

THE BROOKINGS INSTITUTION

WEBINAR

HOW CONGRESS CAN SUPPORT MIDDLE CLASS AMERICANS:
A CONVERSATION WITH SENATOR MARK WARNER

*Part 4 of an Event Series on
"A New Contract with the Middle Class"*

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PARTICIPANTS:

Opening Remarks:

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Conversation:

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THE HONORABLE MARK WARNER (D-VA)
U.S. Senate

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P R O C E E D I N G S

GENERAL ALLEN: Good afternoon, ladies and gentlemen. For those of you I have not had the honor of meeting, I -- my name is John Allen. I'm president of the Brookings Institution, and it's a great pleasure to welcome you all today to our event, "How Congress Can Support Middle Class Americans."

Today's convening is the fourth part of our latest event series, entitled a "New Contract with the Middle Class," one of our flagship efforts from the Brookings Future of the Middle Class Initiative, which is led by our Senior Fellow and the Director of the Initiative Dr. Richard Reeves. Launched in 2018, this initiative has featured a diverse set of voices, from across all levels of government, including now, President Joe Biden, who spoke at our launch event.

At the time, he described the moment that we're living in as an inflexion point where the decisions that we make, in the next several years, are going to say an awful lot about the kind of life our children and our grandchildren are going to be leading. He also pointed out that the reason for our social and political stability is in no small part because we have had a strong aspiring and growing middle class. A few years later, his words could not be more relevant.

Over 2020 and these early months of 2021, we've seen the American middle class struggle to overcome a deadly pandemic, that has wreaked havoc on, and has created crisis and chaos within the labor market, and furthermore, Black Americans. Many of the middle class have continued to face racial injustice and police brutality, all over the country, and truly the need for justice for all of our communities of color remains more pressing than ever. It is in times of crisis that we look for our country's leaders to show us a way forward, not just for the sake of the present, but as in the case of the COVID-19 pandemic, to show us the far future, to create a long-term social and political stability, so desperately needed for our society today.

So far, there are indications that this future may, in fact, be drawing closer. Recently, Congress passed the new stimulus package, that provides much needed relief for our low- and middle-income families, including a child tax credit, that provide \$300 a month in guaranteed income for families with children, for the next year. But what happens next? We're still in a moment of crisis, to be sure, yet we also can consider and prepare for what will happen to the middle class, once the pandemic is over.

Congress will need to think about infrastructure improvements and changes to education and worker training, to create a stable and thriving middle class, emerging from this crisis. Only time will tell how these many critical issues will end up, and how we will address them, in the coming months and years. Now, turning back today's event, however, we are most fortunate to have one of the leading voices on these issues with us today, Senator Mark Warner.

Representing his home state of Virginia, thank you, Senator Warner, my senator. He has dedicated his life to serving the American people. A member of several Senate committees, including most notably, the Committee on Finance, the Committee on Banking, Housing, and Urban Affairs, and the Committee on the Budget, Senator Warner is a stalwart champion of the American middle class. Now, soon, he will provide us his perspective on what the Congress has been doing and what their plans are, going forward, on these topics, that we begin to see light, potentially, at the end of the tunnel, of this long pandemic.

So, thank you, Senator Warner, for joining us today. We're really honored to have you with us. Now, joining the senator is Senior Fellow Camille Busette, who is the director of our Race, Prosperity, and Inclusion Initiative, and a member of the Steering Group, of the Future of the Middle Class Initiative. She'll be moderating this timely and important conversation with the senator. Before I turn the floor over to Camille, a brief reminder that we are live, and very much on the record, and should audience members want to submit questions, they can do so, to events@brookings.edu, that's events@brookings.edu, or via Twitter, using #MiddleClassMonitor, #MiddleClassMonitor. So, with that, let me turn the floor over to Camille, and thank you again, senator, for joining us. Over to you Camille.

MS. BUSETTE: Thank you, John, and welcome, senator. It's wonderful to have you here. We're delighted that you could join us for this very import conversation about what is -- the future will look like for the middle class, particularly as we begin to recover from the COVID-19 pandemic.

