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*DISCUSSION PAPER*

## A New Deal for the Twenty-First Century

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## Introduction

The challenge of how to help those left behind by rapid economic change—whether caused by technology or global competition—has moved to the center of the U.S. national debate in a way it has not been since the 1930s. Trade competition, especially from China, has been a significant factor in declining U.S. manufacturing employment over the past decade. Trade also became a major issue in the 2016 presidential campaign, despite the larger role played by automation and technological change in displacing manufacturing workers for decades.<sup>1</sup> This process will only continue in coming years, with advances in robotics, artificial intelligence, and software that will eliminate many jobs while creating others, regardless of what policies the federal government may adopt toward trade and outsourcing.

Much attention has been paid to the displacement of relatively low-skilled service jobs, as autonomous vehicles replace truck and taxi drivers, online retail replaces physical stores, and self-checkout machines continue to replace cashiers. But advances in technology will leave few segments of the labor market untouched: new computer programs are already replacing some forms of entry-level legal work and investment planning, while machines with rudimentary artificial intelligence capabilities are already writing basic news stories.<sup>2</sup>

The central economic policy challenge faced by the United States—and by other advanced economies—is how to prepare its workforce to manage this rapid pace of change. It is far from obvious that there will be a shortage of work—indeed as the population ages, some countries in Europe are already struggling to fill available jobs.<sup>3</sup> The problem will instead be to ensure that the workforce is trained to fill the new sorts of jobs that will become available, and that the labor market and public policy are working together to create rising living standards for most.

Young people starting careers should be equipped with the education and skills needed to adapt to multiple job and even career changes over the course of their lives. Older displaced workers will need help to find new jobs, and often alternative careers, that can put them back on a path of rising incomes. Faster economic growth would help, but it will not solve this problem on its own. Indeed, the displacement challenge could be even bigger in a rapidly growing economy, because faster growth in the future will be driven primarily by technological change, which is the main culprit for worker dislocation. Rather, meeting the adjustment challenge will require bipartisan cooperation and the adoption of a Twenty-First Century New Deal for American workers.

This Twenty-First Century New Deal would be premised on a simple principle: the government's job is not to give you a job or even to retrain you for one, but to help finance your retraining and the job counseling that often goes along with it, to remove impediments in the economy that discourage companies from creating better-paying jobs, and to assist those who are forced to take significant wage reductions in moving from one job to another. Americans, in turn, should be willing to take advantage of these opportunities to help themselves, while benefiting from “comprehensive livelihood insurance” that enables them to acquire the tools necessary to navigate a rapidly changing economy.<sup>4</sup> These propositions should make sense both to Republicans, who stress personal responsibility and hard work, and to Democrats, who believe as well that government has an important safety-net role to play for people who need help.

The United States also needs new approaches to better prepare young people for the challenges of this new economy, as well as to lay the foundation for a more cohesive, less fragmented body politic in the future. These goals could be accomplished in part through an expanded, voluntary post-high school program of military or civilian service to help put young people on a path to better life outcomes, while also broadening the horizons and experiences of their more advantaged peers. Such a program would help give more Americans the tools to be economically successful in a rapidly changing economy. Also, by bringing young people together with others from different socioeconomic backgrounds, a national service program could help bridge social and economic divides and foster more constructive, civil discourse in the future. Much like the last time that economic nationalism reared its head in the 1920s and 1930s, with damaging consequences that worsened the lives of most Americans, what is needed now is a new set of policies that lift Americans and help bring them together, without harming the United States' economic relations with the world.

But for either or both parties to embrace this twenty-first-century deal, they need to shed some of their old shibboleths. For Democrats, that means abandoning the idea that corporate America is the problem rather than part of the solution, and focusing more on creating greater opportunities for Americans to find well-paying work. For Republicans, it means casting aside the Horatio Alger fantasy that anyone willing to work hard and sacrifice can get ahead in the economy without any assistance. Too many good people are failing because of the obstacles thrown in their way, and they need a helping hand to surmount them. The Twenty-First Century New Deal offers an approach that would improve the lives of many Americans, and break out of the stale divisions that have blocked creative solutions to the challenges of a fast-changing economy.

