

Alan Khazei's Approach to *Big Citizenship*:
A Blueprint for American Policy

Creating Jobs & Growing the Economy

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Guiding Principles

- For the majority of the 20th century, the United States was the economic and cultural leader of the world. The only way to recover our economic prosperity is by building sound financial policies that will lead to stable and sustained growth.
- The only way out of our current recession is to create jobs and empower Americans to start spending again. Consumer spending historically contributes nearly 60% to real GDP within the first year of economic recoveries.
- We need to do more to put more money in the hands of our strongest consumers: working families. Doing so means ensuring good wages to support a family. It also means creating an opportunity society that lifts up the 37 million Americans living in poverty – and one in eight currently going hungry – by improving the public education system and providing access to lifelong training for workers to seize the opportunity of our emerging industries.
- The last three years have taught us that we must strengthen the oversight of our financial system to protect consumers from reckless investments and investors.
- The government must ensure that credit is really moving, that families and small businesses can get the loans they need to sustain commerce in our towns and cities, and revive investment in our housing market.
- The U.S. must continue to focus on long-term fiscal stability, and develop a plan to reduce the deficit and avoid leaving trillions of dollars of debt to our children and grandchildren.

Key Facts

- At 10.2%, the current unemployment rate is the highest it's been in 26 years, and the real unemployment rate is higher since many workers have stopped looking for jobs. We have sustained major job losses for 22 straight months, which has not happened since the Great Depression.
- More than 90 million Americans live on less than twice the poverty level and the gap between rich and poor is the widest it has ever been.
- Our workforce training and development system is not meeting the needs of those Americans who are underemployed or who have lost their jobs. Nor is it meeting the needs of employers seeking nimble 21st century skilled talent.
- In the past two years, home foreclosures in Massachusetts have jumped by 60%.
- Each citizen's share of the national debt is nearly \$40,000, and the debt's total size is expected to increase by almost \$2 trillion this year alone.

Positions

Target Job Creation

With employment now in the double digits, the families and businesses of our Commonwealth are hurting. Alan understands that the best social program is a good job. As Senator, he will fight to create new jobs in Massachusetts, and will work to ensure that all workers can earn a good wage so they can achieve the American dream.

Alan believes there are innovative solutions to create the jobs we need and that many of those solutions are being piloted right here in Massachusetts. Alan's goals are to stimulate and reward job creation as quickly as possible, to leverage the Commonwealth's abundant intellectual capital and entrepreneurial drive to create new jobs, and to invest in education to make sure our enterprises have the skilled workforce they need to succeed.

To accomplish these goals, Alan has developed a 6-point plan to create good paying jobs in Massachusetts and across America and to ensure that we are investing in our educational institutions to develop a workforce equipped with the 21st Century skills required to fill future demands for these jobs.

1. Stimulate and reward job creation with Job Creation Tax Credits.

Alan supports investing in a Jobs Creation Tax Credit, where employers would receive a refundable tax credit of 15% of salary for 2010 and 10% for 2011 for all new jobs created (up to a salary of \$106,000), as well as incremental wages paid or hours worked from current employees.

Analysis conducted by the nonpartisan Economic Policy Institute has forecast that implementing a New Jobs Tax Credit would create between 2.5 to 5.0 million jobs over two years. When applied to Massachusetts, these forecasts predict the New Jobs Tax Credit would create between 50,000 and 100,000 new jobs for the Commonwealth.

EPI economists estimate the cost of this program at \$5,400 per job created or between \$13.5 and \$25 billion over 2 years. This investment will pay for itself in the form of economic growth, increased tax revenues, and a decrease in social costs associated with sustained unemployment.

2. Support entrepreneurs and small businesses.

Small businesses are the engine of our economy – they are our innovators, our creators, and our entrepreneurs. Between 1993 and 2008, they accounted for 64% of our new jobs.

