A Union of Professionals

Building a 21st-Century Economy for All: Recommendations on Good Jobs, Fair Funding and Quality Public Services

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OUR CALL

The effects of the Great Recession continue to limit America's economic growth and the security of our families. Almost 20 million Americans who want a job do not have one. In particular, our failure to create jobs harms our communities and diminishes our future. Joblessness drives budget deficits and robs us of the resources needed to move the economy forward and help bind the wounds caused by the recession.

This situation demands direct action. Yet the federal government and too many states are turning toward policies that disinvest rather than fighting to create an economy that will work for all. In the face of this trend, we stand for the creation of an American economy that is ready for the 21st century, an economy that not only preserves a middle class, but also opens doors to that middle class. Action to create this economy must start with a focus on jobs and public investments that will strengthen us in the long term. We believe that:

- Federal, state and local governments should take immediate action to create jobs.
- Investments in public services are needed to create the economy we want.
- Given scarce resources, all of us must work to ensure that investments in public services are well spent.
- Our union must be a partner with our communities to move forward.

Good Jobs Are the Problem, and Good Jobs Are the Answer

Our efforts to build a more just society will fail if we do not focus on jobs today. Unemployment causes loss of dignity, health and income with consequences that echo across generations. Joblessness creates challenges for society as a whole, including the cost of providing services to help families in need. Finally, the lack of good jobs is causing a direct reduction in the public resources available to help move America forward. One-fourth of our federal budget deficit is driven by unemployment. At the state level, if California had maintained the same percentage of manufacturing employment that it had just 20 years ago, it would have no fiscal crisis today.

Since 2008, states have closed budget gaps totaling more than a half trillion dollars, leading to massive cuts in education, healthcare and other services. The recession has kept us from investing in the infrastructure necessary to launch a sustained recovery. Failure to modernize our water, electrical, mass transit and other systems costs hundreds of billions of dollars each year. Failure to invest in our workforce and in educating our children costs us more. Despite these needs, almost 20 million of us are out of work. We have allowed the recession and its concomitant politics to prevent us from investing in a platform for real economic growth. We need to act. Our goal is to create a virtuous circle where revenues are invested in services and projects that support the creation of good jobs and economic development, leading to a more prosperous future for all.

A Crossroads

Some argue that America must systematically retrench its public services in light of the recession, and that such cuts constitute a "new normal." In this view, jobs will be created by tax cuts for the wealthiest. One premise of this argument is that public employee pay and benefits are preventing us from creating jobs, with Gov. Scott Walker of Wisconsin calling public employees "the haves" and taxpayers "the have-nots." This is not true. Public workers have seen total job losses of 600,000 since 2008. There have been pensions and benefits cuts in at least 43 states, and furloughs in state and local employment in at least 34 states. Workers in hundreds of AFT locals have given up raises, endured pay or benefits cuts or taken on a greater share of paying for those benefits. In some school districts and state offices, these cuts have saved positions and kept services flowing. But, this crisis is too big to simply cut our way out.

While public workers are making unprecedented sacrifices, 12 states actually cut taxes in 2011, largely helping the richest Americans. These tax cuts compound the harm done to the public services that people need, while further enriching those who have been harmed the least by the recession. For example, Michigan eliminated the state's major business tax, while cutting K-12 per-pupil funding by more than $400 and support for state universities by 15 percent. Wisconsin enacted over $200 million in new tax cuts, much of it for corporations and the wealthy, while cutting schools by $1.8 billion. New Jersey made $107 million in corporate tax cuts while also planning on cutting 23,000 patients from Medicaid.

These changes came despite evidence that investment in public services is a more effective way to stimulate the economy than tax cuts for the wealthy. Continuing on this course will make us a meaner and poorer nation. America already suffers from too much economic inequality. In 2007, the wealthiest 10 percent of us owned 73 percent of the nation's wealth. The poorest 60 percent owned just 4.3 percent of the wealth. Rewarding the rich while failing to make investments to create opportunity for all is the low road. We stand for a different road. What follows are recommendations on investments in jobs and a 21st-century economy, on improving efficiency of public service and on fairly paying for the services we need.

A JOBS AGENDA

In developing our recommendations, we draw on the efforts of partners and allies, the American Jobs Act and ideas that President Obama offered in his 2012 State of the Union address. This agenda should be seen as part of a conversation, not our last word. We are open to any ideas that can contribute to a national effort to create the jobs we need.

