

GETTING OUR PRIORITIES STRAIGHT: THREE ACTIONS CONGRESS CAN TAKE TO CREATE JOBS AND BUILD FUTURE PROSPERITY

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**National Employment
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For more than 40 years, the National Employment Law Project has worked to restore the promise of economic opportunity for working families across America. In partnership with grassroots and national allies, NELP promotes policies to create good jobs, enforce hard-won workplace rights, and help unemployed workers regain their economic footing.

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EXECUTIVE SUMMARY

Four years after the recession's official end, there are still 25 million Americans who have been left out of the economic recovery, unable to find a job or to work as much as they would like.¹ Counted among them are the long-term unemployed—workers who face immense barriers to reemployment that only increase the longer they go without finding a job. Also of concern are “missing workers”—those who left the labor force—but would be working or looking for work in a more healthy economy. Persistent joblessness is a human tragedy that takes a toll on the health, future earnings, and wellbeing of unemployed individuals and their families, the consequences of which spill over to the broader economy in the form of reduced consumer spending and lower tax revenues as well as increased reliance on family members, private charities, or safety net programs.

Modest private sector hiring is falling far short of the rapid employment growth required for there to be a significant improvement in the job market and for confidence to be fully restored in the United States economy. A major factor holding back the economic recovery is an unprecedented contraction of the public sector that began three years ago with massive layoffs in state and local government. Since then, Congress enacted its own austerity package, starting with discretionary budget caps in 2011 that were later compounded by sequestration, the impact of which is rippling throughout the private sector in addition to popular public programs such as Head Start. Congressional dysfunction came to a head with the first federal government shutdown in 17 years and the near-default on our nation's debt.

As part of the deal that ended the shutdown and averted default, Congress has until mid-December to reach an agreement on a budget for this fiscal year, or we will potentially face another shutdown when a temporary funding measure expires on January 15th. Congress must take this opportunity to set aside differences and turn attention to the real crisis facing millions of unemployed workers. Solving the nation's jobs crisis will require a substantial federal investment in immediate job creation initiatives and a long-term commitment to our human and physical capital. We propose the following three-pronged approach that lifts austerity; prioritizes immediate job creation, particularly for the long-term unemployed; and makes a strategic investment in early childhood education and infrastructure.

1. LIFT THE AUSTERITY BURDEN

- a. Repeal sequestration.
- b. Eliminate discretionary funding caps that were enacted in 2011.

2. PRIORITIZE IMMEDIATE JOB CREATION

- a. Offer businesses and nonprofits a wage subsidy for hiring disadvantaged and long-term unemployed workers.
- b. Increase volunteer and work-based training opportunities available to young adults through the AmeriCorps, Public Land Corps, and YouthBuild programs.
- c. Provide aid to state and local governments to rehire teachers and public safety workers.
- d. Create a public employment program targeted at the long-term unemployed and disadvantaged workers.

3. MAKE A LONG-TERM INVESTMENT IN OUR ECONOMY

- a. Support universal pre-kindergarten school initiatives that give children from low- and moderate-income families equal access to early childhood education opportunities.
- b. Repair and modernize our nation's infrastructure, including highways and bridges, mass transit, and clean-water systems.

In less politically charged times, there would be bipartisan support for many of these initiatives. Indeed, recognizing that something needs to be done to address unemployment and our country's economic competitiveness, governors from both parties are already introducing business wage subsidies and investing in pre-kindergarten education and state infrastructure. That these ideas are gaining traction at the state and local level offers hope that federal policymakers can also put differences aside long enough to take on a jobs crisis that is now in its sixth year.

SIGNS OF LABOR MARKET DISTRESS

25 MILLION	number of unemployed, underemployed, or discouraged workers
8.2 MILLION	number of jobs needed to fill jobs deficit, restoring pre-recession labor market health
2019	year when jobs deficit will close at current pace of job creation
4.1 MILLION	number of long-term unemployed workers
37 OUT OF 100	unemployed workers out of work for 27 weeks or longer
5.2 MILLION	number of workers "missing" from the labor force
10.2 PERCENT	unemployment rate if missing workers are counted

INTRODUCTION

Since the official end of the Great Recession, private sector hiring has been steady but sluggish. Many estimate that at this rate, the labor market will not return to prerecession health for years. One need not be a highly trained economist fluent in abstract economic theory to understand how increased federal spending could put millions of unemployed workers back on the job; and one need not be a highly trained historian to point to programs in our country's history by which we did just that. With 25 million people unable to find a job or work as much as they would like, including millions of "missing workers" who have left the labor force altogether, the idea also appeals to the common sense of average Americans who continue to wait for a recovery for the rest of us. Three-quarters of Americans—including a majority of Republicans and independents—support initiatives to put people to work on urgent infrastructure projects that would create more than a million new jobs.²

Policymakers outside of Washington D.C. get it too. Five years ago, a coalition of prominent governors and mayors from around the nation crossed party lines to call for "significant federal investments now to ensure the safety of our citizens and economic prosperity of our nation."³ The coalition's message is more urgent than ever, after multiple bridge collapses and the week-long power outages and flooding caused by Hurricane Sandy exposed the critical deficits in our nation's infrastructure. Over the past five years, steep reductions in state revenues have actually forced lawmakers to slash funding for infrastructure, education, and other vital programs to close budget shortfalls. Without federal funding none of these ambitious investments will become reality.⁴

An earlier NELP paper, [Scarring Effects: Demographics of the Long-Term Unemployed & the Danger of Ignoring the Jobs Deficit](#), explored the demographics of the long-term unemployed and how their ongoing estrangement from the labor force hurts the entire economy. The paper concluded that the diversity of this population calls for a variety of job creation measures to reattach them to the workforce.⁵ As

we noted previously, the consequences of prolonging a real recovery for these workers and the economy as a whole are dire; we must act quickly and on several simultaneous tracks.