As part of his Job Creation Tax Credit plan, Alan will extend the credit to small businesses at the 15% level for two years to help them expand. Alan also supports policies that expand access to capital for small businesses, including extending two recent initiatives that doubled the amount for small business expense write-offs for new investments up to \$50,000 and allowing accelerated depreciation so that firms can deduct 50% for new plant and equipment in the first year. The total government investment for these programs from short term lost or delayed tax revenues is estimated to be less than \$6 billion per year and the returns can be extraordinary. Inventory investment has proved the second greatest stimulus to real GDP growth in the first year of an economic recovery,

surpassed only by consumption spending. Data indicate that inventory investment increases real GDP in the first year by 25%.

Alan supports the creation and growth of women- and minority-owned businesses. He will work with these businesses to develop specific programs designed to help them thrive, including the following:

- Establish a Federal Commission to encourage and support women- and minority-owned businesses. Among other responsibilities, the commission will ensure that current federal participation goals are being fairly and adequately met.
- Study the impact of intermediaries like micro-lending companies and other businesses and organizations dedicated to supporting women- and minority-owned businesses to identify best practices and opportunities to grow their scale and impact.
- Provide more transition support for businesses that are moving to non-SBA 8(a) status.

While the specific roles, responsibilities and resources for a new Federal Commission and other actions to support women- and minority-owned businesses will need to be developed and designed, estimates for the annual cost of a new commission are less than \$5 million per year.

3. *Pass clean energy legislation to create clean energy and energy efficiency jobs.*

The recently passed Markey-Waxman bill in the House and the Kerry-Boxer bill being debated in the Senate will generate significant job opportunities for Massachusetts and the entire country. A recent collaborative research study conducted by the University of California, University of Illinois and Yale University concluded that passing these bills would create between 22,000 and 40,000 jobs in Massachusetts alone and as many as 1.5 million jobs nationwide.

According to the PERI Center for American Progress at the University of Massachusetts - Amherst, most of the jobs created from clean-energy investments will be in the same areas that people work in today. Wind farms create jobs for metal workers, machinists and truck drivers, as well as in the construction industry, which has suffered the greatest job losses in recent years. Alan will work to make sure investments arising from new energy legislation will create good paying jobs and will look for initiatives that will have a “triple bottom line” impact, with economic, social and environmental benefits. For example, Alan will call for increased funding for renovating older school buildings to make them energy efficient. This initiative will provide good paying jobs for construction workers, the hardest hit segment in Massachusetts, improve our educational facilities and lower the cost of school utilities paid for by our cities and towns.

The climate change legislation either passed or under consideration all require investments, but all generate revenues in excess of their costs. Markey-Waxman, for example, is forecast by the Congressional Budget office to yield a net surplus of \$24 billion over 10 years.

4. *Invest in clean energy, biotech and other research-intensive industries by supporting programs to accelerate the time from research to new job creation.*

Massachusetts is a world leader in higher education, clean energy, biotech and health sciences. Alan will support programs that bring together the tremendous intellectual capital and research capabilities of our educational institutions with the go to market skills of our entrepreneurs, the business-building skills of seasoned executives and the funding capabilities of our private investors. This collaboration will accelerate the time to market of innovative ideas, moving them from the laboratories and dreams of our entrepreneurs to the job-creating enterprises of tomorrow. Alan created City Year as an “action tank” to show the country how a powerful new enterprise could be started in Massachusetts and spread around the world with the support of the business, government and nonprofit sectors.

Based on the work and publications of the New England Clean Energy Council, Alan will promote federal investments in collaborative efforts among government and university research institutions, business leaders, entrepreneurs and venture capitalists to accelerate the four phases of commercialization:

- *Research and Development*
Increase funding for research with a focus on innovations that have commercial and job creating potential. Where possible, fund networks of research institutions, business leaders and private investors.
- *Early Stage Venture Development*
Provide early commercialization grants and loans, with 2:1 or greater matching funds from state, regional or private sector funds, to take the most promising technologies from the lab to initial commercialization stages. These seed funds help transform new innovations into initial business plans.
- *Scale –up and Growth Acceleration*
Direct investments to new business incubator and accelerator park facilities and campuses. These parks could be managed by public private partnerships and are designed to support early stage companies with the development of demonstration pilots and early manufacturing pilots that show the commercial viability of new technologies.
- *Full Scale Commercialization*
Enable full scale commercialization of new “first of a kind” technologies by co-investing with private funds to finance the roll-out of new businesses with high fixed costs.