## Are Good Jobs Disappearing?

The U.S. economy has created more than fifteen million jobs since the end of the recession in 2010, the longest period of sustained job growth on record. That is the good news. The bad news is that far too many of the newly created jobs are poorly paid ones that barely provide enough to help even a two-income family keep its head above water. The median wage grew steadily from the late 1970s to 2000, and was especially strong in the last half of the 1990s. Since 2000, however, median earnings have been stagnant.<sup>5</sup> New research by a team led by economist Raj Chetty of Stanford University has shown that the prospects for economic advancement have stalled for many Americans. In 1970, more than 90 percent of 30-year-olds earned more than their parents had at the same age; today that number is just 51 percent.<sup>6</sup> Political economist Nicholas Eberstadt has similarly argued that the “great American escalator” broke down roughly at the turn of the millennium, leaving more and more Americans flailing economically and socially.<sup>7</sup> The continued fall in life expectancies for white men and women is the most striking evidence—especially the rise of so-called deaths of despair from alcohol, drug overdoses, and suicides among the middle-aged, and the rise in deaths from chronic conditions like diabetes and heart disease.<sup>8</sup>

While these growing problems cannot all be blamed on falling economic opportunities, there is no question that they are a big piece of the puzzle. Many of the sectors in which job creation has been strongest—including retail sales, food services, and home health care—pay their employees near minimum-wage levels.<sup>9</sup> Nearly half of all the jobs created coming out of the recession have these low wages. Growth has also been quite strong in high-wage jobs, especially in computer and information technologies, but the education and skills required to obtain these positions have been beyond the reach of too many Americans. Middle-wage jobs, in contrast, have seen the weakest growth.

The U.S. economy is creating few of the jobs that once sustained a broad and vibrant middle class. Globalization and the erosion of unions have each played a significant part in this trend, and they reinforced each other. In their efforts to compete with lower-cost imports, many American manufacturers sent plants offshore in search of lower-cost labor, eliminating jobs in the United States that had paid middle-class wages to workers with a high school education or less. Companies also used the threat of relocating—to the non-union south, Mexico, or China—to weaken unions and force down wages at home.

But the overwhelming evidence points to the dominant role played by continuing technological advances that disproportionately benefit only some workers, particularly those with information technology and communications skills, while reducing the demand for many lower-skilled workers, especially manual laborers. Economists have called this phenomenon skill-biased technological change, in which new technologies increase the value of those who are skilled in using them, while more routine work becomes obsolete or more poorly paid.

The manufacturing sector has been hardest hit over the past several decades, as lower-cost imports squeezed out many American firms, and those that survived invested in labor-saving technology to remain competitive. Nearly six million manufacturing jobs disappeared during the 2000s, and fewer than one million have been added since the end of the Great Recession. Millions of other jobs requiring

routine skills—retail sales clerks, fast food workers, customer service representatives, bookkeepers, truck drivers—will be increasingly automated in coming years.

Despite these enormous pressures on the labor market, however, the United States has continued to create millions of new jobs, showing far more dynamism than Europe or Japan. America's main economic problem is not a job shortage but an income shortfall. This is due to two factors. The first is slow growth. It is only in the past two years that median wages have begun to rise in any meaningful way, despite the economy being in its longest continuous period of job growth on record.<sup>10</sup> But broad economic growth has still been too slow to drive strong wage growth. The long-term outlooks by the Congressional Budget Office and most economists suggest that potential gross domestic product (GDP) growth is unlikely to exceed 2 percent in the coming years. Few economists believe this outlook is likely to change even with the promised reforms in tax policy and infrastructure spending by the Donald J. Trump administration, and it could worsen if Trump adopts protectionist trade policies that insulate U.S. firms from the productivity-enhancing pressures of foreign competition. The second factor is that too many jobs that employers demand are low skilled, and in the absence of stronger overall economic growth, the wages for those jobs are unlikely to rise significantly.

No politician can deliver on a promise to return to the rapid growth of middle-income jobs of the type that characterized the U.S. economy in the 1950s and 1960s. The future pattern of job distribution will be determined overwhelmingly by the deployment of technology and the behavior of companies, and not by government. Equipping more workers with necessary skills to fill middle-paying jobs will encourage some employers to find ways to make use of them. But more men, in particular, will have to be willing to take technical or helping jobs in the health care sector, where middle-class jobs are likely to continue to be plentiful. Men and women will also need to be more willing to move to where jobs are being created, reversing a decades-long decline in workers' geographic mobility.<sup>11</sup>

Addressing these challenges will require some combination of stronger job creation in the higher-wage portions of the economy, and training and education for Americans to fill those positions. It will also require public policies that improve the take-home earnings of lower-skilled workers through tax policies (such as an expansion of the Earned Income Tax Credit), direct wage subsidies, or reasonable minimum wage increases. The goal should be to expand work opportunities, not just to fill income shortfalls. For most Americans, work is not just a way to pay the bills, but a central part of their identities, their communities and friendships, and their self-respect. Solving the problem of how to create not just more jobs, but better-paying jobs, is essential for rebuilding public confidence in government, and for maintaining the commitment to economic openness that has been so important to America's prosperity and its success in creating a stable world order. It will require some significant measure of bipartisan cooperation to help bridge the deep social and political divides in the United States. President Trump, as a different sort of politician not wedded to the ideological battles that have riven Republicans and Democrats for so long, could lead that effort if he chooses to do so.