SCARRING EFFECTS

PRIME-AGE WORKERS (25-54) MISSING IN ACTION

- 2.7 million are unemployed 27 weeks or longer⁶
- An additional 3.0 million are missing—neither employed nor seeking work⁷

DIMINISHED OUTPUT

- Demand for goods and services is \$900 billion below what the economy is capable of producing⁸

LOSS OF LIFE

- Job loss during a severe recession can shorten a prime-age worker's lifespan by a year and a half⁹
- High rates of long-term unemployment increase suicide rates¹⁰

PERMANENTLY REDUCED WAGES

- A middle-aged worker who lost a good job during the recession will see a 20 percent earnings reduction lasting 15 to 20 years¹¹
- Earnings losses associated with graduating from college during a recession last 10 to 15 years¹²

The following section outlines immediate actions that Congress should take to put unemployed workers back on the job through direct government hiring and employer subsidies. We conclude with long-term proposals that would create jobs over the next decade while making a strategic investment in the nation's physical infrastructure and human capital. These programs range from small and relatively inexpensive options to larger and more ambitious programs that would require refocusing our economic priorities on putting people back to work, creating the infrastructure American businesses need to remain globally competitive, and committing not to abandon those who continue to suffer the aftereffects of the Great Recession.

Five years after the financial crash, our current path is not leading us to a sustainable recovery. The time to make new policy choices and shift our priorities is now.

LIFT THE AUSTERITY BURDEN

In recent years, Congress enacted three rounds of austerity measures, which economists agree prematurely ratcheted down federal spending at the expense of jobs and the economic recovery. Independent forecasters estimate that since 2010, austerity measures and political brinksmanship cost the United States economy 2.1 million jobs,¹³ while the nonpartisan Congressional Budget Office estimates that reversing sequestration could boost employment by as much as 1.6 million jobs by the end of the current fiscal year.¹⁴

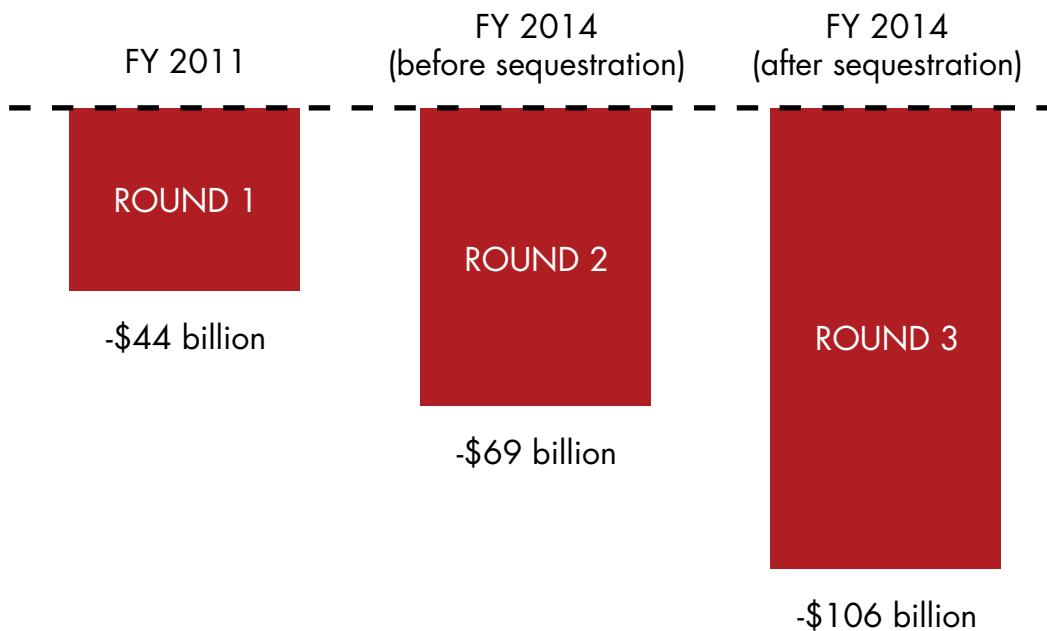
Budget cuts are having an immediate impact on defense and non-defense programs and will reduce federal spending by \$2.6 trillion over the next decade.¹⁵ This fiscal year, non-defense discretionary spending will be \$106 billion below inflation-adjusted 2010 levels as a result of austerity, affecting federal agencies that support medical research, protect our drinking water and food supply, and keep us safe (figure 1).¹⁶ Federal budget cuts also reduce aid to states, resulting in cuts to education, health services, and many other vital programs.