I wanted to pause for a moment to recognize the loss of life, last week, as Americans who aspired to the middle class were gunned down in Atlanta massage salons, and to just let everyone know that Brookings definitely is with you and recognizes that important and very devastating loss of life.

So, Senator Warner, I know that you have a proposal to -- a set of proposals to help the working class, that go much beyond the stimulus package. I wanted you to tell us a little bit about that,

your thinking about that, and then afterwards, we will engage in a spirited question and answer session, which will largely be driven by our online audience. I want to remind viewers, that they can submit questions on Twitter, using the #MiddleClassMonitor, or by emailing events@brookings.edu. So, Senator Warner, on to you.

SENATOR WARNER: Well, Camille, thank you, and thanks to Brookings for holding this forum, and let me say at the outset, both I appreciate you acknowledging the tragedy that took place, last week, in Atlanta, and how that is, again, reflective, particularly, of the enormous growth of the Anti-Asian American violence and rhetoric in our country. Let me also say that I commend Brookings for the very good work, that you all have done on this project, over the last couple of years. Reviewed your proposals, the vast majority of which I agree with, and I think this issue is so critically important.

I come at as somebody who is the proud product of the middle class, and reflecting back on my life, it almost seems like if there was a picture drawn of what a middle class kid could aspire to, in the latter half of the 20th century, I might fit that bill. My dad was a Marine in World War II. He came back, and even mom, our family started in lower middle class, in Indiana, moved to Illinois, Connecticut. I ultimately ended up in Virginia. You know, public schools, all my life. I was the first person in my family to graduate from college, you know, got through with student debt, but not enough to be debilitating. Went off to law school, started business, failed miserably, twice, in business, and through a third try, in the beginnings of the cell phone industry, back in the 1980s, and I ended up being successful, beyond my dreams.

I was able to do that because my dad worked for 38 years for the same company, where he didn't make a lot of money. But with that job came a set of a social contract, in terms of benefits, retirement, healthcare. If he'd lost a job, unemployment, that he got hurt, workers' comp. It came from public schools that were good. It came from a higher education system that was still relatively cheap, in the 1970s, when I went. And it came from the fact that, as a white guy with the appropriate education, I got more than my share of fair shots.

I'm very aware of the fact that I've not met a white male with the right education, as I'm not -- I probably wouldn't have gotten three shots at entrepreneurship. I would have been lucky to get one, and I think we've seen, in the last 70 years, a hollowing out of a lot of those opportunities, and that

hollowing out has been, obviously, exacerbated by the COVID pandemic. So, I want to touch briefly, so we can have as much time as possible for our conversation, on some work that I have been working on, over, literally, the last the four and a half years, to really rethink how do we recreate that opportunity economy. How do we actually even go more deeply and look at our system of capitalism?

And I say this is somebody who's benefitted from, you know, American capitalism, but how do we make capitalism work for more people? I start that with -- and the first point I want to raise, and I think that Brookings has done some work on this as well, is acknowledging that the nature of work has changed. For much of the 20th century, when people went to work, they went to work long-term, as did my dad, and worked at that same firm for the balance of their career. A firm would then make investments in that worker, to rise them up, even if they were simply just a worker on the line.

Starting in the early '90s and exacerbating by the spread of globalization, that social contract started to fray, and, increasingly, all work that was not critical to a corporate's bottom line was outsourced, either literally, in terms of jobs being sent abroad, or figuratively, as work, janitorial work, or food service work, or other non-service work, was taken away from the corporate umbrella and moved into consulting type arrangements. I think it's time for us to acknowledge that we're probably not going to go back to a traditional 40 hours a week, you know, work forever for the same firm kind of company.

Matter of fact, that move to outsourcing has been accelerated by gig work, sometimes, work that is by choice, often times, by economic necessity. And I think we need to restart a social contract, that basically says, with any kind of work, whatever the classification, there ought to be benefits, and those benefits ought to start accruing from the first hour someone works. They should be able to be aggregated across a variety of works because many people will do a variety of different kind of work, even at the same time, and that those benefits ought to be portable, as you move from one job to another, or one gig to another.

