

The Economic Budget Outlook for Individuals, Families, and Communities

Testimony before the Senate Budget Committee

By Neera Tanden

February 25, 2014

Thank you Chairman Patty Murray (D-WA) and Ranking Member Jeff Sessions (R-AL) for holding this important hearing on the potential impacts of our budget priorities on everyday Americans.

My name is Neera Tanden, and I am President of the Center for American Progress. CAP is an independent nonpartisan educational institute dedicated to improving the lives of Americans through progressive ideas and action. At CAP, we believe that a robust and growing middle class is vitally important to growing a stronger, more resilient economy and a more competitive future. This tenet is one of CAP's core priorities, and I know that it is a priority for every member of this committee.

We firmly believe that we should measure our budget priorities against a simple test: Are we expanding opportunity for all Americans? No matter where you come from, we are all better off if everyone in our society has the opportunity to succeed.

Unfortunately, our past budgets are failing that test. Simply put, the budget choices we've made over the past three years are hurting people and hindering economic growth.

At a time when we should be doing everything we can to get the economy moving, Congress has instead made deep cuts to education, research, infrastructure, safety net programs, and other important parts of the nondefense discretionary budget. The Congressional Budget Office, or CBO, has frequently warned that these austerity policies have made our immediate economic problems worse, and CBO now reports that these short-term problems have worsened our long-term economic outlook. High unemployment is driving workers out of the labor force

permanently. New capital investment remains relatively low, and less investment now means fewer resources in the future. Weak demand is hurting productivity by making it harder for workers to train in new skills and for businesses to invest in research and development. We need to solve these problems now, or the economy will continue to struggle for years to come.

Proponents of austerity policies have argued that our debt represents the most pressing fiscal crisis facing our country. But these arguments ignore the fact that our fiscal outlook has changed considerably over the past three years—specifically, that the federal budget is currently stable, and debt is not out of control. In the five years since President Barack Obama took office, the annual budget deficit has fallen by more than two-thirds as a share of our economy.¹ Looking ahead, the cumulative national debt will actually shrink in each of the next three years as a share of the economy.² We still have some long-term budget challenges, but solutions to these challenges are manageable as long as revenues are considered along with spending.

What troubles me most about our misguided austerity policies is that Congress has slashed the very programs that help low- and middle-income families get ahead. Food stamps have been cut. Proposals to cut nutrition aid would drop children from school lunch programs. Section 8 housing and welfare aren't keeping up with the need. I'm concerned about how the attack on these programs is going to impact people in our country because I know that I wouldn't be here today if they hadn't been available to me.

I grew up in a suburb of Boston, the child of two immigrants who had come from India decades earlier. We lived in a house in Bedford, Massachusetts, a quintessential middle-class town. But when I was 5, my parents divorced, and my dad left. My mother was on her own. Having never held a job before, she had to choose: Go back to India or go on welfare to support her two young children. In India, we would have been stigmatized, and she knew our life chances would be limited; it was unheard of to get divorced back then.

So we stayed. We were on welfare. We were on food stamps. We received Section 8 housing vouchers to help pay the rent. I paid less for lunch because of the free and reduced lunch program. We were lucky to be able to remain in our town's high-quality public schools. My

mom eventually got a job as a travel agent and went on to become a contracts administrator for a defense company. By the time I was 11, I'm proud to say, she bought her own home in Bedford.

My mom is an amazing woman who sacrificed a great deal for her children. I know that whatever success I've achieved in life is thanks to my mother's tenacity and her commitment to giving each of her children a better life. But I also know I'm where I am today because our social safety net gave my mother the resources she needed to get back on her feet. She was lucky to live in a country that says, "Just because you're down, it doesn't mean you're out." And without those supports, I would never have had the opportunities that I've had in my adult life and probably wouldn't be sitting here today.

Yet today, our country's commitment to this basic creed is under fire. The middle class is out of reach for too many families who are living paycheck to paycheck. As we strive to build an economy that works for everyone and not just the wealthy, there are a few key policies that would go a long way toward rolling back income inequality in both the short and long terms. While these policies by no means represent all that must be done to address the current economic imbalance, they represent common-sense approaches that could help jumpstart our economy and increase opportunity for all Americans.