## The Quick Fix Myths

The economic challenges that Americans face are so deep that the temptation for some kind of quick fix is almost irresistible for political leaders. But as the GOP's difficulties in passing new health care legislation show, it is one thing to promise great results and quite another to deliver on that promise. There is a danger now that President Trump and the Republican majority will pursue similarly short-sighted approaches on trade, taxes, or other economic issues.

The president's trade agenda remains the most worrisome. At the last meeting of the Group of Twenty (G20) finance ministers, a long-standing reference in the communiqué exhorting nations to "resist all forms of protectionism" was removed at the insistence of the United States.<sup>12</sup> The Trump administration has already harmed U.S. trade prospects by pulling out of the twelve-nation Trans-Pacific Partnership (TPP), a trade agreement that had been a decade in the making. It is demanding a renegotiation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico, and possibly the U.S.-South Korea free trade agreement as well. The president has also talked about more damaging actions, including imposing tariffs on broad categories of imports. Most big manufacturers now rely on global supply chains and import many of their components, such that raising tariffs or walking away from trade agreements would not only increase the prices of finished goods in the United States, but it would also make U.S. goods less competitive in export markets.<sup>13</sup> That would cost manufacturing and white collar jobs in well-paying industries like aerospace and heavy equipment. The chief executive of Boeing, for example—which is the largest exporter in the United States—has warned that new tariffs would harm its exports.<sup>14</sup> Boeing employs 90 percent of its 150,000 workers in the United States, where 80 percent of its suppliers are located—exactly the sort of corporate loyalty that Trump claims to favor. Exports, and the high-paying jobs they support, will suffer even more if other countries retaliate against the United States with their own higher tariffs against American-made goods. Tariff increases would also raise prices on a wide variety of goods, and would disproportionately hurt low-income consumers. The president's tax cut plans as spelled out—while encouraging in terms of reducing corporate tax rates that discourage investment in the United States—would lead to huge increases in the already high debt burden of the federal government. And because they would come at a cyclical peak (unlike the Reagan tax cut of 1981, which was adopted during a deep recession), the tax cuts would likely boost inflation, compelling the Federal Reserve to raise interest rates faster and higher than would otherwise be the case.

The Democrats have their own quick fix myths. With most in the party having rejected NAFTA and other trade deals—including the TPP agreement negotiated by President Barack Obama—Democrats will hardly be in position to criticize any new trade protectionism practiced by the Trump administration, even if it backfires. One staple of progressive Democrats is the proposal to double the federal minimum wage, from \$7.25 to \$15 per hour. This increase would boost the wages of some lower-income workers, but such a large jump in the minimum wage nationwide would discourage hiring workers in lower-cost sectors, while encouraging an even faster adoption of automation that would eliminate many low-wage retail jobs. A more sensible approach is to gradually lift the national minimum wage to about \$12 per hour, as advocated by former Council of Economic Advisers Chairman

Alan Krueger, while states and cities that want to go higher continue to do so.<sup>15</sup> The city and state variations will enable future researchers to determine how high minimum wages can go without causing significant unemployment.

Some progressives would go much further. The pioneers and champions of automation, many of them in Silicon Valley, believe that a robotics revolution will destroy many good-paying jobs and Washington should give up trying to reemploy people and instead give everyone a universal basic income (UBI).<sup>16</sup> A UBI program would be extremely expensive, even at the modest \$10,000 per year widely proposed, depending on how many are given or accept the stipend. Some conservatives, such as American Enterprise Institute scholar Charles Murray, have more modestly proposed UBI as an alternative to current income-support programs including welfare and social security, which would make it budget neutral but potentially leave many recipients worse off than under the current programs.<sup>17</sup>

The biggest objection to UBI is that it suffers from a fundamental theoretical flaw, namely the discredited fallacy that there is only so much work to go around and that automation will reduce the total demand for work. History and economic logic have proven this fallacy wrong time and again; as automation reduces the prices of some items or services, consumers spend their savings on other things. Even with the coming of driverless vehicles and the accelerated use of robots in factories and in the home, consumers will use their technology-driven savings to buy other things—for example, more health care and care for the elderly, more adult education and training, entertainment and leisure, and things and services no one can now predict—which will create all kinds of new jobs elsewhere in the economy. Twenty years ago, 3-D printing, the growing demand for cybersecurity experts, or the demand for privacy officers in many large companies, to name just a few of the developments requiring new kinds of skills, would have been impossible to foresee.

