and Census Population; also see: National Academies. 2006. *Rising Above the Storm: Energizing and Employing*

America for a Brighter Economic Future. Washington, DC: National Academies Committee on Science, Engineering, and Public Policy.

⁶¹ Corporate Advisory Board; for a publicly available resource that makes essentially the same case, please see: National Academies. 2006. *Rising Above the Storm: Energizing and Employing America for a Brighter Economic Future*. Washington, DC: National Academies Committee on Science, Engineering, and Public Policy.

⁶² Paul Kaihla, "The Coming Job Boom," *Business 2.0*, September 2003

⁶³ The College Board. 2006. "College Pricing Tables & Charts." Tables 3a and 3b: Average Published Tuition and Fee Charges, 1976-77 to 2006-07 (Enrollment-Weighted).

⁶⁴ United States Department of Commerce, Census Bureau, Current Population Survey.

⁶⁵ U.S. Census Bureau, Current Population Survey, 2006 Annual Social and Economic Supplement. "PINC-03. Educational Attainment--People 25 Years and Older, by Total Money Earnings in 2005, Work Experience in 2005, Age, Race, Hispanic Origin, and Sex"

⁶⁶ The College Board. 2006. "College Pricing Tables & Charts." Tables 3a and 3b: Average Published Tuition and Fee Charges, 1976-77 to 2006-07 (Enrollment-Weighted).

⁶⁷ The White House, Budget of the U.S. Government, Fiscal Year 2007; The College Board. 2006. "2006 Trends in Higher Education Series: Pell Grants."

⁶⁸ U.S. Department of Labor, Employment & Training Administration -- the number of people served in 2004 was 1.1 million; Harry Holzer and Margy Waller. 2003. "The Workforce Investment Act: Reauthorization to Address the Skills Gap." Washington, DC: The Brookings Institution Metropolitan Policy Program.

⁶⁹ There are many opportunities to improve the current workforce development system. For more information about this opportunity, please refer to: Harry Holzer and Margy Waller. 2003. "The Workforce Investment Act: Reauthorization to Address the Skills Gap." Washington, DC: The Brookings Institution Metropolitan Policy Program; and Eric Rhodes and Sonal Malpani. 2000. "A Metropolitan Approach to Workforce Development." New York, NY: The Century Foundation.

⁷⁰ A) This is a variant of the proposal made in: Reid Cramer. 2006. "Net Worth at Birth: Creating a National System for Savings and Asset Building with Children's Savings Accounts." Washington, DC: New America Foundation. Also see: Boshara, Ray (2003a). American Stakeholder Accounts. Issue Brief #2. Washington, D.C.: New America Foundation; and Lori G. Kletzer and Howard Rosen. 2006. "Reforming Unemployment Insurance for the Twenty-First Century Workforce." Washington, DC: The Brookings Institution. B) The income-indexed match is as follows: \$500 for every child living in a family below the national median income (approximately 47 percent of all children under the age of 18, according to data from the U.S. Census Bureau and the Federal Reserve); and \$250 for every child living in a family at or above the national median income and below the 75th quartile of income (approximately 27 percent). The verification challenges associated with this indexed-benefit are discussed below; C) We assume that contributions made to this account are not tax deductible, although this may be an issue worth further discussion.

⁷¹ Council on Great City Schools.

⁷² There are two, major verification challenges associated with this proposal. The first is verification of approved uses of the funds in these accounts. We believe that the banks in these communities are best suited to provide this verification service. But, because this will add an administrative burden for banks, we believe there should be compensation provided to fund this new bank service. The second verification challenge is related to the identification of families living at or below the median income and 75th quartile of income. To meet this challenge, we recommend that the IRS be vested with the responsibility of identifying these families and mail a voucher out to every family, which is redeemable at the participating bank branches for the value of their contributions up to the maximum federal match level available in their income bracket. The added administrative costs associated with this IRS service will add additional costs to this proposal. At the same time, we anticipate that the necessity to file a tax return to claim this credit – even if there is no tax liability – will need to be marketed to populations that are more likely than others to not file taxes.

