

BUILDING THE OPPORTUNITY ECONOMY

by

The Hope Street Group

The Hope Street Group¹ proposes that American economic politics and policies should focus on one goal above all others: creating **equality of opportunity in a high-growth economy**. We call this goal the “Opportunity Economy” and our policy approach “Opportunity Economics.” In this booklet, “Building The Opportunity Economy,” we propose a powerful set of ideas that will help America progress towards that ideal. These ideas are available to interested citizens and politicians – Democrats, Republicans, and Independents. We hope and believe that the policy vision outlined in “Building The Opportunity Economy” will catalyze productive debates in the 2004 presidential and congressional races, and generate ideas about how to restore and expand upon the broad-based rising economic tide that our country experienced in the mid- to late 1990s (so much of it supported by bipartisan policy achievements).

Americans believe in free markets – but they expect those markets to work. As consumers, we expect that businesses will compete to meet our needs, and will innovate to make goods and services cheaper and less expensive. As investors, we expect that the companies we invest in will make responsible business decisions and tell us the truth. As workers, we expect the opportunity to build new skills, support our families, and save for the future. As taxpayers, we expect the government to limit our tax burden, and to make sure that everyone plays by the rules. As citizens, we expect that markets – whether job markets, capital markets, or housing markets – will be accessible to all of us. Americans believe that we should be able to increase our earning power with effort and experience, acquire a home of our own, have savings to fall back on in times of need, and invest in our children’s education. In short, we believe that with hard work, all of our citizens can achieve the American Dream.

For many people, this dream is a reality. However, troubling developments in recent years have shaken faith in our system – and slowed the expansion of opportunity for all Americans. Discouraged companies are shedding employees, discouraged workers are exiting the labor force, and discouraged investors are holding back their cash. These trends are undermining the promise of the American Dream for millions. Today, one-sixth of Americans under the age of 18 – nearly 12 million children – live in poverty. Many poor families are finding themselves unable to work their way out of poverty, despite their best efforts. Children of these families are unlikely to attend a school that can prepare them for information age employment. Half of all Americans are unable to change jobs without losing the pensions or health care coverage that their families depend

on. One-third of American families do not own their own homes. In sum, tens of millions of our citizens are poorly positioned to succeed in the free market system. They are not benefiting from an Opportunity Economy.

The Hope Street Group's policy proposals, contained herein, will help reverse these trends and re-ignite growth and opportunity. The five powerful ideas that comprise our policy vision will help to expand opportunity for all Americans to participate more fully the risks and rewards of our market system, thereby restoring the economic growth on which our future depends. Each policy proposal aspires to create new coalitions across partisan lines, to generate new sources of political support, and to promote faster economic growth and expanded opportunity. The proposals set forth herein will provide a substantial boost to economic recovery in the near term, while helping to build an Opportunity Economy that will endure for the long term.

1. A Level Playing Field for American Businesses

We are rightly proud of the free market competition on which our prosperity is built. However, corporate welfare – the ~\$200 billion morass of subsidies, tax breaks, and sweetheart deals that help individual companies at the expense of the economy as a whole – is damaging our business competitiveness and our federal budget. It hurts consumers who pay higher prices, and small businesses and entrepreneurs without political connections and clout. Individual companies fight hard to keep their advantages, but the business community as a whole has stayed on the sidelines.

Our plan will reduce corporate welfare by \$20 billion each year for five years, using the money saved to fund a reduction in income taxes for all companies, adjustment payments for workers displaced by the changes, and other opportunity expanding initiatives. We can level the playing field for American companies in global markets by getting our corporate tax rates to internationally competitive levels, discouraging corporate flight and creating jobs. By creating transparency in the cost of corporate welfare, and bundling the end of corporate welfare with the reduction of corporate income taxes, we can change the political dynamic by bringing the great mass of the business community over to support a more level playing field.