Furthermore, if Americans were looking for handouts of the sort promised by a universal basic income, they would not have supported Donald Trump nor handed a resounding victory to Republicans in the U.S. House and Senate. While Trump's election has opened new ideological cleavages in the GOP—over trade, government intervention in the market, taxes, and entitlements—there is likely no public appetite to support what amounts to huge new entitlement programs. Trump voters did not vote for handouts, nor are a lot of Democratic voters sympathetic to the idea. They would rather have the self-respect and security that comes from having a good job that pays a solid wage. Expanding access to those jobs should be the central goal of the Twenty-First Century New Deal.



## A New Deal for the Twenty-First Century

The Twenty-First Century New Deal is aimed at accelerating the creation of new and better paying jobs, and ensuring that Americans have the skills they need to fill those jobs. Government should remove impediments to job creation by reforming corporate taxes to encourage greater investment, facilitating voluntary job mobility, and reforming occupational licensing. Employees should be encouraged and rewarded for taking the initiative to gain the education and skills they will need to take advantage of these opportunities. The government should create life-long “career loan accounts” that allow Americans to borrow for education and retraining, with repayment linked to future earnings, and should expand the availability of career counseling to help Americans make better choices about future work opportunities and the skills that will be needed. For those, especially older workers, who are forced to take a significant wage cut to return to the job market, generous wage insurance should be available to top up their earnings. Finally, there should be an expanded program of voluntary national service, both to build new skills for young people and to help overcome deepening social divisions. A combination of these policies could help tackle the “good jobs” problem and build an economy that would once again offer better opportunities for more Americans.

### *CREATING BETTER JOBS*

In a healthy job market, rising demand for employees leads to falling unemployment, squeezing the supply of workers and requiring companies to bid up their wages to attract the workers they need. While there are some signs of stronger wage growth over the past two years, median household income in December 2016 was still slightly below the pre-recession level of December 2007.<sup>18</sup> Much of the reason for this stagnation is simply anemic growth in the economy overall. The last time wages rose strongly across the board was in the latter half of the 1990s, when the economy grew at nearly 4 percent for four successive years. President Trump has promised to bring the economy back to the same annual growth of 4 percent, and doing so would likely address much of the good jobs problem. But there are virtually no economists who believe that target is now achievable, given the slowdowns in labor force and productivity growth.

What seems more amenable to effective government action are steps to increase corporate investment in new plants and equipment in the United States, which would enhance the value of additional workers (raising what economists call their marginal product) and hence their wages, while reducing the impediments to hiring. U.S. corporate tax laws were last rewritten in the mid-1980s. Following the Ronald Reagan tax reform of 1986, the United States had one of the lowest corporate tax rates in the world. Today, after many other countries have cut their taxes to attract investment, the nominal U.S. corporate rate of 35 percent—39 percent if the average state rate is included—is the highest among advanced economies. Most U.S. multinational companies pay far below the headline rate, because the U.S. tax code allows for huge savings for companies that earn and park their profits overseas. While much of this involves the shuffling of profits on paper, the current tax code also encourages companies to invest outside of the United States. Martin Sullivan, a tax analyst with the journal *Tax Notes*, says the current tax system creates “a significant tax incentive for U.S. corporations to move production and

jobs to low-tax countries.”<sup>19</sup> Corporate tax reform that lowers rates is already a high priority for the Trump administration and the Republican Congress, though the specifics will be contentious.

A better approach would be to replace much or all of the corporate tax with a value-added tax (VAT), which is a tax charged at each stage of the production of goods and services. The United States is the only country in the Organization for Economic Cooperation and Development (OECD) that does not use a VAT; the rates vary widely, from lows of just 5 percent in Canada and Japan to upward of 20 percent in some European countries. The VAT has several advantages over the corporate tax. First, it is easy to administer and collect. Second, under World Trade Organization (WTO) rules, the VAT is rebated to companies when they export their products, and charged on imports when they enter the United States. While trade competition is not as big a reason for American economic woes as President Trump apparently believes, the United States has been steadily losing global market share, from nearly 14 percent of global exports in 2000 to just over 9 percent last year. China’s share rose from 3.5 percent in 2000 to nearly 14 percent, while Germany has held its ground at just over 7 percent. A VAT would help to increase exports and the number of good-paying jobs these companies create.