First, let's stop cutting those initiatives that are about helping people into the middle class. With the share of long-term unemployed workers near its highest point, we must extend emergency unemployment insurance, which provides millions of struggling families with a vital economic lifeline. And as we help these workers get back on their feet, we should be expanding—not cutting—job training, which is so crucial in helping the unemployed acquire the new skills they need to find work. We also need to restore recent cuts made to nutrition assistance programs such as the Supplemental Nutrition Assistance Program, or SNAP, which helps working families, veterans, and seniors who are struggling to afford food.

Raise the federal minimum wage

But beyond the budget, we should raise the federal minimum wage to \$10.10 per hour, as Sen. Tom Harkin (D-IA) has proposed. Currently, a full-time worker making the minimum wage

earns just \$15,080 per year.³ For a family of three, that is \$4,000 below the federal poverty line.⁴ Raising the minimum wage to \$10.10 would increase yearly earnings to \$19,777.⁵ It would directly raise the wages of 16.5 million American workers and would lift almost 1 million Americans out of poverty.⁶ These workers are not just teenagers. Nearly 90 percent of minimum-wage workers are 20 years old or older, and the average minimum-wage worker is 35 years old.⁷ About two-thirds of all workers who are paid minimum wage or less are women.⁸

We're already seeing businesses, such as the Gap, Costco, and Whole Foods, adopt this strategy because they understand that a fair wage is good for their companies' profits and reputations. Raising the wages of frontline workers helps minimize employee turnover, encourage hard work, and increase employee productivity, commitment, and loyalty.⁹ Cities, counties, and states, such as Washington, D.C.; Montgomery County, Maryland; and California, have also adopted measures to raise the incomes of their lowest-paid workers because they know that if workers can earn a living wage, it will help grow their local economies. More than half of the states that raised the minimum wage during periods of high unemployment saw their unemployment decrease over the next 12 months.¹⁰

It's no surprise, then, that the bulk of academic studies have found little to no effect on employment from raising the minimum wage at the level being discussed.¹¹ More than 600 economists, including seven Nobel laureates, confirmed this recently in a letter that supported an increase in the minimum wage.¹² They argued that it will improve our economy and create jobs and that recent academic research showed that "increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market."¹³

Raising the minimum wage isn't just smart policy for low-wage workers; this is smart policy for our entire nation. If all low-wage workers earn more, virtually every American business would have more customers, and every taxpayer would have to spend less on poverty programs. More spending in the local economy means more jobs, which in turn means stronger communities and a stronger economy.

Guarantee workers paid sick days and family leave

As the president said during the State of the Union, America succeeds when women succeed. Because the economy succeeds when women and their families succeed. Today, approximately 100 million private-sector American workers lack paid family leave to care for a new child or an aging parent.¹⁴ In fact, we are the only advanced nation in the world that does not guarantee mothers paid time off to care for a new child. As a leading nation, we need to adopt workplace policies that expand opportunities for both mothers and fathers. Middle-class parents need access to workplace policies such as paid sick days and paid family leave to ensure that they can balance the demands of parenthood with the demands of their jobs.

Low-wage workers and workers of color are especially out of luck. A whopping 80 percent of low-wage workers lack access to paid sick days,¹⁵ and 40 million Americans struggle with the choice between working while sick or losing a day's pay.¹⁶ Workers of color are more likely to find themselves in these types of low-wage jobs. Despite meaningful gains in employment and education, people of color continue to face inequality in the workplace—and the negative impacts of this inequality are passed on to their children. From higher levels of unemployment to even lower wages, their struggles highlight the need to adopt policies that allow for workplace flexibility.

Guaranteeing workers access to paid leave and sick days will help the working son care for his ailing father, a loving mother and father care for their newborn child, and the employee recover from a serious illness without financially suffering even more from life's unexpected twists and turns. It will increase labor-force participation, employee retention, and lifetime earnings, as well as increase the parental involvement of working fathers.¹⁷ Businesses will be able to attract higher-quality workers, reduce absenteeism and tardiness among employees, and reduce employee turnover.¹⁸ Offering paid leave and sick days to all Americans will provide security for our nation's workers, employers, and economy.

