Dēmos

MILLIONS TO THE MIDDLE *SERIES*

PUBLIC INVESTMENT PLAN

SUPPORT FOR GROWTH, JOB CREATION, AND CAREER DEVELOPMENT

Widely shared middle-class prosperity has made the United States the most hopeful and dynamic country on earth and is a foundation of strong democracy. Yet today, America's middle class is in trouble: the traditional routes into the middle class have become more difficult to travel and security has eroded for those already in the middle class. Major economic and policy changes over the past three decades have widened economic inequality and reduced mobility in ways that go far beyond the impact of the recent recession. Too many people who play by the rules and do everything right find that they cannot climb into the middle class—or stay there. To meet this challenge, Millions to the Middle offers dramatic public policy initiatives to rebuild and grow the nation's middle class.

POLICY IN FOCUS

PUBLIC INVESTMENT PLAN

Invest $200 billion per year in maintaining and upgrading the nation's physical infrastructure and an additional $16 billion per year in renewable energy and improved energy efficiency, partially funded through a carbon tax. Incentivize states to create Main Street Partnership Banks to catalyze small business lending and investment.

We aim to accomplish two broad interrelated goals: to ensure that all Americans have a chance to move into the middle class and, second, to ensure greater security for those in the middle class. The 14 policies we offer are rooted in mainstream American values and able to command strong public support over the long term. Together, they go beyond the confines of the current policy debates and are of sufficient scale to firmly establish a middle-class America.

Our policy agenda is based on the three broad pillars of middle-class opportunity and security: investments in human capital and education; support for growth, job creation, and career development; and helping Americans build assets. This policy is part of the **Support for Growth, Job Creation, and Career Development.**

POLICY: PUBLIC INVESTMENT PLAN

Provide a foundation for sustained private sector growth and productivity through improvements in physical infrastructure, investment in clean energy, and the creation of state-level public banks.

POLICY RATIONALE

Sustaining a strong middle class – and a strong and competitive American economy – over the long term requires a foundation of robust public investment. From physical infrastructure investments in efficient roads, rail lines, seaports and airports, safe drinking water and waste systems, and reliable electrical transmission, to investment in new scientific research, 21st century energy technologies, and a financial system that successfully provides credit to small businesses, public investment lays the groundwork for private sector productivity and the private creation of solid, middle-class jobs.

OPINION SNAPSHOT

- 66 percent of voters say that improving the nation's infrastructure is important.
- 79 percent agree that "in order for the United States to remain the world's top economic superpower we need to modernize our transportation infrastructure and keep it up to date."[16]

These investments produce critical public goods that the private market relies on – like a transportation system that can bring millions of workers to their jobs quickly and affordably – but would not generate on its own. Yet despite a one-time infusion of public dollars through the American Recovery and Reinvestment Act, the nation's long-term investment in infrastructure is inadequate. The American Society of Civil Engineers gave the nation a grade of D on the state of its physical infrastructure in 2009.[1] Meanwhile the world's other major economic powers, including China and the European Union, are making substantial national investments in transportation infrastructure, including freight facilities, ports, and high speed rail lines that will promote economic growth in the coming decades.[2] With lagging resources, America risks losing ground to countries that have invested more wisely.

President Obama's proposal to invest $60 billion in the nation's physical infrastructure, including the creation of a national infrastructure bank to leverage public and private capital, is a powerful step in the right direction.[3] His American Jobs Act reflects the nation's long history of making prudent long-term investments even at times of debt and war. From the Erie Canal to the Interstate Highway System to the American military's investments in the basic research and development that produced jet aviation, the internet, and the computer, the American government has historically played a critical role in making the investments that spurred private enterprise and productivity. As the bipartisan political leaders of the Building America's Future fund note, "the infrastructure past generations built for us – and the good policy making that built it – is a key reason America became an economic superpower."[4]

To continue that tradition, we propose investing 1.5 percent of the nation's gross domestic product (about $228 billion) annually in the development and maintenance of physical infrastructure, clean energy, and providing credit to small businesses. Another critical part of the nation's infrastructure – the schools, colleges, and training programs that produce an educated citizenry and workforce – is considered in its own section of this report.

The American Society of Civil Engineers projects that an additional investment of $1.1 trillion over five years beyond what the nation is currently spending is needed to bring the country's physical infrastructure up to good condition.[5] We propose a new investment of $200 billion per year to both maintain and upgrade the nation's physical infrastructure, creating nearly 5 million jobs over the next decade.[6] At the same time, lifting millions of Americans into the middle class demands not just adequate investment in physical infrastructure but careful attention to where facilities are built and improved. Infrastructure – from rail lines to broadband access – can connect people in low-income communities to economic opportunity, or, in the case of public housing complexes in remote corners of a city – leave people isolated in pockets of concentrated poverty. Too often, public investments in parks and other amenities are concentrated in wealthier localities, while communities struggling to work their way into the middle class receive a disproportionate share of infrastructure burdens like a polluting power plant or waste treatment facility in their neighborhoods. Guided by principles of regional equity, areas with deficient or deteriorating infrastructure and poor access to mass transit must be targeted for priority investment.[7]