Modernize Our Public Infrastructure

The American Society of Civil Engineers (ASCE) has said that no part of America's public infrastructure earns a grade better than "C," with the cost of repairing the system to be $2.2 trillion. Our water systems waste more than 7 billion gallons of water each day, costing $3 billion a year. Airport and air traffic control inadequacies waste of up to 750 million gallons of jet fuel each year. We lose almost 10 percent of the electricity we place in our power grid, and power outages alone cost us between $25 billion and $180 billion per year. Inadequate transit infrastructure costs us another $115 billion in wasted time and fuel. But, at the same time, 2 million fewer jobs in construction are available today than in 2007.

The $2.2 trillion identified by the ASCE is simply what is necessary to maintain the economic base we have inherited. The AFL-CIO estimates the cost of creating a truly 21-st century infrastructure to leave to the next generation at an additional $2 trillion. Yet we have allowed the recession and its concomitant politics to prevent us from making the investments necessary to build a platform for real economic growth. Accomplishing this is essential to maintaining America's strength and global competitiveness, and it is a way to create needed jobs.

- **Rebuild Schools.** Research shows a correlation between the quality of school facilities and student attendance and achievement. Yet it appears that state and local government has begun reducing investments. The proposed American Jobs Act includes a $30 billion program to renovate 35,000 schools and community colleges. State and local governments should make additional investments through bonds or other means.
- **Energy Efficiency.** Western Michigan University, where the AFT represents instructors and graduate employees, has one of the first revolving loan funds for energy-efficient modernizations to campus facilities. Programs like this can pay for themselves in just a few years, saving energy and putting people to work. Oregon has implemented a "Cool Schools" initiative to help finance these modernizations in K-12 facilities. Every state should support such efforts across their public infrastructure.
- **Build it Here.** Infrastructure investments should maximize job creation in our communities. For example, Pennsylvania requires that each state construction contract mandate the use of American-made steel. According to the Alliance for American Manufacturing, such provisions are in keeping with World Trade Organization practices and U.S. law.

Retain Public Sector Workers

Since the start of the recession, more than 600,000 jobs have been lost in the public sector, and that number continues to rise. The loss of these jobs is hurting services like schools and transportation, limiting our ability to build for the future. It also has more immediate harmful ripples as these workers are placed on the economic sidelines. In Texas, for example, one study indicates that for every five jobs lost in public education, seven are lost in the private sector. President Obama has proposed funding to put more teachers and education employees back in schools and to protect the jobs of first responders. This is an important step, but state and local governments should also work to minimize layoffs and protect services.

Address Youth Employment and Support At-Risk Students

Since the start of the recession, more than a quarter of teen jobs have been lost, partly through cuts to jobs programs. The consequences of failing to provide youth with positive work experiences include lower incomes, less stable attachment to work and lower levels of skill development. Similarly, funds for social services and interventions that can keep students in schools are being cut. The American Jobs Act contains a fund to support jobs programs for young workers, which is a good start. State and local governments should seek to create a dedicated revenue source to pay for youth employment programs and community school programs for students and their families. Dedicated funding streams can provide stability so these programs—which are needed more than ever in tough times—aren't the first thing cut when budgets are tight.

Put People Directly to Work

Until the 1970s, our government traditionally provided some jobs directly to the unemployed during tough times. Such programs are sometimes criticized as "make work," yet during the Great Depression, they created schools, roads and dams, as well as treasured works of art and historical projects. As long as such programs do not displace current workers, the AFT welcomes qualified personnel into our work sites to provide needed services. One of the most effective programs for improving reading instruction, for example, is one-on-one tutoring. An approach similar to the existing Title I program could recruit and train qualified paraprofessional tutors, with a focus on employing some of the 3 million unemployed Americans with at least an associate's degree. This program would create jobs and directly address the impact of rising poverty on our children's performance in school.

Make Every Job a Good Job

Rebuilding the pathway into the middle class requires not just jobs, but good jobs. Action here will enhance workers' dignity, build secure families and improve our quality of life.