⁷³ For the rationale behind this, please refer to: Eric Rhodes and Sonal Malpani. 2000. "A Metropolitan Approach to Workforce Development." New York, NY: The Century Foundation.

⁷⁴ According to the United States Census Bureau, there were 4,307,692 in 2004. We anticipate a two percent annual growth rate in births over time.

⁷⁵ The estimate is derived from the following conditions: we assume 100 percent participation in the initial \$500 deposit by the federal government over the next eighteen years; an 80 percent participation rate every year in the maximum available match among families earning less than the median income (which is the estimated participation rate in the Earned Income Tax Credit program); and an 80 percent participation rate every year in the maximum available match among families earning at or above the median income and below the 75th quartile (there was no prior to base this assumption on, so we used the EITC participation rate); we also assume that the value of the federal contribution is not tied to inflation – an issue that may be worth further discussion.

⁷⁶ At the time of publication, the ten year Treasury note was currently paying about a 4.6 rate of interest; a fund designed to track the Dow would have generated average annual returns of 10 percent over the last twenty years (now, exchanged traded funds do this); the 80 percent participation rate is the estimated participation rate in the Earned Income Tax Program.

⁷⁷ Federal Reserve, 2004 Survey of Consumer Finances.

⁷⁸ These alternative financial services include check-cashing and payday loan businesses, pawnshops, and auto-title loan companies, all of which charge substantially higher prices for basic financial services. A payday loan in California, for instance, can cost more than 35 times the average price charged by a credit card company. See Matt Fellowes. “The High Price of Being Poor.” Los Angeles Times, July 23, 2006.

⁷⁹ Carr, James H., and Jenny Schuetz. 2001. *Financial Services in Distressed Communities: Framing the Issue, Finding Solutions*. Washington, D.C.: The Fannie Mae Foundation.

⁸⁰ The White House, Budget of the U.S. Government; Carr, James H., and Jenny Schuetz. 2001. *Financial Services in Distressed Communities: Framing the Issue, Finding Solutions*. Washington, D.C.: The Fannie Mae Foundation; Community Financial Services Association of America.

⁸¹ Matt Fellowes. 2006. *From Poverty, Opportunity: Putting the Market to Work for Lower Income Families*. Washington, DC: The Brookings Institution.

⁸² For more information about banking development districts, please see: State of New York Banking Department, Banking Development Districts, <http://www.banking.state.ny.us/bdd.htm> [accessed November 2006]

⁸³ Matt Fellowes. 2006. *From Poverty, Opportunity: Putting the Market to Work for Lower Income Families*. Washington, DC: The Brookings Institution. Assuming the participation rates occur, and that the cost-benefit ratios in this New York program prove to be generalizable, we estimate that between 4,500-9,000 new bank branches can be opened through this investment within eighteen years.

⁸⁴ Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto. 2006. *The State of Working America 2006/2007*. Washington, DC: The Economic Policy Institute.

⁸⁵ Even many of those lower income families that have been able to buy a home have been only able to do so with a high-cost, subprime loan that erodes the value of their asset and their ability to save for other assets. In Chicago, for instance, lower income borrowers were twice as likely as higher income borrowers to have bought a high cost mortgage in 2004. See Matt Fellowes. 2006. *From Poverty, Opportunity: Putting the Market to Work for Lower Income Families*. Washington, DC: The Brookings Institution.

⁸⁶ See Matt Fellowes. 2006. *From Poverty, Opportunity: Putting the Market to Work for Lower Income Families*. Washington, DC: The Brookings Institution.

⁸⁷ Duncan, Greg J., W. Jean Yeung, Jeanne Brooks-Gunn, and Judith R. Smith. 1998. “How Much Does Childhood Poverty Affect the Life Chances of Children?” *American Sociological Review* 63(3): 406–23; and Austin Nichols. 2006. “Understanding Recent Changes in Child Poverty.” *New Federalism, Series A, No. A-71*. Washington, DC: The Urban Institute.

⁸⁸ See contributions to: *Children and Poverty*, Volume 7, Number 2, Summer/Fall 1997, A publication of The Woodrow Wilson School of Public and International Affairs at Princeton University and The Brookings Institution.