Three Rounds of Austerity

- **ROUND 1:** Congress approved appropriations bills for fiscal year 2011 that set discretionary spending levels below the 2010 inflation-adjusted level. As a result, non-defense spending was reduced by \$44 billion from the previous year (figure 1).
- **ROUND 2:** Also in 2011, the Budget Control Act (BCA) imposed automatic caps on defense and non-defense discretionary programs. When combined with the first round of cuts, these caps will reduce spending relative to the 2010 baseline by \$1.6 trillion from 2014 to 2023, with three-fifths of this amount coming out non-defense programs.¹⁷
- **ROUND 3:** BCA also introduced a third round of cuts known as sequestration. These automatic cuts took effect in March 2013 after a special committee failed to reach an agreement on further spending reductions. Sequestration will reduce federal spending by \$1 trillion this decade relative to 2010 inflation-adjusted levels.

Rather than putting unemployed workers back on the job and making critical investments to meet broadly shared needs and priorities, Congress is doubling-down on austerity — a failed policy the Federal Reserve criticized for “restraining economic growth.”¹⁸ As economists have noted, the irony of austerity is that while the expressed intent of budget cuts is to reduce the national debt, these measures could have the exact opposite effect by damaging the long-term economic prospects of unemployed workers.¹⁹

Figure 1. THREE ROUNDS OF AUSTERITY: NON-DEFENSE DISCRETIONARY FUNDING CHANGE FROM FY 2010, (adjusted for inflation)



Source: Center on Budget and Policy Priorities

Policy Recommendations:

1) REPEAL SEQUESTRATION. The first action Congress should take to create jobs is to put an end to sequestration, a policy that is unpopular with the general public and members of both political parties, and was never intended to take effect. The nonpartisan Congressional Budget Office estimates that sequestration will cost 750,000 jobs in 2013,²⁰ while reversing the cuts in August would have saved as many as 1.6 million jobs through the end of this fiscal year.²¹ Over this budget year, sequestration will force 177,000 children off of Head Start, cut education funding for 1.3 million children in low-income school districts, reduce child care for working families, and cut funding for the National Institute for Health by \$2 billion.²²

2) ELIMINATE DISCRETIONARY FUNDING CAPS THAT WERE ENACTED BY THE BUDGET CONTROL ACT. Before sequestration took effect, BCA imposed discretionary spending caps on defense and non-defense programs that began in 2012 and will continue well into the future. Even if sequestration is repealed, as a result of these caps, non-defense discretionary spending will fall to the lowest level in at least 50 years, relative to the size of the economy.²³ Lower spending levels could reduce public investment in education, infrastructure, and health to the lowest levels since the end of World War II.²⁴

PRIORITIZE IMMEDIATE JOB CREATION

Subsidized Employment

Several state and local governments are developing financial incentives to encourage businesses to hire disadvantaged and long-term unemployed workers. By temporarily subsidizing workers' wages, these programs help businesses grow, create jobs that would not otherwise have existed, and reconnect workers to the labor force, while helping them overcome the stigma associated with unemployment. Because wage subsidy programs provide a tangible benefit to workers and employers, these initiatives are popular across the political spectrum, broadly appealing to business interests and progressives.²⁵ A lack of federal support is the most significant factor preventing us from bringing these successful programs to scale nationwide. One economist estimates that a national wage subsidy program could employ 1.9 million people over two years at a total cost of only \$65 billion.²⁶ Even a more modest expenditure would open up employment opportunities for hundreds of thousands of individuals who now have little hope of finding work.

Wage subsidies are a potential solution to long-term unemployment, one of the most pernicious and lasting consequences of the economic downturn. Today, just over 4 million individuals, or 37 percent of the unemployed, have been out of work for six months or longer, while nearly an additional 6 million workers not officially counted among the unemployed say they want a job but have given up looking for one. Recent research sheds light on a key reason why there are so many long-term unemployed and discouraged workers. It is now routine for businesses to discriminate against the unemployed in hiring,²⁷ while experimental evidence shows that job applicants with unemployment spells of over six months face a dramatic decline in call-backs, even if they are more qualified than other candidates.²⁸

A short-lived, but successful wage subsidy program was authorized by the American Recovery and Reinvestment Act (the Recovery Act). Thirty-nine states and the District of Columbia invested \$1.3 billion in wage subsidy programs that employed 260,000 low-income adults and youth between 2009 and 2010.²⁹ Employers in private sector industries such as administration, sales, construction, customer service, food service, and health care accounted for the majority of hiring.³⁰ The program enjoyed bi-partisan support, with traditionally conservative states, including Texas, Florida, and Mississippi, operating some of the most successful programs.