GOP tax writers in the U.S. House of Representatives are attempting to include a version of border adjustability in the coming corporate tax overhaul that, similar to a VAT, would benefit exports and penalize imports while raising more than \$1 trillion in federal tax revenue over the next decade to offset the cost of lower rates.<sup>20</sup> Unlike the VAT, however, this particular scheme runs the risk of violating WTO rules prohibiting discrimination against imports (which a border adjustment tax that allows firms to deduct the cost of domestic labor for tax purposes but not foreign labor embodied in imports would do), and could be extremely disruptive to the economy to the extent that it leads to retaliation against U.S. exports and raises the costs for consumers and for manufacturers who rely on imported components. Nonetheless, it is a well-known rule of taxation that governments should tax behavior they want to discourage. The VAT is a tax on consumption, and the United States is already the world’s most consumption-dependent economy. The United States needs higher levels of saving and investment, while China and other trade surplus countries need to consume more, while investing and exporting less. A straightforward VAT (not a different policy that attempts to mimic certain parts of a VAT’s benefits) would help with this rebalancing.

But even if companies invest and expand more in the United States, it will not be easy to match up workers with available jobs. One of the striking findings of recent research is that the best path for employees to gain higher wages—by moving to another job, or at least threatening to do so—has broken down. Voluntary job mobility has fallen sharply since 2000, and not just among older workers, where it might be expected. Research suggests that job-hopping is a net positive not only for the individual worker but for the economy as a whole, as workers move from lower-productivity, lower-paying firms to higher-productivity, higher-paying firms. Slow growth is part of the explanation—job-hopping increases sharply as unemployment falls—but there appear to be other factors at work as well. Byron Auguste, a former Obama economic advisor and cofounder of Opportunity@Work, argues that “credential creep” has frozen many employees to their current jobs.<sup>21</sup> For example, some two-thirds of the new postings for administrative assistants now ask for college degrees, while only 20 percent of currently employed administrative assistants are college graduates. The result: many workers are stuck in place, unable to bargain themselves up to a better job. There is room here for innovation by the private sector: for example, companies using mini-tests that cover what is required on the job in place of simply scanning for college degrees. Doing so could save firms money, while giving opportunities to less-credentialed workers to get on the ladder of upward mobility.

The movement of workers from state to state, once a vaunted feature of the flexible U.S. labor market, is also falling. High-wage job growth is increasingly clustered in a smaller number of fast-growing cities, and the U.S. workforce has become less mobile. A big factor here appears to be rising housing costs in big cities, driven by local land-use restrictions, where the growth of well-paying jobs is the fastest. In Palo Alto, for example, where it costs between \$3,000 and \$6,000 per month to rent a studio or one-bedroom apartment, wealthy residents have been fighting zoning initiatives that would expand construction of desperately needed new housing as job growth continues to soar. As Professor Daniel Shoag of Harvard Kennedy School has argued, “If people no longer have the ability to migrate in response to regional economic shocks, there will be more pressure on other adjustment mechanisms, like government interventions that target specific places or industries.”<sup>22</sup>

One obvious option is for the government to help people move to where the jobs are. The Trade Adjustment Assistance program, for example, which helps workers who lose their jobs to trade competition, includes financial support for relocation. But that program only covered 58,000 out of the nearly 8 million people who were unemployed in 2015. Aid for relocation should be universal, helping all displaced workers who need to relocate to find employment.

There are other barriers to labor mobility that should be tackled as well. Occupational licensing is much too restrictive, affecting roughly one-quarter of all jobs in 2016, up from 5 percent in 1970, according to the Council of Economic Advisers.<sup>23</sup> Many states do not recognize credentials earned in other states. While national certification has gained some ground among teachers, for example, most states require a new certification every time a teacher moves from another state. Such regulatory restrictions are a needless burden on people trying to make a better life for themselves.

A top priority of a twenty-first-century deal would be removing these and other impediments to creating good jobs and matching workers to those employment opportunities. One way of doing so is for the federal government to mandate a single passport for many occupations, which would enable workers licensed in one state to do business elsewhere. Alternatively, or in conjunction, states should adopt reciprocal licensing recognition systems for occupations, much as states did for bank holding companies that wanted to expand to other states before Congress authorized nationwide banking in 1994.