⁸⁹ Samuel Bowles, Herbert Gintis, and Melissa Osborne. 2005. *Unequal Chances: Family Background and Economic Success*. New York: Russell Sage and Princeton University Press; and Isabel V. Sawhill and Daniel P. McMurrer. 1998. *Getting Ahead: Economic and Social Mobility in America*. Washington, DC: The Urban Institute. See also: Gary Burtless and Ron Haskins. 2006. “Inequality, Economic Mobility, and Social Policy in America,” The Brookings Institution (forthcoming).

⁹⁰ The current annual cost of the EITC for childless households is estimated to be around \$1 billion, adjusting for inflation since 2002 (the most recent estimate of this figure). In 2005, the maximum EITC for households with no children was \$399 at full phase-in, which was at \$5,200 in income. The credit began to

phase out at \$6,550 and was fully phased out at \$11,750 for single adults. Under our proposal, these scenarios would change to: fully phased in at \$7,200, beginning to phase out at \$12,500, and fully phased out at \$25,000. Increasing the maximum benefit to \$1,600 would increase revenue losses at current participation rates to just over \$8 billion annually (note that costs are estimated to be in rough proportion to relative areas under the income curve established by the assumed maximum credit amount and assumed phase-in and phase-out income levels for each version of the Credit). But, participation would likely increase as a result of offering the higher credit. GAO estimated in 2001 that the participation rate of childless workers was below 45 percent. Recent studies summarized by Steve Holt (Brookings Institution, 2004) estimated EITC participation rates among all eligible households near or above 80 percent. For this reason, it appears that the outside cost of this increase would be about \$16 billion (in 2005 dollars), a net annual cost increase of \$15 billion for the enhanced credit (given the current amount devoted to this household type). If current participation rates hold, though, the cost would be about half this amount. Available cost estimates of the marriage penalty proposal suggest that revenues would be offset by an additional \$3.1 billion (Janet Holtzblatt and Robert Rebelein, 2001, Russell Sage Foundation). Given the lack of a more recent estimate, we assume costs would have increased by \$900 million. In total, the revenue loss for this proposal could reach as much as \$19 billion.

⁹¹ Alan Berube, William G. Gale, and Tracy Kornblatt. 2005. "Tax Policies to Help Working Families in Cities." Washington, DC: The Brookings Institution.

⁹² The National League of Cities has a number of resources available that profile some of these best-practices across the country, including publications by the Institute for Youth, Education, and Families and the Equity and Opportunity project.

⁹³ Arthur C. Nelson. 2005. "Toward a New Metropolis: The Opportunity To Rebuild America." Washington, DC: The Brookings Institution.

⁹⁴ For instance, see: Michael A. Stoll. 2005. "Job Sprawl and the Spatial Mismatch between Blacks and Jobs." Washington, DC: The Brookings Institution.

⁹⁵ Bruce Katz. 2004. "Neighborhoods of Choice and Connection: The Evolution of American Neighborhood Policy and What It Means for the United Kingdom." Washington, DC: The Brookings Institution; Kathryn L.S. Pettit, G. Thomas Kingsley. 2003. "Concentrated Poverty: A Change in Course." Washington, DC: The Urban Institute.

⁹⁶ Rolf Pendall, Robert Puentes, and Jonathan Martin. 2006. "From Traditional to Reformed: A Review of the Land Use Regulations in the Nation's 50 largest Metropolitan Areas." Washington, DC: The Brookings Institution Metropolitan Policy Program.

⁹⁷ Bruce Katz. 2004. "Neighborhoods of Choice and Connection: The Evolution of American Neighborhood Policy and What It Means for the United Kingdom." Washington, DC: The Brookings Institution; also see: Kathryn L.S. Pettit, G. Thomas Kingsley. 2003. "Concentrated Poverty: A Change in Course." Washington, DC: The Urban Institute.

⁹⁸ Matt Fellowes. 2006. *From Poverty, Opportunity: Putting the Market to Work for Lower Income Families*. Washington, DC: The Brookings Institution.

⁹⁹ Ben S. Bernanke, April 20, 2006, Remarks at the Greenlining Institute's Thirteenth Annual Economic Development Summit, Los Angeles, California.