A recent evaluation of Florida’s program found that compared to a similar group of nonparticipants, individuals who entered subsidized employment were more likely to be employed and had higher wages the year after the program operated, while long-term unemployed workers experienced the most significant gains.³¹ Additionally, 63 percent of employers surveyed in multiple states said that they would not have hired new workers without the subsidy.³²

More recently, several states and local governments have taken the initiative to launch their own programs. A prominent example is the Platform to Employment (P2E) program that started as an initiative of The Workplace—the Workforce Investment Board for southwestern Connecticut—and is being replicated with similar results in multiple cities throughout the country.³³ P2E places workers who complete a five-week preparatory program in subsidized, eight-week positions at businesses with permanent job openings, where 90 percent of participants transition to full-time employment. A similar initiative targeted at low-income workers, started in 2012 by Michigan Governor Rick Snyder, placed 923 participants with an 87 percent retention rate and an average hourly wage of \$11.53.³⁴

Policy Recommendations:

1) INITIATE A FEDERAL WAGE SUBSIDY PROGRAM TARGETED AT WORKERS WHO HAVE BEEN JOBLESS FOR LONGER THAN SIX MONTHS OR WHO HAVE EXHAUSTED STATE UNEMPLOYMENT INSURANCE BENEFITS. Recognizing that today’s long-term unemployed workers are at risk of becoming tomorrow’s disadvantaged workers, we recommend that the federal government provide funding for wage subsidy initiatives at the state and local level. The eligible population should include long-term unemployed workers, individuals who have exhausted unemployment insurance benefits, and low-income or disadvantaged workers. Ideally, federal legislation would include additional safeguards to ensure subsidized positions are quality jobs that pay a fair wage and provide decent benefits, there is potential for permanent employment, and participating workers do not displace existing employees.

Volunteer and Work-Based Training Opportunities for Youth and Young Adults

We recommend an expansion of our nation’s existing volunteer and work-based training programs, such as the AmeriCorps, Public Land Corps, and YouthBuild, which offer teens and young adults from all backgrounds valuable work experience and additional educational opportunities. Expanding existing volunteer and work-based training programs would give youth and young adults a leg up in a labor market that is providing too few jobs and opportunities for advancement.

Today, there are 3.3 million unemployed young adults ages 16 to 24, while the unemployment rate remains at just over 15 percent for this population. Even though they are less likely than older workers to become long-term unemployed, the number of long-term unemployed young adults is fall-

ing much less rapidly than for other age groups, indicating that the labor market may be improving more slowly for the least experienced workers.³⁵

In 2012, the unemployment rate for young adults with a four-year college degree (7.7 percent) was substantially lower than the rate for those with a high school diploma (19.7 percent) and for those without a high school degree (27.4 percent).³⁶ Young, college-educated workers may have an easier time finding work after graduation than their less-educated peers, but as a result of the poor labor market, today, more than half of them are working in jobs that do not require a college education.³⁷ Increasing “mal-employment” from 2000 to 2012 explains in part why real wage rates declined by 8.5 percent over the same period.³⁸

Young workers with a high school education or less face extraordinarily high rates of unemployment. While additional education may improve employment prospects, enrollment rates did not increase above the long-term trend during the downturn, likely because the cost of attending college keeps going up, even as family incomes stagnate and state support for our public universities declines.³⁹ Because of limited employment and educational opportunities, a troubling one out of six high school graduates ages 17 to 20 is neither employed nor in school.⁴⁰ Meanwhile, real wages declined by 12.7 percent for this population since 2000, with nearly the entire decrease occurring since the start the recession.⁴¹

Recent research finds that young people entering the labor force today may face 10 to 15 years of lower earnings relative to those who graduated when the economy was stronger.⁴² Because the negative employment and earnings effects of graduating during a recession are likely to be magnified by long-term unemployment, it is imperative that young people have an opportunity to gain work experience, build social networks, and learn new skills.

Policy Recommendations:

1) INCREASE FUNDING FOR AMERICORPS AND PUBLIC LAND CORPS. These existing programs create volunteer opportunities for young adults enabling them to acquire valuable work experience,⁴³ while giving back to communities and our country. The infrastructure for administering these programs is already in place, as is demand for the program from young people as well as local community groups and school districts that rely on volunteers.⁴⁴ In 2011, AmeriCorps was forced to turn away 86 percent of the nearly 600,000 applicants, and that was before sequestration cut funding.⁴⁵

AmeriCorps volunteers are placed at 15,000 nonprofits, schools, public agencies, and community and faith-based groups throughout the country. Volunteers often serve in high-poverty communities or areas affected by natural disasters, where they address critical community needs in education, public safety, health, and the environment. In addition to gaining valuable work experience that could lead to a future career, volunteers are also eligible for an education stipend that will help them to pay for college after they complete their service.

In collaboration with nonprofit agencies, the Public Land Corps employs youth and young adults ages 16 to 25 to rehabilitate and restore our nation’s treasured national parks and historical sites as well as recreational and scenic resources on public lands. Volunteers

learn skills in environmental science and conservation work that will become increasingly valuable as the United States seeks ways to protect communities and coastal waterways from climate change and severe weather events.

2) INCREASE FUNDING FOR YOUTHBUILD. Through the 273 YouthBuild programs throughout the nation, economically disadvantaged youth between the ages of 16 and 24 learn on-the-job skills while building affordable housing for homeless and low-income people. Over 90 percent of participants enter the program without a high school degree and are at the greatest risk of becoming permanently disconnected from employment and education. YouthBuild offers the opportunity to earn a GED, high school diploma, and industry-recognized certificates while helping participants to transition into post-program employment or post-secondary education.