Ensure universal access to high-quality preschool

If we wish to address inequality in this country, we need to start at the origins of the educational achievement gap and invest in children from birth. Bold initiatives to expand universal access to

high-quality early education will combat inequality for the next generation and build the workforce our businesses need to compete in the global economy.

Researchers estimate that half of the achievement gap in high school can be attributed to children's experiences before age 5.¹⁹ Children begin learning at birth, and research has shown that the first signs of an achievement gap appear as early as 18 months of age.²⁰ This gap only widens throughout early childhood.²¹ By age 4, children of wealthier parents have heard 30 million more words than low-income children.²²

The good news is that we have proven tools to address this issue. We know that children who attend high-quality early childhood programs benefit throughout their lifetimes: They are more likely to graduate from high school, attend college, and earn higher wages as adults. A large federal investment in preschool, coupled with investments from birth in child care, home visiting, and Early Head Start, would greatly expand the number of low-income children who have access to high-quality early childhood programs and make headway in closing the school-readiness gap. Already, 40 states have implemented preschool programs.²³ Contemporary high-quality preschool programs in Tulsa, Oklahoma, and Boston, Massachusetts, have shown that in one year of attendance, children can make up six months to one year of learning in reading and math.²⁴ Similarly, evaluations of preschool programs across multiple states confirm large gains for children.

But states cannot do this alone. Despite more than a decade of state investments in preschool, states serve just 28 percent of 4-year-olds.²⁵ Preschool enrollment has increased among children nationwide, but the lowest-income and most-disadvantaged children continue to struggle for access to these programs. Among 3-year-olds in low-income families, only 42 percent of children participate in preschool programs.²⁶ Of 3-year-olds in middle-income families, this number falls to a staggering 34 percent.²⁷ Offering universal access to high-quality early education can ensure that all children, regardless of their backgrounds, start on a more level playing field, thereby combating inequality for the next generation of Americans.

Invest in public education

To help break the cycle of poverty and build the middle class, our commitment to education must extend beyond early childhood. While school funding is heavily dependent on state and local dollars, ensuring that our schools are fully funded is a national priority that demands a national response—especially with respect to low-income schools that cannot raise adequate funds from their own communities. Funding for grants administered through Title I of the Elementary and Secondary Education Act, the primary method by which federal funding is distributed to low-income schools, must be increased to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. We must also ensure that our teachers are soundly supported. Decades of research show that teachers and school leaders are the key in-school factors to improving student learning. Programs such as the Teacher Incentive Fund, or TIF, help districts and schools attract and retain talented teachers, as well as improve the instructional practice of teachers already in the classroom and address the shortage of effective teachers in math and science.²⁸

Train our workforce to compete in the global economy

To address income inequality, funding quality public education alone is not enough. We need to make sure we're building the workforce that our businesses need to compete in the global economy. Unfortunately, our workforce training system is woefully out of date and underfunded. It should help workers build long-term skills, not just push them into the first jobs they find. Training partnerships such as apprenticeships are a great place to start.

Apprenticeships are a structured form of paid worker training that have been shown to boost workers' earnings and raise sponsoring companies' productivity levels. Apprenticeships benefit workers by connecting them with a paid job now while providing them with valuable workforce skills. This is especially important for young people, as the unemployment rate for Americans under age 25 is still at an astonishing 11.9 percent among youth ages 20 to 24.²⁹ In many apprenticeship programs, apprentices can earn college credit for their coursework and on-the-job training. The prospect of debt-free education is particularly appealing to young people today, who are facing college costs that have increased by 250 percent for public four-year universities³⁰ in the past three decades and an average student-loan balance of \$25,000.³¹

Expanding the U.S. apprenticeship system, both in numbers and occupational opportunities, would strengthen the American economy by helping businesses meet the demand for skilled workers while offering workers higher wages and better employment outcomes.

Invest in scientific research

Ensuring American businesses have a fully trained workforce is a critical step toward ensuring our country can compete in the global marketplace. But to truly boost competitiveness, we must also redouble our commitment to funding scientific research and development.