- **A Living Wage.** Today's federal minimum wage won't keep a family with children out of poverty. In fact, a family with a single mother and one child needs more than $30,000 in income to provide a basic family budget, which equates to a wage of almost $15 an hour. We need to move toward living wages for all workers.
- **Paid Leave.** Currently, 40 percent of private sector workers lack paid sick leave. In addition, 46 percent of workers are not eligible for even the unpaid benefits offered under the Family Medical Leave Act (FMLA). Connecticut now requires employers to provide paid sick days. Other states have addressed the FMLA's shortfalls by passing paid family medical leave laws and broadening access to leave.
- **Contractor Misclassification.** In some states, more than one-third of employers misclassify employees as independent contractors. These workers are denied family medical leave, workers' compensation, and the right to form a union. California and Nebraska have increased penalties and auditing requirements to address this abuse.
- **Retirement Security.** The baby boom generation may be the first in U.S. history to have a lower standard of living in retirement than their parents. Preserving Social Security, stabilizing pension funds and broadening access to pensions will rebuild national savings and preserve a decent standard of living for older Americans. Doing so will also grow the economy: Spending by public pension recipients supports 2.5 million jobs and saves $7.5 billion in annual public spending on income supports for retirees who would otherwise live in poverty.
- **Workers' Voice.** The decline in unionization is a direct cause of stagnant wages, rising inequality and economic insecurity. At the state level, the right to bargain should be extended to as many workers as possible, including nontraditional groups like domestic workers, taxi drivers and child care workers. In addition, the federal government should take action to end systematic employer abuses of the spirit and letter of the National Labor Relations Act.

Make Economic Development Subsidies Accountable

Each year, state and local governments spend more than $50 billion on subsidies to corporations with the stated goal of creating jobs. In practice, too little of this money is used to create good new jobs, and there is not enough accountability for its use. Too often, our public investment goes to create jobs at large employers such as Wal-Mart that provide such poor benefits that we pay even more in services like Medicaid to support the workers and their families. States can change the way they do business by requiring companies to report on jobs created with subsidies and requiring that subsidies go for good jobs. States can hold companies accountable if they don't keep their promises.

Build Our Long-Term Economic Infrastructure

Investing in a 21st-century economy in manufacturing, transportation, research, energy and other sectors can put people to work in the short term and turn around the economy in the long term.

- **Pension Investments.** The AFT has begun work with other unions, the Clinton Global Initiative and several pension funds to create investment vehicles in renewable energy and other areas. The California State Teachers' Retirement System and the California Public Employees' Retirement System are exploring a commitment of more than $1 billion for this effort.
- **Targeted Public Investment.** States can support key industries that drive economic development. Then Michigan Gov. Jennifer Granholm signed a 2008 law creating investments in batteries, solar and wind energy, leading to an estimated 60,000 jobs. Connecticut Gov. Dan Malloy has led an effort to build a biomedical research infrastructure. AFT's partner, the BlueGreen Alliance, recommends federal action to retool the automobile industry to produce more efficient cars and to encourage the development of renewable energy sources.
- **Create an Infrastructure Bank.** The American Jobs Act includes a provision to create a $10 billion fund to provide low-interest financing for a variety of public and private infrastructure efforts. The fund would be used to leverage private investment into major infrastructure projects that would not otherwise get off the ground. If the federal government cannot create such a bank, a state or group of states should take action.
- **Provide Technical Assistance.** Two of the most successful ways states can help create jobs are by providing technical assistance to small and mid-sized companies in trouble from the economy and by providing targeted training to already employed workforces that need to develop new skills.

Help Families Stay in Their Homes

In 2010, there were 2.9 million foreclosures in the United States. Almost 15 million homes are "under water," meaning they are worth less than the value of the mortgage. Continued trouble in housing is limiting our recovery and hindering job creation. Foreclosure's consequences include increased risk of illness and homelessness. Students who change schools multiple times during their academic career are more likely to repeat a grade and have behavioral problems which can affect their peers. This makes foreclosure an education issue.

The best solution to the housing crisis is to keep people in their homes. Congress should act on President Obama's proposal to assist "under water" homeowners who have been unable to refinance, despite record low interest rates. States also should require loan servicers to provide information on forestalling foreclosure to homeowners, to offer mediation and to pay a fee to help offset the public costs of foreclosure. Homeowners should have access to counseling. Renters who become victims of foreclosure on their landlords' homes also should be protected, at a minimum by increasing the required notice before foreclosure eviction can occur.