Alan supports this collaborative, four-phased model for several key reasons:

- It enables new innovations to cross what Harvard Kennedy School Professor Lewis Branscomb calls the “Valley of Death” between invention, innovation and commercialization.
- It provides the vast majority of government investments as loans or loan guarantees.
- It requires that the government only make investments in the later three stages when private capital co-investors are also putting “skin in the game,” thereby minimizing the chance that the new businesses will not be successful.
- Independent boards comprised of representatives from all sectors can provide additional oversight to maximize the chances of success.

This plank of Alan's job creation plan lays out his approach and guidelines for federal government co-investing in the four phases of accelerating the time to market for new innovations and therefore carries no costs as a concept. That Co-investing largely in the form of loans and loan guarantees or investments matched 2:1 or greater from private funders creates significant leverage and the opportunity for a large return on the government funds employed. The costs are also relatively minor from a total government investment basis as well. As an example, a recent New England Clean Energy Council proposal called for less than \$250 million over three years in federal dollar co-funding to finance the first three phases of a comprehensive accelerator program.

5. *Support the growth and development social entrepreneurs and the nonprofit sector:*

Alan will fight to fully fund the new Edward M. Kennedy Serve America Act. The Act will provide 175,000 annual full and part-time service jobs in the first year and a total of 250,000 positions in the second year. At an average cost of \$10,000 per corps member, funding the Act at this level will cost \$2.5 billion over two years.

Alan will support increasing investments to scale promising nonprofit models. As part of this effort, he will ensure that all investments are structured so their impact can be measured and that best practices can be identified and shared with other programs.

6. *Invest in 21st Century work force development.*

Alan knows that we risk losing a critical competitive advantage as the Baby Boom Generation retires and many industries may face labor shortages. That is one of the reasons he has called for the most innovative and comprehensive education reform program in the history of our nation.

Alan also supports investment in workforce development programs like Year Up and Youth Build and will promote additional initiatives to ensure our Commonwealth and our country will have the workforce it needs, including:

- Reauthorizing and reforming the Workforce Investment Act to make sure taxpayer investments are focused on those programs that actually increase employment.
- Initiatives that create partnerships between our Community Colleges and local employers to ensure academic programs are aligned with business needs and that these institutions are able to respond quickly and flexibly to the needs of new employers.

These initiatives do not require new funds, but rather the reallocation of existing funds towards more effective programming.

Reform Wall Street and Improve Financial Regulation

It's clear that failure to properly regulate financial markets was a central cause of our current economic crisis. We need to rethink our regulatory structure, and ensure that Wall Street investments support Main Street interests. In the Senate, Alan will push for a strong regulatory umbrella to replace our current porous system, higher capital requirements to protect our financial system from outsized risk, and reforms that curb reckless speculation and promote greater stability.

Excessive systemic risk – contagion that spreads from one financial institution to another – fueled last fall's credit crisis. In our fragmented regulatory regime, no single regulator had a sufficiently expansive view of the financial system to identify increasing risks as institutions grew more exposed to one another. Alan supports proposals to create a council of regulators that would collect system-wide information on risk and control contagion. The President's Working Group (PWG) on Financial Markets—composed of the heads of the Federal Reserve, Securities and Exchange Commission, Commodity Futures Trading Commission, and the Treasury Department—would form the basis of that entity. If given the authority to write rules and collect the information required to enforce those rules, the PWG would be well-positioned to serve as a risk watchdog.

Complex and lightly-regulated financial instruments known as Over-the-Counter (OTC) derivatives – the most notorious of which are credit default swaps (CDS) – were the driving force behind the failure of insurance giant AIG. Alan supports proposed legislation that would bring OTC derivatives under the purview of the Securities and Exchange Commission and Commodity Futures Trading Commission. The legislation would, in some instances, require that OTC derivatives be traded through clearinghouses or on an exchange, which would reduce the interconnections between financial institutions and risk to the system as a whole. The clearinghouses and exchanges would be self-funding through the fees charged to buyers and sellers.