Results from 2010 indicate that the program produced positive outcomes related to education, employment, and recidivism.⁴⁶ Nearly two-thirds of those who complete the program obtain a GED or diploma, while 60 percent enter either post-secondary education or employment where they earn \$9.20 an hour on average. Recidivism rates are also far lower than the national average for the nearly one-third of participants who are involved with the court system.

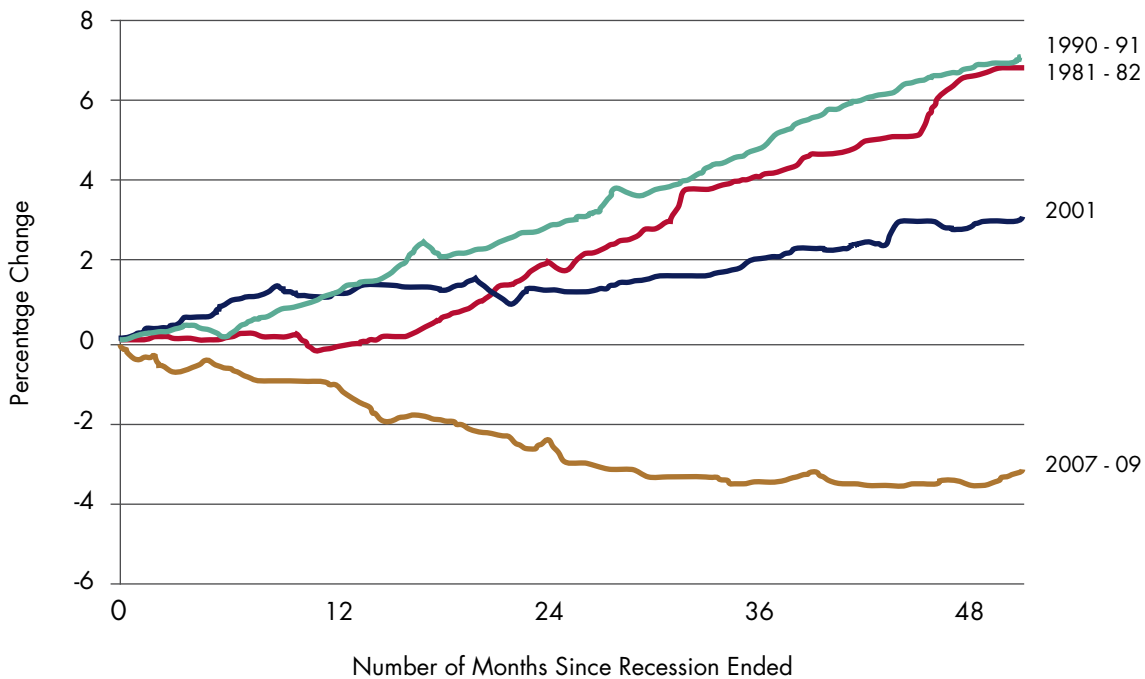
State Fiscal Relief to Rehire Teachers and Public Safety Workers

Since the recession ended in June 2009, state and local government employment fell by over 600,000 or 3 percent (figure 2). Add the number of jobs lost to a more-typical rate of public sector job growth following a recession, and public sector employment is about 2.2 million jobs short of where it should be.⁴⁷ The loss of quality, public sector jobs ripples throughout the economy, as governments purchase fewer goods and services from the private sector, and former teachers and police officers have less income to spend at local businesses. Last year, the overall unemployment rate was an estimated 1.5 percentage points higher because of the direct and indirect effect of government layoffs.⁴⁸

In addition to weakening the economic recovery, steep budget cuts have also taken a toll on the ability of state and local governments to protect our health and safety and the capacity of public schools to educate our children. Since budget cuts began in earnest in 2010, local governments reduced the number of police officers by 84,000 and firefighters by 17,000.⁴⁹ Cities facing tough economic times, including high unemployment and crime rates, were forced to make the deepest cuts. Camden, New Jersey, for example, laid off half its police force in 2011 despite the city's notorious crime problems.⁵⁰

Meanwhile, the loss of over 250,000⁵¹ state and local education jobs over the past four years, coupled with sharp declines in per-pupil spending and the scaling-back of proven early childhood education programs, undermines efforts to prepare our children to compete in the global marketplace.⁵² One survey found that 54 percent of school administrators were forced to increase class sizes for the 2011-2012 school year, while 57 percent anticipated another increase in the 2012-

Figure 2. CUMULATIVE CHANGE IN STATE AND LOCAL GOVERNMENT EMPLOYMENT



2013 school year.⁵³ Larger class sizes have been shown to lead to lower student achievement, which in turn could reduce the present value of future lifetime earnings by nearly \$50 billion.⁵⁴

Over the past five years, states relied on budget cuts, tax increases, and federal assistance to close annual budget shortfalls totaling nearly \$600 billion.⁵⁵ The \$55 billion shortfall projected for fiscal year 2013 was smaller than in recent years, but the improvement may be illusory as smaller budget gaps are the result of harmful spending cuts rather than improving state economies.⁵⁶ Inflation-adjusted tax revenues have yet to catch up to prerecession levels,⁵⁷ while tax revenue growth is expected to slow this fiscal year.⁵⁸ Meanwhile, last year, inflation-adjusted spending was \$60 billion below prerecession levels, forcing schools and other government services to serve more people with fewer resources.⁵⁹ If the situation facing states was not dire enough, federal discretionary spending caps and sequestration further reduced federal grants for state and local governments.