## *HELPING WORKERS FIND AND QUALIFY FOR GOOD JOBS*

Even if demand can be increased for better-paying jobs, the biggest factor determining earnings remains the education and skill levels of employees themselves. Without greater opportunities for more Americans to advance their education and upgrade their skills, many will never qualify for good jobs, and will instead remain stuck in dead-end, low-wage jobs. Three supply-side components of the twenty-first-century deal would address this challenge.

### **Lifetime Career-Loan Accounts**

Last year the Federal Reserve reported an astonishing statistic: almost half of Americans do not have the resources to cover a \$400 emergency expense, such as a car breakdown or a medical crisis.<sup>24</sup> Even for those who have a bit more, a majority of Americans—however much they may desire to train for better jobs—do not have the means to pay for new career educational programs, or to help cover the costs of daily living if they take some time off between jobs, voluntarily or involuntarily, to pursue new careers or to move to places that offer better job opportunities.

One solution would be lifetime career-training loan accounts for all citizens. Individuals could borrow throughout their lifetime, up to a certain limit, for courses at qualified providers of certificate programs such as community and for-profit colleges, certificate training institutions, or programming classes at a coding academy. To prevent borrowers from being ripped off, loans could be used only to attend institutions that regularly report, subject to audit, their job placement rates (not counting temporary work at the institutions themselves or elsewhere) to ensure they surpass a minimum threshold. Loans could cover any tuition and other related fees, as well as some temporary income support, up to an annual cap, and moving costs, subject to a lifetime cap.

Importantly, like many college loans today, repayments of career-training loans should be tied to a percentage of future income, with repayment capped. The cap should account for interest, calculated at the government's borrowing cost, and for some subsidy by those who successfully pay their full loan amounts to pay for those who cannot. For example, someone who borrows \$10,000 may not be required to repay more than \$20,000 over a twenty-year period, including interest. Those whose incomes go up substantially because of the retraining would repay a higher amount, helping to offset the losses on loans of borrowers whose lifetime incomes are too low to repay both the principal and interest. The wins and losses would likely not balance out, so the federal government would bear some cost for the program, especially in its early years, before loans begin to be repaid. But the same is true now for income-contingent loans taken out by college students and it would also be the case under President Trump's proposal during the election campaign to cap the loan payments for college students who have difficulties repaying their loans in full.<sup>25</sup>

Moreover, the gross annual outlays for the loans (i.e., the cost of a loan to the lender, minus the repayments) would be balanced by offsetting savings of other types. These would include lower costs for treating drug addiction and various health problems that some displaced workers would suffer if they cannot find new work, savings in permanent disability payments for those who drop out of the labor force (which have soared in the last decade), and savings from reduced criminal activity by those who otherwise would become addicted to drugs or alcohol and could not fund their habits without engaging in crime. Matthew Slaughter, dean of Dartmouth's Tuck Business School, and former U.S. Trade Representative Robert Zoellick have argued that normal budget rules should be suspended for initiatives that put people back to work, because they will "increase overall economic output and generate new tax revenues that offset some of the costs."<sup>26</sup> Loan repayments under a lifetime career-loan program could easily be handled through annual tax filings. Because of the income-contingent feature, there would be no education-related bankruptcies, and thus much less impairment of credit for individuals as there is today for conventional loans of various types.

Not all reasonably well-paying jobs will require a great deal of higher education. There are and will continue to be plenty of jobs paying good wages for people skilled at working with their hands: plumbers, electricians, mechanics, welders, and repair jobs of all types, to name just a few. Many more jobs are also available in the helping professions, particularly related to health care, which do not require medical or even nursing degrees—although more middle-aged men who now view these jobs as women's work will need to change their mindsets, just as earlier generations of workers have adapted to innovations and shifts in workplace demands.

Some Democrats may not be satisfied even with an income-contingent loan program, arguing that additional schooling should be free, at least for those below a certain income level. After all, they might contend, if Democrats can support free college for those from families earning less than \$125,000—as Hillary Clinton proposed during her presidential campaign—then why not make adult retraining free? Apart from the political advantages of a lending program that is more likely to draw bipartisan

support, it makes sense that individuals have some financial stake in the success of their retraining. When people have at least some of their own money on the line, they are likely to be more careful choosing which education and retraining programs to enroll in and to take that retraining more seriously than if it were free. A basic principle of the twenty-first-century deal is that individuals should be responsible for pursuing their own career advancement opportunities; government should help make such opportunities available, but it should not make them free.