2. Restoring Confidence in America's Capital Markets

America's capital markets are the most efficient in the world, and a tremendous source of economic vitality for our country. In the past decade, they have also become a more broadly accessible source of economic opportunity for ordinary families to gain higher long-term returns from their savings. We celebrate that development. However, the actions of some dishonest Wall Street insiders and some corporate executives who place their own enrichment over the long-term health of their companies have put our markets

at serious risk, causing shareholders and lenders to lose confidence in the performance of publicly traded corporations.

Our plan will help to repair the damage to America's economic engine by leveling the restoring confidence in our capital markets. Our policies will align compensation for senior corporate executives to the true interests of long-term investors; provide more trustworthy information to investors large and small; and eliminate lingering conflicts of interest that still plague Wall Street. By using better information and incentives, instead of one-size-fits-all mandates, we can restore trust, stimulate new investment, and allow companies to take the "right kinds of risks" that will drive our economy forward again.

3. Building a Nation of Homeowners

Homeownership is an integral part of the American dream – a home is the most valuable asset that most Americans own, and has been the biggest "prosperity escalator" into the American middle class. Still, one third of American households – over 35 million families - do not own their own homes, and most of these would like to own if they could afford it. These families face two major problems: affordability and savings for a down payment. In the 1990s, after 15 years of stagnating homeownership levels, rising family incomes and low interest rates helped millions of families purchase homes for the first time, and the Bush Administration has taken modest steps to divert funds for low-income rental support towards buying homes.

Our plan will build on these developments by creating 1 million new home owning families every year for 5 years, at the cost of \$5 billion annually, by providing targeted down payment assistance for first-time buyers, and spurring the construction of more affordable homes through a systematic reduction in barriers to affordable home building. In addition, this program would immediately help with our current economic stagnation by creating new jobs in the real estate, construction, and finance industries. This plan will win support from a non-traditional coalition of unions, real estate and construction companies, financial institutions, religious groups, and advocates for working families across the political spectrum.

4. A Fair Start for All of America's Children

There is no doubt that achieving the milestones of successful education – being kindergarten-ready by age 6, reading fluently by age 9, meeting high school graduation and college entry proficiency standards – are essential to tapping into the opportunity that our country offers. And yet we also know that our public education system produces astonishingly unequal results, and that many of our young people are denied a fair start. Despite the recent No Child Left Behind Act, our current policies do not address two of the most fundamental requirements for equality of opportunity in education: children

must arrive at kindergarten ready to learn, and teachers in all schools must have the professional skills and capabilities to deliver a quality education.

Our plan would create a \$4 billion Charter Pre-School Fund of annual federal matching dollars to help state and local governments to subsidize "charter pre-schools," certified to achieve clear standards of kindergarten readiness, and provided by whatever mix of non-profit organizations (secular or religiously-affiliated), private providers, or local government agencies appropriate to each community, with money following the child. We also propose a \$6 billion Professional Teaching Fund of annual federal matching dollars to professionalize public education and create more great teachers. School districts would tap into this fund to co-finance their transitions to a more professional approach to teaching careers (i.e., developing and using evaluation of teacher effectiveness, sharing best practices, creation of 'master teacher' mentoring and coaching career paths, flexibility in promotions and assignments) in exchange for higher, performance- and skill-based compensation that would bring more talent into the profession, particularly into the most challenging schools. This approach will allow states and local communities to voluntarily adopt and co-invest in both of these educational opportunity programs as their own priorities allow, with flexibility in implementation that permits best practices to be developed and shared.

5. Expanding Retirement Security for All Americans

Building up a nest egg for retirement or unexpected need is essential for any family to feel confident in taking risks – to start a business, to go back to school, to try a new career. Our national policies recognize the value of savings, spawning a host of savings incentives and subsidized private pension plans. Despite the \$123 billion in tax subsidies that our country spends to subsidize private pensions, half of American families do not have a single dollar saved through such plans. Moreover, the complexity and inflexibility of these plans are much too burdensome for most small businesses and for workers change jobs often. Lower income workers without much job security – i.e., those who would benefit most from increased savings and retirement security – are the worst hit by these shortcomings. The current system also disadvantages small businesses, which cannot afford to manage complex pension plans.