I think we have taken two steps in that direction, over the last few years. The ACA, the Affordable Care Act, was a giant step towards healthcare affordability and the ability to have -- not have your healthcare tied to your single employer, and then in -- early on, and I want to give my friend Senator Ron Wyden appropriate credit on this, even in the first CARES Act, as the pandemic burst upon the scene, a year ago, we expanded the coverage for unemployment, which, prior to the pandemic, only

covered about 35% of our workforce because that was the percentage of workers that fit into classic W-2 category.

We expanded unemployment insurance, underneath the pandemic employment extension, to cover gig works, to cover independent contractors, in a way that, while not getting a lot of attention, was a beginnings of a movement towards that -- towards that portable benefit nature. I think we need to build upon that. We need to make permanent the expansion of unemployment, and we also need to think about how we make all benefits, and we, maybe, need to rethink what would go into that benefit package, that we would create for 21st century, 21st century training, 21st century working.

Second, we've seen, also coming out of the pandemic, what I would argue is, the pandemic brought about in a single year, 10 years of movements towards a digital economy. We've seen that now, in terms of the need for broadband, and how that is an economic necessity, not a nice to have, at this moment, as we study work, or receive healthcare benefits remotely. We need to make sure broadband becomes ubiquitous. What we've also seen, as we look at numbers, approaching 18 million Americans that are still either out of work or long-term unemployed, that many of the jobs that, ultimately, over a decade, were probably going to be eliminated as we move to a digital economy, they were eliminated during this pandemic year.

And while we've started to see unemployment numbers tick a little bit better, I think we need to acknowledge that many of the jobs that disappeared during the pandemic are not coming back, and if there is a single largest failing, out of the now six COVID relief bills, close to \$5 trillion in relief, is that we have not put near enough resources into the level of retraining and upskilling for those jobs that have been eliminated, and disproportionately, not just through the pandemic, but even since the Great Recession. We have seen three out of four jobs, that have been eliminated, have been jobs that have -- that were jobs that required high school education or less, and they have all been replaced by jobs that require high school or college degree, or more, going forward, and we are still not -- we still got a complete mismatch between workers coming out or students coming out of schools being trained for the jobs that are necessary.

I would argue and a big idea, that I would hope that Brookings and others could tear apart and maybe make better, is I think we need to dramatically rethink how we invest in human beings.

Right now, we have a tax accounting and reporting system, if you're a public company, that favors investment in tangible goods or in research and development, over human capital, and let me give you the shorty version here, so we can get to the conversation. You know right now, we have -- if a company goes out and spends \$5,000 on a robot to try and improve production, often times, the company receives an R&D tax credit for that robot.

The robot is viewed as an asset on your balance sheet, and if you're a public company, you can report that, that robot, and brag about it. If the same company spends \$5,000 and trains two human beings to being more efficient than the robot, you get no tax credit, you didn't get to expense that, that it's not nearly the same tax benefit. Those training costs are viewed as an expense, and there's no place to report that investment. I think we need to create the equivalent of an R&D tax credit for investment in human beings. I think we need to work with our accounting profession to recognize that investment in human beings ought to be viewed as an asset class, not an expense, and I think we need to build on the work, that even the Trump SEC started on, to encourage public company reporting on their investment in human capital.

This is a big area, a big idea, and, again, in our conversation, I hope we can come back. There was a series of smaller ways we could implement that, but I think we have to think on a macro basis. And, third, we need to recognize, and I think about this from a lot of the work that we've looked at over the last couple of years, how do we move the basic concept of modern American capitalism back to what I would call stakeholder capitalism over shareholder only capitalism? In the last 20th century, we've seen the triumph of short-term shareholder returns being more important than any other item. That has become, in a sense, the gospel. I think that is not the capitalism that really existed in -- for some Americans, post-World War II. Obviously, post-World War II capitalism disadvantaged Americans of color and women, but there was, for a while, a mantra that said, you can do well by your shareholders and also do well by your employees in your community.