Policy Recommendations:

1) REPEAL SEQUESTRATION AND LIFT DISCRETIONARY BUDGET CAPS. States face mounting budget pressures from sequestration and progressively tighter federal discretionary spending caps, which will drive federal funding for states to the lowest level in four decades.⁶⁰ In 2013, sequestration alone cut federal funding for education and other vital services by \$6 billion.⁶¹ Because the federal government provides about one-quarter of state and local revenues, we can expect to see further reductions to education, water treatment, and law enforcement if Congress allows these policies to continue.⁶²

2) PROVIDE FEDERAL ASSISTANCE TO RESTORE STATE SPENDING TO PRERECESION

LEVELS. The Recovery Act provided \$135 billion of fiscal aid to states that temporarily saved thousands of public and private sector jobs.⁶³ This aid was split between a fiscal stabilization fund (\$48 billion) that supported education and other essential services and an increase in the federal match for Medicaid (\$87 billion). Economists estimate that every \$100,000 spent by the federal government on Medicaid reimbursement created 3.6 jobs, the majority of which were in the private sector.⁶⁴

Whereas the Recovery Act was designed to provide states with a rapid cash infusion, we would argue today for a more targeted approach that leverages existing grant programs to ensure that federal funds are used to rehire laid-off teachers and public safety workers. For example, in addition to repealing federal austerity measures, Congress could increase Title I grants to restore funding to high-poverty school districts.⁶⁵ There are also existing federal grant programs that support local hiring for police and fire departments.⁶⁶

Public Employment Option for the Long-Term Unemployed

A temporary, large-scale public employment program may be the fastest way to reemploy millions of out-of-work Americans while providing valuable services to communities throughout the nation. Economist Phillip Harvey estimates that a two-year, \$100 billion investment in a public employment initiative could support the direct hiring of 2.1 million workers and indirectly increase private sector employment by nearly a half-million additional workers.⁶⁷ An advantage of direct public hiring is that long-term unemployed and discouraged workers—whom private-sector employers are reluctant to hire—could be put to work immediately where they earn a wage, rebuild their resumes, and are engaged in meaningful work. Because a public jobs program would increase employment directly, the cost per job created would be substantially lower than traditional anti-recessionary policies, such as tax cuts and increased government purchases of private sector goods, which create jobs indirectly through increased consumer demand.⁶⁸

Anyone who has driven on a pot-hole-ridden road or visited a blighted neighborhood, devastated by foreclosure, realizes there are many opportunities to improve local living conditions that do not involve a significant capital investment, land purchases, or long permitting processes associated with large-scale infrastructure projects. Small-scale, labor-intensive projects would not only put people to work right away but also provide broader public benefit such as lower electric bills, cleaner drinking water, improved public safety, and upgraded public schools.

Public employment opportunities should be targeted at communities with the greatest need and offer job opportunities to workers with a wide range of education and skills. A public jobs program would serve as a last resort for long-term jobless workers—who have little chance of being hired by private employers—to earn a wage.

Policy Recommendations:

1) CREATE A TEMPORARY, LARGE-SCALE PUBLIC EMPLOYMENT PROGRAM THAT WOULD HIRE LONG-TERM UNEMPLOYED AND DISADVANTAGED WORKERS TO MEET LOCAL NEEDS. During the Great Depression, public works projects reemployed millions of jobless workers to build many of the public parks, highways, and bridges that are still in use today. Our infrastructure needs may be different now than they were back then, but there is no shortage of opportunities for public works projects to make lasting contributions that improve our quality of life today and for decades to come. By targeting areas with the greatest need, public employment would create job opportunities where there currently are none, while also providing valuable services to cash-strapped communities. Energy efficiency upgrades in residential, public, and commercial buildings would lower energy costs, while rural conservation measures and wetlands restoration would protect our valuable land and water resources. Many of the communities suffering from the highest unemployment rates are also deeply affected by foreclosure. A public employment program would create opportunities for community members to restore parks and green spaces, construct affordable housing, and clean up blighted neighborhoods.

MAKE A LONG-TERM INVESTMENT IN OUR CHILDREN AND INFRASTRUCTURE

The commonly expressed concern that we cannot invest in education and infrastructure today because we do not want to leave a debt for our children and grandchildren represents a false choice. By failing to make strategic investments, we will assuredly leave future generations ill-equipped to compete for jobs in the global economy and burdened by a costly and crumbling infrastructure.