Strengthen Consumer Protection

The existing regulatory landscape fragments responsibility for consumer protection, allowing predatory mortgages and exorbitant credit card fees to slip through the cracks and evade strict oversight. These abuses hurt hardworking Americans and undermine the strength of our economic system. In response, Alan strongly supports President Obama's plan to create a Consumer Financial Protection Agency (CFPA). The CFPA will unite oversight authority that is currently divided among several agencies, and will receive new authority to protect consumers against confusing, misleading, or deceptive practices. The CFPA would be funded largely through fees levied on the entities it regulates.

Industry lobbyists oppose the plan, and are looking to the Senate to derail it. Alan won't let that happen. He understands that one role of government is empowering people to make informed decisions - and a robust, comprehensive Consumer Financial Protection Agency will do just that.

As Elizabeth Warren, chairman of the Congressional Oversight Panel for TARP, has said, "It is impossible to buy a toaster that has a one-in-five chance of bursting into flames and burning down your house. But it is possible to refinance an existing home with a mortgage that has the same one-in-five chance of putting the family out on the street." We already regulate *consumer* products, and Alan

understands that we must establish greater oversight of the *financial* products that undergird our economy.

While the specific roles, responsibilities and resources for the CFPA will need to be developed and designed, estimates for the annual cost of a new commission are less than \$100 million per year. This is a very small investment to prevent the kind of economic hardship our country has experienced over the past two years.

Reinvest in Housing

In this difficult economic climate, Alan will help families looking to purchase a new home by extending the temporary homebuyer tax credit. It is estimated that nearly 20% of the 1.8 million people who took advantage of the recent \$8000 tax credit would not have otherwise bought a home. An extension through 2010 would provide continued relief to the sluggish housing market, create and sustain construction employment, and add to state and local property tax bases. It is estimated that every one-thousand home sales generates more than \$112 million of economic activity, and that the credit may create as many as 350,000 new jobs nationwide. Over time, the initial investment in the credit—priced at \$10.8 billion—would be more than offset by the economic growth that it stimulates.

The current foreclosure crisis is a travesty, and Alan supports the steps that states have taken to impose a foreclosure moratorium. He also favors initiatives that help homeowners renegotiate their payments and payment time lines whenever possible so that they can stay in their homes. In spite of these challenges, the resulting flood of deeply discounted housing stock presents a rare opportunity for planners and investors to expand the stock of affordable rental units. Such an expansion will be key to helping many families regain their economic footing and will serve as a cornerstone for economic recovery in many communities.

Reduce our Deficit and Debt

Democrats have shown that we can be the party of fiscal responsibility and sound economic policy. The booming financial times of President Clinton's administration were no accident, but the result of a balanced budget, careful spending, and responsible tax policies. By putting our financial house in order, we can keep our economy growing and continue to generate jobs.

These are the historical keys to the "virtuous cycle" of a strong and booming economy. It is time for the government to regain accountability for its budget and to encourage personal fiscal responsibility by practicing what it preaches.

These actions will finally restore Americans' confidence that the government will tighten spending and get the national debt under control.

Including assumptions for health care reform, budget deficit projections are anticipated to total \$9 trillion over the next 10 years. With this in mind, Alan understands that no real recovery plan is complete without accounting for the long-term needs of the nation's economy. Left alone, projected deficits will exceed projected economic growth. To avoid leaving a legacy of debt and a future of economic hardships to our children, we must return to sound financial planning, beginning with

spending restraint. The country can no longer afford bills like the stimulus bill that included more than 9,000 earmarks at a cost of \$7 billion.

Alan understands that we need to restore tax fairness to our system. He believes that once we are firmly out of the recession, we must bring income taxes for wealthy earners and capital gains taxes back to the levels they were at before the Bush tax cut. Doing so would generate between \$25 and \$70 billion dollars in revenue per year.

A Fiscally Responsible Plan

Alan's approach to job creation centers around strategic investments that will grow our economy. Every program that requires funding is designed to jumpstart economic activity to a level where taxpayers will more than recoup their initial investment. Even so, the total cost of Alan's plan is under \$23 billion annually—that's less than the revenue generated by rolling back part of the Bush tax cuts for just one year. By rebalancing our spending priorities, we can position our economy to experience sustained growth for years to come.

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