### **Wage Insurance**

Education and career training can take many years to have full effect. In the meantime, the federal government can play an important immediate role in helping displaced workers, especially older workers, move quickly to find and accept other jobs, even if they pay lower wages than the job they used to have. This can be done through wage insurance, which since 2002 has been available to a small slice of American workers: full-time employees over the age of fifty with pre-displacement incomes up to \$50,000 who can prove their jobs were eliminated by trade. In such cases, the federal government will pay half the income loss of a trade-displaced worker for two years from the date they lost their job.

In his 2016 State of the Union, Obama became the first president to endorse a universal version of wage insurance for those who lose their jobs for any reason, not just trade. The Congressional Budget Office scored the budget cost of this initiative at \$27 billion over ten years, or less than \$3 billion per year—a drop in the bucket compared to the size of the federal tax cuts and increased spending on infrastructure and defense now being discussed.<sup>27</sup> By comparison, since 1985, the share of the working-age population receiving Social Security disability insurance has nearly doubled, to more than 4 percent; those benefits cost taxpayers \$143 billion in 2015. Even a more generous wage insurance program that lasted three or four years would be far less expensive than that, and it could easily be administered through the federal tax system since the necessary information for calculating the insurance payments can be obtained from workers' W2 forms.

Wage insurance rewards responsibility and hard work because, unlike unemployment insurance, it only kicks in when a worker accepts a new job paying less than his or her previous one. Research has shown that the longer workers held their previous job, the larger the income loss they suffer, on average, in their new job—up to 25 percent for those with twenty or more years in their prior job.<sup>28</sup> Moreover, because the best kind of job-specific training, given a worker's education and experience, is training at a new job, wage insurance should be more effective than simply requiring unemployed workers to sign up for government-run or funded retraining programs that have no clear job guarantee after the training is over.

Private insurers will not provide wage insurance for much the same reason they do not provide unemployment insurance—only those who believe they are most at risk of losing their jobs would sign up. Economists call this the problem of adverse selection and it also plagues health insurance. The only way to solve it (as some Republicans who are attempting to replace the Patient Protection and Affordable Care Act are discovering) is by requiring everyone to be in the insurance pool, those at the highest and lowest risk, so that the resulting premiums are affordable. A guarantee of wage insurance for all displaced workers, regardless of the reason for displacement, would put everyone in the pool.

### **Career and Life Counseling**

Universal career-training loans and wage insurance would help those who have the motivation to improve their station in life and have at least the basic skills, such as a high school education, or perhaps an associate or four-year college degree, and thus can plot their next steps in an inherently turbulent

labor market on their own. These programs would help several million people annually adjust to changes in the labor market, whatever their source.

But there are still millions more who dropped out of high school, do not have the skills to work at even minimum wages, and have generally lost all hope and thus lack the motivation to improve their lives. These are the individuals whom J. D. Vance describes in his highly praised *Hillbilly Elegy*.<sup>29</sup> Vance's story about the white underclass is a variation of a similar story told in Charles Murray's *Losing Ground* and Robert Putnam's *Our Kids*. Measures that put more of these people on a path toward a stable life would generate substantial cost savings for governments, while reducing the number of crime victims. Another, more indirect, reason to tackle this problem is to reduce political support for bumper-sticker proposals, like trade protection or rigid immigration restrictions, which damage economy-wide growth. The government has tried several programs over the past decades to help address these challenges, with little to show for it. In Vance's book, the individuals he talks about tend to take little personal responsibility for their condition and instead blame the government for their hopelessness, while having no faith in government to do anything to help them.

One additional measure could help. In connection with his 2016 State of the Union address, President Obama suggested a program of "career navigators" to be deployed throughout the country to help people figure out which skills they could reasonably gain and how to get there. Obama's two top economic advisors, Jason Furman, chairman of the Council of Economic Advisers, and Jeffrey Zients, director of the National Economic Council, point to an evaluation of intensive counseling services in Nevada that substantially increased recipients' earnings and decreased the time they spent unemployed.<sup>30</sup>

Counseling programs have merit, but should be run through grants to the states. State procurement laws are less onerous than those at the federal level. This is important because the most effective counseling is likely to be carried out by nonprofits, which the states can contract, and which are more likely to attract clients and do more for them than federal agencies, given the mistrust of government among the intended beneficiaries that Vance documents.