We need to get back to that more inclusive capitalism, conscientious capitalism. There's a series of groups that have been advocating this change. I think it could come about by standardization of standards around what's called ESG, environmental, societal, and governance standards, that those standards ought to be viewed as material. I think, increasingly, for reporting purposes, I think,

increasingly, employees, customers, and more thoughtful investors are looking for this kind of change, and I believe we need to, you know, do all we can to push responsible corporate CEOs into having a more responsible capitalism.

So, coming out of the pandemic with the American Rescue Plan, there are great things that General Allen indicated, like the Child Tax Credit. We've got to make that permanent. There are immediate assistants to so many Americans who've been challenged and hurt by the pandemic. What we now need to do is build upon that and move to the structural changes, and those structural changes are going to be in -- argue should be portable benefits and benefits that can aggregate and go with any type of work, no matter what kind of classification, a complete change in the tax accounting and reporting system, for investment in human capital, and a move within the overall structure of capitalism, to bring about a more inclusive capitalism, that includes all stakeholders, not just shareholders.

All of that, I believe, Camille, would lead us to a resurgence of a middle class, and we all, obviously, have to do this in a way that recognizes that the -- that the recovery we've seen so far has been disproportionately benefitting higher income, whiter populations, and that we -- I've got a series of other ideas on how we will grapple with some of those disparities, which I hope we can get to in this conversation.

MS. BUSETTE: Well, great. Thank you very much, Senator Warner. And I think you've definitely, I know, been very thoughtful about what does this post-pandemic recovery look like? And it sounds like your point of departure is, unless we actually take active steps, we could see inequalities widen, we could see the path to the middle class continue to crumble, and so, we have to take affirmative steps that really invest in workers and invest in those opportunities to be able to get to the other side of the pandemic and much later, in a way that really benefits middle class families.

So, with that said, let me ask you -- let me start by asking you a question. So, we have, you know, the -- I think the point of departure for the American Rescue Plan Act 2021 is basically to stabilize families, currently, who are really hurting, and to provide some level of security for both low-income and low middle-income family. Given that that's sort of the starting point, what do you think are some of the immediate next steps? Obviously, the stimulus package is going to be active for several months. But what do you see as the next immediate steps that link that kind of security blanket, if you

want to call it that, with some of the steps that you're talking about, that help create, you know, more permanent benefits and help put people onto the path to a middle class lifestyle via increased training and increased investment in human capital?

SENATOR WARNER: Well, Camille, I think you've very accurately described the American Rescue Plan and, frankly, much of the earlier legislation that took place. How do we help people get through the immediate challenge around COVID? How do we make sure we can get you, economically, back on your feet? What I think we have to acknowledge, and General Allen made mention of this in his opening comments, you know, COVID did not strike all Americans fairly.

COVID wages proportionally hurt communities of color. The data on both illness, death rate, amongst Black Americans, Brown Americans, much, much higher than the majority community. That has also translated into greater job loss, and that has also translated -- I say this as somebody who is an entrepreneur, and, you know, again, hopefully, an entrepreneur that recognizes I wouldn't have gotten three shots after my first two failed businesses, if I was not a white guy, to recognize what COVID also disproportionately hurt was Black and Brown businesses.

We've lost 440,000 Black-owned businesses in America, in the last year. We've lost close to -- a third of the Latino businesses have had to shut down, and our rescue -- well-intentioned rescue plans to support small businesses candidly exacerbated that problem, at least in the early rounds because Black owned and Brown owned businesses usually have had to bootstrap themselves into existence, didn't have traditional banking relationships, and so, consequently, when the first dollars went out under the PPP programs, those businesses did not participate at the same level.