Invest in Innovation

In addition to revitalizing our economic and human infrastructure, America needs to invest in innovation, encouraging more Americans to put their talent and inventiveness to work. Several of the proposals in this report, including making targeted investments in promising sectors, and keeping college affordable and functioning incorporate this theme. Additional policy areas would include:

- **Invest in real small business development.** Approximately 20 million American businesses have less than $35,000 in capitalization and fewer than five employees. Sometimes referred to as microenterprises, these are the real small businesses. States can support their growth and creation by providing technical assistance and access to credit. They can also follow the example of Nebraska's Advantage Microenterprise tax credit program. This program, which is capped at $2 million per year in total expenditures, provides credits of up to $10,000 to support creation or expansion of microenterprises.
- **Invest in Research and Development.** Knowledge is a key element of our economic infrastructure, and advances in research build on themselves, stimulating additional innovations. Yet the impetus at the federal level is for disinvestment in science and technology. States are similarly cutting higher education. We should

reverse these trends and take steps to promote research and development in the private sector via grant programs and other direct investments.

- **Encourage public sector innovation.** One of the chief sources of innovation in any firm is its workforce. The AFT Innovation Fund, a program of our union, is designed to give AFT members the opportunity to try new ideas to improve the quality of the services they provide. The AFT Innovation Fund has led to the creation of new online tools to help teachers understand the Common Core State Standards, programs to help students graduate from high school on time and improving teacher evaluation. States can replicate this idea by creating their own innovation programs, offering grants to support the piloting of innovative ideas by teams in their workforce.

Help Workers Develop Skills and Education

America will not fulfill its promise as a land of opportunity without improving the educational attainment and skills of our workforce. To do so, we must invest in public higher education and career and technical programs.

- **Access to Higher Education.** More than 70 percent of students who drop out of community colleges say that the need to work contributed to their decision, and about a third identify cost as a direct reason for dropping out. As a result, over the past five years, nearly $4 billion in public funds was spent on educating community college students who dropped out. We must ensure that all students have access to an affordable education. At the federal level, the maximum Pell Grant and the program's goals must be maintained, and states must work to prevent tuition increases.
- **Stabilize the Quality of Higher Education.** At least 42 states have cut budgets for higher education or raised tuition during the fiscal crisis, despite rising enrollments. At a time when more students than ever are turning to education, institutions lack the resources to provide an educational experience that will lead to increased college completion and student success. Many colleges have limited course offerings, overcrowded classes, and little counseling and guidance. States and localities must return to the ideal that an investment in public higher education is an investment in their communities, their state and the economy.
- **Maintain Career and Technical Education (CTE).** Even though youth employment is in crisis, states and school districts are cutting CTE programs that have helped students graduate, earn college credits and obtain training for good jobs. Funding for the Perkins Act—the basic federal vehicle for funding CTE programs—also has been cut.
- **Revitalize CTE.** Another promising approach is to strengthen links between CTE programs and workplaces, blending technical education with real-world experience. For example, the Chicago Teachers Union and the Chicago Manufacturing Council are partners at Austin Polytechnical Academy, helping students earn industry-recognized credentials using the latest technology. At the federal level, the proposed Education for Tomorrow's Jobs Act would support programs that combine college preparation with workplace experience. The act would help districts and local stakeholders create a system of schools around designated career themes.

IMPROVING THE EFFECTIVENESS OF PUBLIC SERVICES

When taxpayers entrust the public sector with their money, public employees and their unions have a responsibility to see that those funds are well used. This committee's previous work made specific recommendations in the area of pensions. What follows are additional recommendations for how to improve the effectiveness and efficiency of the public sector at the state and local levels.

Labor-Management Cooperation

Unions traditionally have helped translate frontline workers' expertise and insight into better quality and efficiency of work, for example by improving communications and providing safe means for workers to voice concerns. Many preK-12 AFT affiliates have been leaders in using labor-management cooperation to improve quality. Outside of education, state employees, in Connecticut for example, have used labor-management committees to work on strategies to improve the efficiency and effectiveness of their work. Many of the reforms outlined in this report can best be accomplished using a collaborative process. Given that labor-management cooperation is only as effective as the willingness of both partners to work together, you cannot mandate it, but you can encourage it. We recommend that state and local governments create pathways and incentives for labor and management to come together to better address the challenge of providing high-quality services in a time of scarcity.