## SERVICE FOR YOUNG PEOPLE

There is one final element to the proposed Twenty-First Century New Deal: greatly expanded national service programs, either military or civilian, for young high school or college graduates. This idea, especially as a required program, has been debated for some time.<sup>31</sup> But some variation of national service is particularly appropriate now, because it could help to bridge the deep social and political divisions in the United States, break the cycle of dysfunction that is far too prevalent among too many families, and expose young people from fortunate backgrounds to those less fortunate.

Civilian service programs and the specific jobs that qualify should be delegated to the states, which would avoid a cumbersome national bureaucracy while meeting state-specific needs, such as tutoring students from disadvantaged backgrounds, helping the elderly, or working on outdoor projects like building or maintaining parks and other public spaces. Civilian national service should be for one year, while those opting for military service would serve longer. All positions would be paid, but those accepted in the military should have higher pay than those opting for civilian service, and be afforded more generous post-service educational grants, employment counseling, and job placement. Ideally, participants in the civilian program should live and fulfill their service away from their homes so that

young people from different walks of life would get out of their increasingly homogenous silos and live and work together.

Civilian service programs should remain voluntary—as are current service initiatives like the Peace Corps and AmeriCorps—but should undertake greatly expanded efforts to advertise and recruit from high schools across the country. The approximate cost should be \$25,000 per participant, counting food, board, and a small stipend. The Peace Corps and AmeriCorps between them enroll just over eighty thousand young people annually, so there is enormous scope for expansion. General Stanley McChrystal, who has become a strong advocate for national service, suggests a target of one million new annual positions in civilian and military service, which at the \$25,000 cost estimate, would imply a total addition to the budget of approximately \$25 billion. Additionally, universities and employers could be encouraged, perhaps through adjustments to federal grants, to give preferences to those who have completed their service.<sup>32</sup>

A good portion of the additional budget costs of an expanded civilian service program would be offset by long-term budget savings from lower crime, welfare spending, and alcohol and drug dependence from participants. In addition, the program would put many who are now growing up in poorer families on a path toward a better life than they otherwise would have, while generating important non-monetary benefits for participants from more stable, higher-income families.

Any net cost of the program would be a small investment in improving social networks and cohesion, in helping Americans who might otherwise not get the help, and in helping to instill a strong work ethic and sense of civic responsibility in young people from all backgrounds. This would be a better use of public funds than providing free tuition for public colleges, even on an income-adjusted basis, and would yield benefits at least as great as additional sums the nation may end up spending on physical infrastructure and national defense.

## Which Party Will Embrace the Twenty-First-Century New Deal?

This Twenty-First Century New Deal should be embraced by both political parties. Reducing corporate taxes, removing impediments to job creation and labor mobility, and helping those who help themselves through new educational and training opportunities fit well with the beliefs and values of many Republicans. Meanwhile, enabling the government to provide a better helping hand—in resources for career training and job counseling, and topping up wages for those stuck in lower-paid work—should be attractive to Democrats.

For Republicans, it is a way to turn their newfound commitment to the well-being of the working class into actual measures that can help better their lives. Many voters fear that Trump's election promises to help these Americans will quickly be forgotten and the GOP will turn again to its long-standing agenda of cutting taxes on the wealthy and hoping the benefits trickle down. Indeed, by embracing a new deal for the twenty-first century, Trump could build long-run support for his party—which would outlive his personal celebrity—in much the same way that President Franklin D. Roosevelt did for Democrats through New Deal policies aimed at the forgotten man of the 1930s.

For Democrats, this approach is both a more realistic and more effective way to help working Americans than the set of policies the party pushed during the last election: the expensive promise of free college education, a nationwide fifteen dollar per hour minimum wage, opposition to more trade deals, and other government spending funded primarily by higher taxes on the wealthiest. Moreover, for Democrats, the challenge is to embrace a set of proposals that provide what Americans—especially the working-class Americans who feel left behind by technology, globalization, and the rapid pace of change—have made it clear they want: new opportunities for decent, well-paying jobs of the sort that were once well within reach.

Finally, an expanded youth service program should appeal to both Democrats and Republicans who want to find a way to bring the country together, not just now, but in a way that can build social cohesion on a permanent basis.

If the 2016 election had one lesson, it is that voters want an end to business as usual, and a government that works in their interests rather than the interests of the wealthy and the well connected. The party that can do the most to shed itself of old shibboleths in the name of new opportunities for more Americans will reap the benefits. Both parties should embrace this goal.



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