Now, the good news is there were efforts in the subsequent bills, both the December bill, the bipartisan bill that I helped put together, and the American Rescue Plan to shore that up, in terms of trying to target smaller businesses, minority businesses, but, again, with mostly stop gap relief. One of the things that didn't get a lot of attention, that I was very proud to have gotten in, into the December bill, was \$12 billion to fund Black-owned banks in this country and community development financial institutions. CDFIs, by definition, lend to low-income and low- and moderate-income communities, often times to those businesses that may not have a traditional banking relationship.

We've got \$12 billion, \$3 billion in grants, \$9 billion in Tier 1 Capital, that will go into the

CDFIs that will actually increase their lending capacity by about \$90 billion. This will increase the capacity of this sector by about 40%. Not a full set solution, but a long-term structural change. If we can combine that, along with some of the -- frankly, at this point, more advertising than actual works of large banks who are saying they want to lend more to minority business communities. If we can make that real, if we can take some of corporate America, say, in light of the, you know, the murder of George Floyd and the need to have appropriate levels of racial reconciliation, if we can turn that talk into real tangible dollars, I think one of the things that we should make a top priority on a structural change going forward is increasing equality of access to capital.

There are extraordinary -- now, I say this as a venture capitalist longer than I've been a senator, you know, Black and Brown entrepreneurs in this country, what they lack, has been a fair access to capital, and when they do build businesses, they have not had traditional banking relationships that allow them to expand at the level commensurate with their skills and their ability. I think this access to capital issue, the structural change we started in December, is one, at least for me, probably my top priority on where I want to spend my time. Let's make sure we build out this CDFI-MDI Initiative. Let's make sure that the corporate entities and others who are talking a good game, that there's some real -- they're there, and that this access to capital issue, of which I've been a beneficiary of, 35 years ago, has that same kind of fair shot opportunity for all Americans.

MS. BUSETTE: You know, I think it's important to recognize that this sort of unequal playing field for Black and Brown entrepreneurs versus everyone else, and I think it's important to institutionalize some, you know, some elements of the current PPP program, and make sure that they really are working for those populations.

Beyond that, let me ask you a little bit about paid family leave. I know that, you know, one of the important portions of the stimulus plan is really to -- the most recent stimulus package is to really try to get people back on their feet, but as we move forward, knowing what we know about how COVID-19 has really hit communities of color, lower-income workers, and particularly women, particularly hard, where do you see paid family leave sort of fitting into either the sort of current moment or as we move forward, as part of a middle class package?

SENATOR WARNER: I think paid family leave has to be a critical component going

forward, and we can debate whether it's 10 weeks, 12 weeks, 16 weeks, you know, but we're the only industrial nation in the world that doesn't have paid family leave, and as you mentioned, Camille, you know, not only communities of color, but disproportionately women lost jobs at a much higher rate than their male counterparts. A lot of that is -- well, it was due to women that had to then take off from work because if your school is closed down and your childcare center has closed down because of social distancing requirements, you know, women are still disproportionately taking care of our children. So, paid family leave needs to be built in.

I was proud of the last year, in my role, then, as vice chairman of the Intelligence Committee, to make sure that our intelligence community, in last year's authorization bill, got paid family leave, and then it got extended to the balance of the federal workforce. We need to institutionalize this. I think we can do it in a way that is appropriate and affordable. Again, every other industrial nation in the world has this benefit, and I think it, again, builds for a stronger opportunity.

One thing I would point out in the last -- in the American Rescue Plan, the Biden stimulus, building on what we did in December, there was a recognition, particularly for childcare centers, that if they were going to be able to stay in existence through the balance of COVID, they needed direct financial federal support because just the business model, they operate at such thin margins, and if you have -- you know, if you had 30 kids before and now, with social distance, you could only take in 15 kids, but you need the same supervision, you know, you're going to need some -- you're going to need some help. So, I would argue with -- with paid family leave, we need to continue to look at support for childcare around this country, so women who choose, that want to come back into the workforce, they can.

MS. BUSETTE: Yeah. No, that's absolutely important. I know we don't have a lot of time left, but I do want to ask you a question about how we get workers to be much more agile, as the economy and as technology changes, and I know that you have thought a lot about how is it that we get the right skillset, we get people to embrace lifelong learning, that we get employers to actually invest in workers. Can you talk a little bit about some of those proposals that are really trying to align worker skillsets with an evolving economy and an evolving technology economy, in particular?