Improve Revenue Collections

Every year, states fail to collect billions in revenues because of tax evasion and inefficient tax systems. These "tax gaps" account for a sizable share of state budget deficits—billions of dollars in some states—and widespread noncompliance sends a negative message that can undermine the legitimacy of the entire tax system. States can take a number of actions to narrow tax gaps.

- **Maintain and enhance enforcement.** Minnesota has found that every dollar invested in improving collection efforts led to $7 in new revenue. Strategies to maximize collection include better use of data analysis, improved tracking of tax expenditures and nonfilers, increased sanctions and targeting of serially delinquent filers.
- **End Misclassification.** As noted, misclassification of employees as independent contractors is a widespread problem. It is also a form of tax avoidance, and addressing it will save the state funds. Targeted audits in California over two years led to the recovery of $170 million in taxes, fees and fines.
- **Collect fees on real estate transactions.** At the start of the housing boom, a consortium of bankers created the Mortgage Electronic Registry System to keep track of which bank owned which mortgage. These banks claimed that when they sold mortgages among themselves, no fee needed to be paid to the local government agencies that traditionally keep track of title. Since then, a number of counties have initiated legal action against the mortgage bankers to recover fees and penalties. States and local governments should be encouraged to take similar action.

Reform Healthcare

Health insurance costs are currently 11 percent of state and local government employee compensation, and rising. AFT affiliates have worked to control healthcare costs in a variety of ways, including:

- **Better Pooling.** Education Minnesota has championed a plan to pool healthcare purchasing for every school district in the state, which would save an estimated $60 million in its third year of operation.
- **Wellness.** By emphasizing early identification of problems, preventive care and healthy habits, our members will lead healthier lives, which in turn can lower healthcare costs. Researchers have found that medical and absenteeism costs fall by as much as $6 for every dollar spent on wellness.
- **Direct Provision of Services.** A number of unions are exploring providing certain medical services directly to workers. Within the AFT, our local in Anderson, Ind., uses a Community School Employee Health Center. West Palm Beach, Fla., recently opened an on-site clinic for city employees, based on studies indicating that every dollar spent will lead to a $2 reduction in costs.

Reduce Teacher Turnover

Thirty-three percent of new teachers leave teaching within the first three years; within five years, nearly half of all new teachers have left the profession. Turnover rates are even greater in high-poverty urban schools. The National Commission on Teaching and America's Future estimates that this turnover costs $7.3 billion per year. Reducing turnover among newer teachers can potentially save billions in personnel costs. By stabilizing the teaching force, we can benefit students and save additional billions in remediation costs. Among the practices that can help reduce this churn are induction programs, teacher residency programs and better recruiting.

Invest Wisely in Our Children's Futures

We know that education can promote equality of opportunity. We tend to think of this in human terms—such as improved prospects for children's future—but there is an economic rationale for investments as well. Children who don't complete high school will have lower earnings, be more dependent on social programs, and are more likely to be incarcerated. Investing in programs that have been shown to improve graduation rates can produce substantial long-term financial benefits to communities. Among the programs with proven track records are class-size reduction, high-quality early childhood education, community schools, and small learning communities for at-risk high school students. In each instance, research indicates that investments can return at least $2.50 in benefits for each dollar spent.

Better Accountability for Privatization

State and local governments reportedly contract for more than $400 billion worth of goods and services each year, an amount equal to approximately 21 percent of their general spending. Many studies, from different states and of different services, have shown that privatization has not delivered promised cost savings or stability in provision of services. In many cases, it has actually raised the cost of services.

State and local governments must apply rigorous cost-benefit analysis requirements to the contracting process and create rules to hold contractors accountable for meeting their obligations. California, Connecticut, Illinois, Massachusetts and Oregon are among the states with effective laws requiring cost-benefit analyses.

REVENUES AND TAXES

We can't put people to work now or create a pathway to a better future without adequate funding for schools, transportation, healthcare and other services. To do that, we need to enhance state and local revenues. We will not fully be able to put our budgets in order until America is back at work, but we need to responsibly fund those public investments that can help achieve this goal. The bottom line is that we must find better ways to fund the essential public services our citizens depend on. The suggestions below are intended to address the need for more funding in ways that modernize our overall tax systems.