Our plan would create a pension system that is universally available to every worker, not tied to the employer, and easy to understand and administer, and then help lower wage workers and their families get started on a habit of savings through a \$500 one-time payment to activate their universal retirement plans. It would make employer-sponsored plans more flexible, increasing their portability and reducing their vesting periods. It would allow employers to make tax-deductible contributions to employees' universal savings accounts instead of administering their own plans, which would level the playing field for small businesses and their employees, and make it practical for employers to match the savings contributions of part-time and temporary workers if they choose. This

plan will allow all Americans to save for a secure future and at the same time contribute to overall economic growth by increasing national savings. By pursuing the goal of universal access and radical simplification and portability, we can create a new coalition uniting small businesses and their employees, service sector labor unions, the financial services industry, and the rapidly growing numbers of independent contractors and temporary workers in support of pension reform.

Building the Opportunity Economy: A Self-funding Growth and Opportunity Plan

The Hope Street Group believes that balanced federal budgets across the economic cycle are a critical ingredient in economic prosperity. When the government systematically competes with businesses and families for money to borrow and invest, it undermines our long-term prosperity. It is hard to find a new tax cut or social program that will do more good than sustained low long term interest rates, which allow businesses to invest and hire, and enable families to buy homes and send their kids to college. Additionally, as a group of young business executives and professionals, the members of the Hope Street Group are personally concerned about fiscal policies that might impose obligations on future taxpayers and businesses. With over \$4 trillion in projected actuarial budget deficits over the next 10 years, and the leading edge of the Baby Boomer generation tapping Social Security and Medicare beginning in 2011, no one should propose major new initiatives without an idea of how to pay for them.² Our package contains high-leverage initiatives, and pays for itself within three years. With savings over a 5-year period of \$300 billion resulting from phasing out unfair and inefficient corporate welfare, we can lower our corporate tax rate to globally competitive levels, restore investor confidence in our companies and capital markets, fund the federal government's contribution to giving kids a fair start in school, increase home ownership by 1 million every year for 5 years, and expand access and portability of retirement benefits for all Americans. We can do all this without borrowing from our children and grandchildren's future to do so; in fact, we can make a small down payment on reducing that debt.

Despite our ambitious goals, the Hope Street Group is optimistic of success in our campaign to implement these ideas, because the changes needed are profoundly consistent with American aspirations and character. We will do our part to catalyze healthy debate and political action move the American political "center of gravity" towards a vision that has equality of opportunity in a high growth US economy at its core – a vision that embraces and takes seriously both the markets that enrich us individually and the values of openness, fairness and second chances that make opportunity accessible to all. We will work to realign the robust center of our country's politics around this vision, through the actions of passionate citizens, engaged civic institutions, enlightened politicians, and thoughtful policy makers. We hope the ideas laid out here will inspire and encourage others to pursue the Opportunity Economy vision in their own ways.

¹ For more information about the Hope Street Group, please see www.hopestreetgroup.org.

² CBO baseline projections, which show deficits through 2006 and surpluses after that, show an overall net surplus of \$1.3 trillion over the ten-year period from 2004 through 2013. However, when omitted costs of roughly \$3 trillion are included, the budget is seen to be in deficit by approximately \$1.7 trillion over the decade. See Richard Kogan, "CBO Projections Understate Potential Deficits Because They Leave Out Large Costs That Are Very Likely To Occur," Center on Budget and Policy Priorities, January 31, 2003, available at <http://www.cbpp.org/1-28-03bud.htm>). This estimate is very similar to one issued by the Concord Coalition; Concord notes that a more realistic estimate of the deficit is \$1.6 trillion over the ten-year period. See "Concord Coalition Warns Against Growing Complacent With Deteriorating Long-Term Budget Outlook," January 29, 2003, at <http://www.concordcoalition.org/releases/030128release.htm>. Finally, these estimates of \$1.6 trillion take into account a surplus of \$2.6 trillion in the Social Security trust fund. Excluding the Social Security surplus, deficits are likely to exceed \$4 trillion over the next ten years.