World-class research is a major source of our nation's economic strength. In fact, economists believe that up to half of the United States' economic growth since World War II can be attributed to innovation.³² Groundbreaking technologies, such as the Internet and the Human Genome Project, were developed in part as a result of federally funded research.³³

Many significant scientific discoveries begin as basic research that can take decades to fully develop. Because the commercial applications of this research may not be initially apparent, private industry often lacks the incentive to invest in research and development projects. Without federal funding, much of this research might never take place.

Despite the critical role the federal government plays in promoting innovation, recent cuts to investments in scientific funding have put our long-term competitiveness at risk. In this fiscal year alone, federal funding for the National Institutes of Health and the National Science Foundation has been slashed by almost \$800 million below last year's levels.³⁴ These cuts jeopardize critical advancements in medical and other scientific research. To ensure America remains a leader in the technological innovation that is so critical to economic growth, Congress must reverse this trend and invest more heavily in scientific research and development.

Conclusion

The policies I've outlined—raising the minimum wage, guaranteeing workers paid sick days and family leave, funding high-quality public education at every level starting with universal pre-K,

creating training partnerships to help build a highly qualified workforce, and investing in research to help boost U.S. competitiveness—are not only good for individuals, families, and communities; they’re also essential for our economy. There is no single silver bullet to get our economy working again and to roll back decades of rising income inequality. But there is no doubt in my mind that a rising, thriving middle class is the true engine of America’s economic growth—not just a consequence of it.

Strengthening the middle class is all about developing and empowering our most precious resource—our people. It’s about creating a stable source of demand for goods and services. It’s about incubating the next generation of entrepreneurs who can change the way we look at and interact with the world. Above all, it’s about an economy that allows anyone to succeed and propel our nation forward. It’s a simple formula: Raise the wages of workers today, give children a fairer shot out of the gate, improve opportunities for young people to learn and hone their skills, and provide sufficient resources to help boost U.S. competitiveness.

Thank you, and I look forward to answering your questions.

Endnotes

¹ Congressional Budget Office, “The Budget and Economic Outlook: 2014 to 2024” (2014), available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf.

² Ibid.

³ David Cooper, “Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost” (Washington: Economic Policy Institute, 2013), available at <http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/>.

⁴ Families USA, “Federal Poverty Guidelines,” available at <http://www.familiesusa.org/resources/tools-for-advocates/guides/federal-poverty-guidelines.html> (last accessed February 2014).

⁵ Cooper, “Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost.”

⁶ Congressional Budget Office, “The Effects of a Minimum-Wage Increase on Employment and Family Income” (2014), available at <http://www.cbo.gov/publication/44995>.

⁷ David Cooper and Dan Essrow, “Low-wage Workers Are Older Than You Think,” Economic Policy Institute, August 28, 2013, available at <http://www.epi.org/publication/wage-workers-older-88-percent-workers-benefit/>.

⁸ David Madland and Keith Miller, “Raising the Minimum Wage Would Boost the Incomes of Millions of Women and Their Families,” Center for American Progress Action Fund, December 9, 2013, available at <http://www.americanprogressaction.org/issues/labor/news/2013/12/09/80484/raising-the-minimum-wage-would-boost-the-incomes-of-millions-of-women-and-their-families/>.

⁹ John Schmitt, “Why Does the Minimum Wage Have No Discernible Effect on Employment?” (Washington: Center for Economic and Policy Research, 2013), available at <http://www.cepr.net/documents/publications/min-wage-2013-02.pdf>.

¹⁰ T. William Lester, David Madland, and Jackie Odum, “Raising the Minimum Wage Would Help, Not Hurt, Our Economy,” Center for American Progress Action Fund, December 3, 2013, available at

<http://www.americanprogressaction.org/issues/labor/news/2013/12/03/80222/raising-the-minimum-wage-would-help-not-hurt-our-economy/>.

¹¹ Michael Reich, “The Troubling Fine Print In The Claim That Raising The Minimum Wage Will Cost Jobs,” ThinkProgress, February 19, 2014, available at <http://thinkprogress.org/economy/2014/02/19/3307661/cbo-minimum-wage-methodology/>.