Our Human Capital: Invest in Early Childhood Education

The United States faces a human capital deficit that threatens to stall an economic recovery: a workforce unprepared for the 21st century workplace. Today, nearly half of all public school children qualify for free or reduced-price lunch based on parental income.⁶⁹ Children raised in low-income households start school at a disadvantage, having heard 30 million fewer words spoken by age three than the children of more affluent parents.⁷⁰ Pre-kindergarten programs can help to close this “language gap,” but alarmingly, more than half of the nation’s three- and four-year olds were not enrolled in preschool between 2008 and 2010; that is more than 4.2 million children who start kindergarten without critical learning skills.⁷¹

There are immediate economic benefits to investing in early education jobs. A Levy Center for Economic Studies study found that “social care investment generates more than twice the number of jobs as infrastructure spending and almost 1.5 times the number of jobs as green energy spending.”⁷² It found that a \$50 billion investment in child care and home health care would generate almost 1.2 million jobs.⁷³ Economist Timothy Bartik finds that funding a free universal pre-school program has roughly the same rate of return (in terms of boosting jobs and earnings for a state’s residents) as other types of economic development. In 2004 dollars, he estimates that \$1 billion spent on preschool education creates 5,708 jobs right away, and is likely to support tens of thousands of additional jobs, once enrolled students join the workforce.⁷⁴

The cost of this investment in the nation’s human capital is substantial. The Committee for Economic Development, a coalition of business leaders and educators, estimated in 2006 that extending voluntary, universal preschool to the nation’s four-year-olds would cost between \$16 billion and \$27 billion in new spending per year. But they also estimated that as a result, by 2080, the nation’s gross domestic product could exceed standard projections by 3.5 percent, or more than \$2 trillion.⁷⁵ Researchers from the Federal Reserve Bank, the Committee for Economic Development, and business alliances like America’s Edge have also emphasized the manner in which investments in early education combine job creation and economic stimulus in the short term with savings in public revenues and increased wage-earning capacity for students in the long term.⁷⁶

Policy Recommendations:

1) INCREASE FUNDING FOR SUBSIDIZED EARLY EDUCATION TO HELP THE MOST DISADVANTAGED CHILDREN CATCH UP TO THEIR PEERS QUICKLY. In 2011, 99 percent of Head Start programs reported that they had a waiting list of families eligible for their services.⁷⁷ Waiting lists are certain to expand this fiscal year when sequestration eliminates 177,000 Head Start spots for children from low-income families.⁷⁸ Similarly, the Child Care Development Block Grant program, which provides child care subsidies to poor families, received \$2 billion in funding through the Recovery Act, allowing 1.7 million children to receive assistance per month. Nevertheless, 22 states had waiting lists of tens of thousands of children who were not receiving early education and care.⁷⁹ Funding for these programs should be increased to put teachers to work helping our lowest-income children learn the skills they need to succeed in school.

2) RENEW FISCAL AID TO THE STATES WITH SPECIFIC PROVISIONS FOR UNIVERSAL VOLUNTARY PRE-KINDERGARTEN PROGRAMS AND THE HIRING OF EARLY EDUCATION TEACHERS. Over the last few decades, several states made important strides toward providing universal voluntary pre-kindergarten programs, but with contracting state budgets, too many of these programs were cut. Even with infusions of approximately \$127 million from the Recovery Act, nationally, spending on pre-kindergarten education declined by almost \$60 million in 2010-2011, with additional cuts in 2012 and still more planned for 2013.⁸⁰ In some states that have universal pre-kindergarten programs, such as New York, enrollment is low because there is not enough funding. Eleven states have no state-funded pre-kindergarten programs at all.⁸¹

Our Physical Capital: Fix our Crumbling Infrastructure

While many in Congress quarrel over what kind of cuts to make to lower federal debt, everyday Americans suffer the inconvenience, increased costs, and diminished health and safety that accompanies a chronically underfunded, crumbling infrastructure. The terrible irony is that by filling that funding gap, we could be putting millions of people back to work, building the foundation for a more robust economy, and increasing GDP and tax revenues such that we could make a hefty payment on the federal debt. The Congressional Budget Office estimates that increasing infrastructure spending could create as many as six years of full-time employment per million dollars of budgetary cost.⁸² Various research organizations find that depending on the nature of the projects, anywhere from two to five million people could be put to work repairing and modernizing the nation's infrastructure.⁸³

Failing to fix our nation's infrastructure not only costs jobs today, but could lead to employment shortfalls tomorrow. The American Society of Civil Engineers (ASCE) estimates that the total gap between projected needs and likely investment for maintaining current resources and building new ones to meet increasing population and expanded economic activity will reach \$1.1 trillion by 2020.⁸⁴ That may look like a big price tag, but the organization also estimates that if this gap is not filled, the economy may lose \$1 trillion in business sales and 3.5 million potential jobs, and result in a cumulative cost of \$3.1 trillion in GDP and \$1.1 trillion in total trade. As water, power, and the transportation of goods becomes more expensive over the next seven years, retail could see 768,000 fewer jobs. We may have 395,000 fewer construction jobs than would otherwise be the case, and even mid-wage industries like medical services and finance and insurance could lose a projected 298,000 and 228,000 jobs respectively.⁸⁵ Lower GDP, lower exports, fewer jobs: failing to fix our infrastructure now is a recipe for even greater federal debts in the future.

The smart way to turn the economy around is to invest \$220 billion annually for the next five years to rebuild America's critical infrastructure.⁸⁶ We must focus on projects that will benefit the health and safety of the greatest number of people, support business expansion and the efficient movement of goods and workers, and rebuild local economies—projects like public transportation, clean water systems, freight transit, and mixed use transportation systems—while setting common-sense priorities to fix existing assets first before funding new ones.