Broad investments in renewable energy and improved energy efficiency would produce multiple benefits for the U.S. economy and the long-term flourishing of the middle class. By laying the groundwork for a transition to a cleaner economy, renewable energy investments cut pollution, decrease the perils of climate change, reduce energy costs for households and businesses, and create millions of jobs in the transportation, construction and manufacturing sectors. But these are not benefits that can realized quickly: building a clean energy economy demands consistent levels of public investment, policies to steer private capital toward clean energy investments, and public support for technological innovation in energy efficiency and green energy. By making investments that build on the American Recovery and Reinvestment Act and establishing sensible regulations like a national renewable energy standard, the government can create a market for clean technology products and services – from manufacturing hybrid buses to designing biodegradable packaging to weatherproofing services – that will ultimately sustain millions of middle-class American jobs.[8] We can further promote a clean energy economy by financing the cost of investments through a carbon tax levied on fossil fuels, a policy estimated to raise $846 billion over ten years.[9]

Just as the nation's physical infrastructure provides a critical foundation for the private sector to move goods, increase access to those goods for employees and customers, and a host of other functions, financial infrastructure ensures that the contemporary financial system, including deposits, credit, payments, and insurance, operates fairly and effectively. From this perspective, the recent home mortgage crisis that precipitated the Great Recession can be seen as a massive failure of the nation's financial infrastructure.[10] Since the recession and its aftermath, we have seen another malfunction of the nation's financial infrastructure in the inability of small businesses to access credit that would enable them to expand and hire employees. A recent study by the Federal Reserve Bank of New York concluded that while a lack of consumer demand was the primary factor inhibiting the recovery of America's small businesses, constrained access to credit was also a significant impediment to small business growth and hiring.[11] When the financial crisis hit, small businesses suffered the sharpest fall-off in lending since 1942 as the large banks that had come to dominate our credit markets pulled back. Without access to affordable credit, small businesses across the country laid off workers, stopped buying from suppliers, and went out of business. Despite trillions of dollars in public bailouts, the nation's major banks have failed to keep credit flowing to America's small businesses, preferring instead to redirect public money into more immediately profitable areas, such as securities trading and overseas operations.[12]

To restore the flow of credit to small companies and enable them to begin hiring again, we propose the establishment of state-level Main Street Partnership Banks modeled on the nearly 100-year-old public Bank of North Dakota (BND). By partnering with local community banks to make loans to small businesses, Main Street Partnership Banks create new jobs and spur economic growth. Even though they have less than one-third of banking assets, community banks account for more than half of small business lending[13] – and small businesses

have been responsible for two out of every three jobs created over the past 17 years. It works through a public investment mechanism: when North Dakotans pay their taxes, instead of being deposited into private commercial banks, the funds go to the Bank of North Dakota, which in turn reinvests in both sectors of the local economy: private and public. BND supports private banks and local business borrowers by offering "banker's bank" services to community banks in ways that increase local lending. BND supports the public sector by saving local and state governments money through profit-sharing and financing for local infrastructure projects. In addition to generating new revenue for the state, the bank enabled North Dakota to keep credit moving to small businesses when they needed it most. BND's business lending actually grew from 2007 to 2009 (the tightest months of the credit crisis) by 35 percent.[14] The bank is also one reason North Dakota has consistently enjoyed the nation's lowest unemployment rates throughout the recession and its aftermath.

POLICY DESIGN

- This policy should be implemented after our temporary Public Jobs for Economic Recovery program has run its course.
- Commit to investing $200 billion per year in maintaining and upgrading the nation's physical infrastructure, targeting areas with deficient or deteriorating infrastructure for priority investment. The infrastructure investment should include a focus on mass transit, which not only creates more jobs proportionately but also lowers transportation costs for current and aspiring middle-class families that use it.
- Invest $16 billion per year in renewable energy and improved energy efficiency. This policy design is based on the recommendations of the American Energy Innovation Council, which notes that "This is about $11 billion more than we now spend in a typical year, and will put energy research, development and deployment (RD&D) closer to (though still well short of) other technologically intensive sectors; bring U.S. investment in line with those of its trading partners and competitors; and meet the bottom-up needs of major technologies… By comparison, the United States sends $16 billion overseas for petroleum every 16 days."[15] In addition to multi-year research grants, funds should be used to:
- Establish a National Energy Strategy Board, convening experts to develop a National Energy Plan with clear objectives and a course toward achieving them.
- Establish and maintain centers of excellence in energy innovation, along the lines of North Carolina's Research Triangle or the Combustion Research Facility (CRF) at Sandia National Laboratory, which concentrate public and private investment, equipment and facilities, and research expertise to develop new energy technology.
- Provide an annual grant of $1 billion to the federal Advanced Research Project Agency-Energy program to focus on high-risk, high-payoff energy technologies.
- Launch a New Energy Challenge Program to conduct large-scale demonstration projects.
- Partially fund infrastructure investments through a carbon tax, estimated to raise $846 billion over ten years.
- Incentivize states to create Main Street Partnership Banks modeled on the Bank of North Dakota to catalyze small business lending and invest in local projects.

ENDNOTES

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