SENATOR WARNER: Well, McKinsey did very good studies, prior to COVID, that showed about a third of the work in America, a third of the jobs in America, will change by 2030. It

doesn't mean they're all going to be replaced, but they're going to change, and my point about moving towards that digital economy, 10 years' worth of movement in one year, brought about by COVID because of this dislocation, you know, gives a real impetus for us to make these kind of changes in investments.

So, one, I do think, at a macro level, if we give companies that invest in their workers a tax credit, rather than simply a tax deduction, if we think about investing in human capital as an asset class, rather than an expense class, that -- that is the broad based idea that I think will generate a lot of activity, again, reminding people that back in the 1970s, the R&D tax credit was viewed as a radical idea, fought by the accounting community because they thought it was too squishy. Well, you know, I know there's some questions around training the same way. I think we can -- I think we can figure it out. We can't just rely only upon the workforce or only upon the employers.

I've got, also, legislation that would create individualized training accounts. I know the Brookings folks have got a similar type, where there would be, potentially, you know, a worker contribution, an employer contribution, and potentially a federal government contribution, that would give that worker the flexibility to actually change careers midstream, and you've got to build in both that -- the ability to fund that, but also the time flexibility.

And third, I think you need -- we need to do a much better job, particularly for mid-career workers, of explaining that, you know, because we're moving into a technology-based workforce does not mean everybody has to become a computer coder. In Southwest Virginia, we've got the -- you know, that was the -- one of the strongest areas of our coal economy. Many of those jobs have disappeared, but many of the skills you learned as a coalminer, you know, machining skills, dexterity skills, can be used, whether it's on clean energy provisions.

We're now trying to build the largest wind turbines off the East Coast, off the coast of Virginia. I think it would be great if those wind turbines were actually made in Appalachia. So, working with a workforce that sometimes feels intimidated and feels like everyone, going forward, is going to require complete computer coding skills is really important. And I think about the fact that, in Virginia, we have about 42,000 unfilled cybersecurity jobs. About half those jobs only require a two-year degree, not a four-year computer science degree. So, I think there is a -- an important education component.

What we've lost, at times, is, you know, whose responsibility is it going to be to educate the workforce about what the new -- the jobs, not only of the future, decades from now, but the jobs, literally, coming out of COVID, are going to look like, and where are we going to find that funding? That is, again, I would argue, one of the areas we've fallen short of the \$5 trillion we've spent, if we put a trillion of that into worker retraining, for many of these jobs, for a degree in hospitality and otherwise, that might not be coming back, and invested that directly in workers, I think we would have been in a stronger spot, going forward.

MS. BUSETTE: Well, I know you're going to continue to champion these kinds of proposals. You know, the mark of a good conversation is that it always feels like it ends a little too early, but, Senator Warner, I want to thank you for joining us here today, and I do want to invite you, again, to come back and join us as your proposals continue to evolve, and we would be more than happy to have you back on here, as we discuss the future of the middle class. Thanks to everybody for joining us and --

SENATOR WARNER: Hold on a minute. Camille, can I make one last point --

MS. BUSETTE: Yep, absolutely.

SENATOR WARNER: -- just that I want to thank you and thank Brookings for the great work you're doing, but I think these ideas, whether we're talking about portable benefits or investment in human capital or more inclusive capitalism, in some of these projects, they do also have the opportunity not to fall upon the traditional, you know, conservative versus liberal left versus right line. These are much more a future versus past conversation. And I think if we can posit them that way, we can find the kind of political willpower across party lines to get this done. And again, commend the great work that you're doing.

MS. BUSETTE: Well, excellent. That's a great hopeful note on which to end. Thank you very much, Senator Warner.

SENATOR WARNER: Thank you.

MS. BUSETTE: Thank you, everybody. Have a nice afternoon.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

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