¹² Economic Policy Institute, “Over 600 Economists Sign Letter in Support of \$10.10 Minimum Wage,” available at <http://www.epi.org/minimum-wage-statement/> (last accessed February 2014).

¹³ Ibid.

¹⁴ U.S. Bureau of Labor Statistics, “Table 32. Leave benefits: Access, private industry workers, National Compensation Survey, March 2013,” available at <http://www.bls.gov/ncs/ebs/benefits/2013/ownership/private/table21a.htm> (last accessed February 2014).

¹⁵ Eileen Appelbaum, “Paid Sick Days: A Win for Employees and the Economy,” Spotlight on Poverty and Opportunity, June 6, 2011, available at <http://www.spotlightonpoverty.org/ExclusiveCommentary.aspx?id=4c4cc307-20b6-44ea-81c2-0712411c3e70>.

¹⁶ Ibid.

¹⁷ Heather Boushey, Ann O’Leary, and Alexandra Mitukiewicz, “The Economic Benefits of Family and Medical Leave Insurance” (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/wp-content/uploads/2013/12/PaidFamLeave-brief.pdf>.

¹⁸ Ibid.

¹⁹ Michael Sadowski, “The School Readiness Gap,” *Harvard Education Letter* 22 (4) (2006): 1–2, available at <http://hepg.org/hel/article/307#home>.

²⁰ Jack P. Shonkoff and Deborah A. Phillips, eds., *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington: National Academies Press, 2000).

²¹ Ibid.

²² Betty Hart and Todd R. Risley, “The Early Catastrophe,” *Education Review* 77 (1) (2004): 100–118.

²³ W. Steven Barnett and others, “The State of Preschool 2012: State Preschool Yearbook” (New Brunswick, NJ: National Institute for Early Education Research, 2012), available at <http://www.nieer.org/publications/state-preschool-2012>.

²⁴ Hirokazu Yoshikawa and others, “Investing in Our Future: The Evidence Base on Preschool Education” (Ann Arbor, MI; and New York: Society for Research in Child Development and Foundation for Child Development, 2013), available at http://www.srcd.org/sites/default/files/documents/washington/mb_2013_10_16_investing_in_children.pdf.

²⁵ Barnett and others, “The State of Preschool 2012.”

²⁶ Ben Olinsky, “6 Policies to Combat Inequality,” Center for American Progress, January 28, 2014, available at <http://www.americanprogress.org/issues/economy/news/2014/01/28/82929/6-policies-to-combat-inequality/>.

²⁷ Cynthia G. Brown and others, “Investing in Our Children: A Plan to Expand Access to Preschool and Child Care” (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/education/report/2013/02/07/52071/investing-in-our-children/>.

²⁸ For more information, see Robin Chait and Raegen Miller, “Paying Teachers for Results” (Washington: Center for American Progress, 2009), available at <http://www.americanprogress.org/issues/education/report/2009/05/18/6127/paying-teachers-for-results/>.

²⁹ Adam Hersh, “Job Growth Still Overwhelmed by Severe Unemployment,” Center for American Progress, February 7, 2014, available at <http://www.americanprogress.org/issues/labor/news/2014/02/07/83846/job-growth-still-overwhelmed-by-severe-unemployment/>.

³⁰ “Advance postsecondary education.” In Jennifer Erickson and Michael Ettlinger, eds., “300 Million Engines of Growth: A Middle-Out Plan for Jobs, Businesses, and a Growing Economy” (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/wp-content/uploads/2013/06/ProgressiveGrowthSECTION1CHAPTER2.pdf>.

³¹ Federal Reserve Bank of New York, “Student Loan Debt by Age Group,” available at <http://www.newyorkfed.org/studentloandebt/> (last accessed February 2014).

³² Kwame Boadi, “Sequestering American Innovation” (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/12/09/80686/sequestering-american-innovation/>.

³³ Ibid.

³⁴ Harry Stein, “The Omnibus Spending Bill Reveals the Economic Consequences of the Murray-Ryan Budget Deal,” Center for American Progress, January 17, 2014, available at <http://www.americanprogress.org/issues/budget/news/2014/01/17/82484/the-omnibus-spending-bill-reveals-the-economic-consequences-of-the-murray-ryan-budget-deal/>.