Income Tax Changes

Even before the Great Recession, income inequality in the United States was at an all-time high, and our state and local tax system added to that inequality by taxing the richest at a lower rate than it taxes the poorest. We believe in shared responsibility, including the idea that the richest should assume a larger share of the tax burden than the poorest citizens. States should raise income taxes on those who can most afford to pay. That includes increasing tax rates on people making more than $250,000 a year and treating capital gains as ordinary income so that workers' wages aren't taxed at a higher rate than the earnings of investors. States should also restore estate taxes on inheritances over $1 million.

At the federal level, Congress should enact the "Buffet Rule," named after billionaire Warren Buffett's contention that he should pay the same overall tax rate as his secretary. This means changing the treatment of capital gains in particular, so that those making over $1 million a year have a 30 percent tax rate on their total income. Those states that don't treat capital gains as ordinary income also should make this change.

Corporate Tax Reform

If Fortune 500 corporations paid state taxes based on the profits they reported to their shareholders, the amount of corporate taxes collected would triple. But the reality is that each year, by using tax avoidance schemes, many very profitable companies don't pay any state taxes. While legal, these practices have lowered revenue collections, in a manner that benefits the richest. At the federal level, we can end tax breaks that reward outsourcing of American jobs overseas. We also should adopt President Obama's proposal to create a minimum corporate tax for multinational corporations. States can take a number of additional steps to limit these practices as well:

- **Enact Combined Reporting.** Combined reporting requires all of a corporation's subsidiaries to be treated as a single unit for purposes of taxation. This prevents companies from creating transactions among subsidiaries that are simply designed to shelter revenue. Twenty-three states now use combined reporting. States with combined reporting can then take the additional step, as Montana has done, of requiring companies to report income they have sheltered overseas in known tax havens, such as the Cayman Islands.

- **Limit "carry backs" of losses.** Nineteen states allow corporations to revise tax returns for past years when they have a bad year, allowing them to restructure their income across years in order to lower their tax liability. This can create large tax refunds to profitable corporations at times when public budgets are especially vulnerable. The loophole should be eliminated.
- **States should enact a minimum corporate tax.** This would establish a floor so that profitable companies could not get away with paying no state taxes.

Sales and Use Taxes

The sales tax provides about 30 percent of state revenues, and that amount has been shrinking over time, as a result of changes in the economy, particularly the rise of online purchasing and a shift toward increased use of services. Even though customers are required to pay tax on online purchases, electronic retailers like Amazon.com have no current obligation to collect that tax unless they have a physical presence in that state. States are losing more than $10 billion a year in uncollected revenue as a result. Federal legislation, such as the Marketplace Fairness Act, would require collection of these taxes. States also can take direct action to limit how companies such as Amazon can use subsidiaries or other tactics to avoid an obligation to collect sales taxes.

States should take additional actions to broaden their sales tax base. Most states apply their sales tax to less than a third of the services that consumers use in their states. Extending the tax to professional services, landscaping, leisure or other services could increase revenues and make the sales tax system more stable.

Financial Transaction Tax

Since 1970, the financial sector has doubled its share of the American economy accounting for a major share of our overall economic growth. Americans pay sales taxes on transactions for goods; and they pay excise taxes on gasoline, alcohol and cigarettes. Financial transactions are not subject to these taxes. A transaction tax covering stocks, bonds, futures, interest rate swaps and credit default swaps would broaden the base of the revenue system, match it more closely to the current dynamics in the economy and fairly generate needed revenue. A proposal now in Congress to do this would raise $350 billion over nine years. This would help stabilize the federal budget situation, and, given that 20 percent of state and local revenues come from federal sources, it would help stabilize the provision of services in the public sector.

CONCLUSION

With almost 20 million Americans out of work, we need jobs and public services to support all families for the short term. For the longer term, we must invest in schools, transportation, research, public safety and healthcare. Repairing our crumbling infrastructure will save us billions of dollars and create a platform for sustainable economic growth. Such investments, done right, will give us a more productive workforce, healthier citizens and a more vibrant economy. Investment matters, and the fiscal crisis should not deter us from making the choices we need to secure our future. Failure to address the crisis in jobs and to build for the long term has the potential to scar our economy and society for a generation. For those who say we cannot afford to invest, we say we cannot afford not to.