Policy Recommendations:

1) TAKE THE OPPORTUNITY OF THE EXPIRING TRANSPORTATION BILL TO ESTABLISH INFRASTRUCTURE PRIORITIES THAT WILL IMPROVE THE MOVEMENT OF GOODS AND WORKERS AND PUT THE UNEMPLOYED BACK TO WORK.

- a. Prioritize "fix-it-first" projects that can put people to work right away because they do not depend on new land acquisition or extensive permitting processes to begin work.

Researchers estimate that maintenance and repair creates between 10 and 17 percent more jobs per dollar invested than new road construction.⁸⁷ Furthermore, prioritizing

maintenance work is also smart budgetary policy. The American Association of State Highway and Transportation Officials (AASHTO) found that spending \$1 to maintain a current road saves \$7 in reconstruction work later.⁸⁸ A renewed transportation bill should reverse current priorities for new construction and emphasize these types of projects.⁸⁹

- b. Build on the success of the Transportation Infrastructure Finance and Innovation Act (TIFIA), but reinstate selection criteria that emphasize the scope of the project to replace the new first-come, first-served policy.

The TIFIA Act authorizes a federal program that provides low-interest loans and loan guarantees for infrastructure projects. The most recent Transportation Bill, MAP-21, increased funding for this program, allowing it to make a predicted \$10 billion in project loans over the next two years.⁹⁰ However, the bill eliminated project selection criteria that prioritized projects with regional significance and environmental sustainability that would have ensured more projects with high employment potential.⁹¹

2) INCREASE FUNDING FOR THE HIGHWAY TRUST FUND TO PROTECT CRITICAL SURFACE ROAD AND PUBLIC TRANSIT SPENDING FROM ITS OWN “FISCAL CLIFF” IN 2014.

MAP-21 effectively kept transportation funding constant, despite the increasingly dire condition of our transportation networks, and did not address predictions that the Mass Transit Account will be insolvent by 2014 with the Highway Account following one year later.⁹² MAP-21 subsidized short-term infrastructure spending by moving general revenue funds into the trust funds that finance transportation improvements, but this temporary fix cannot address ongoing transportation needs, let alone the significant backlog of work that supports United States businesses and puts people to work. Furthermore, gas taxes—the primary means by which the transportation trusts are funded—will continue to fall as new fuel efficiency standards are implemented.

- a. The federal government must take the lead in studying and developing alternative methods to fund transportation infrastructure improvements.

The GAO has stated that mileage-based user fees “can lead to more equitable and efficient use of roadways” than the current gasoline tax.⁹³ States like Oregon, Washington, and Vermont are already experimenting with these user fees to finance their transportation infrastructure. While the revenue from such fees may not replace that of the gas tax—and attempting to have them do so could create unintended incentives to drive inefficient vehicles—it is critical that we find alternative and equitable ways to finance transportation infrastructure improvements that could put millions to work today and support millions of new jobs tomorrow.

- b. Create a National Infrastructure Bank (NIB) to support public-private funding for large, multi-state, and economically important projects that could improve America’s competitiveness and put people back to work.

According to the CBO, an infrastructure bank could finance the kind of complicated and multi-jurisdictional transportation projects that current formula funding is not well equipped to fund. Because multi-modal projects combining automobile and transit features could submit one application for funding, these types of smart-growth projects might benefit from an NIB.⁹⁴

CONCLUSION

For nearly three years now, Congress has been consumed by a series of artificial crises that brought the legislative process to a halt, damaged the United States' credit rating, and stalled the economic recovery.

Unfortunately, the draconian budget cuts that resulted from these unnecessary distractions continue to harm the economy while drawing attention away from a very real jobs crisis that is affecting the lives of millions of Americans. As long as Congress is unable to look beyond the next impasse, nothing will be done to fix our outdated infrastructure, which jeopardizes our health and safety and puts United States businesses, faced with high energy and transportation costs, at a competitive disadvantage. Nor has Congress been able to make a strategic investment in early childhood education, despite conclusive evidence demonstrating the long-term economic benefits. In the absence of federal support, states are moving ahead with small-scale initiatives to put long-term unemployed workers back on the job and to make strategic investments in education and transportation. However, depressed state tax revenues force states to choose between priorities (e.g., rehiring laid-off teachers or fixing roads), while limiting the size and scope of strategic investments.

This report lays out a number of short- and long-term policy options that would work immediately to create jobs. The first step is to remove the austerity measures that actively restrain economic growth and private sector hiring. We also recommend creating employment opportunities for the long-term unemployed, either through direct public hiring or a wage subsidy program, and ramping up existing volunteer programs for young adults that would help them segue into the labor market. Additionally, our school districts and communities would benefit greatly from federal funding to rehire the hundreds of thousands of laid-off state and local public employees. Beyond targeted and temporary initiatives, we believe that it is imperative for this country to get back in the race in regard to infrastructure and education. In addition to creating job opportunities over the next decade, investments in these areas will be necessary if the United States hopes to maintain its global position as an economic power.

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