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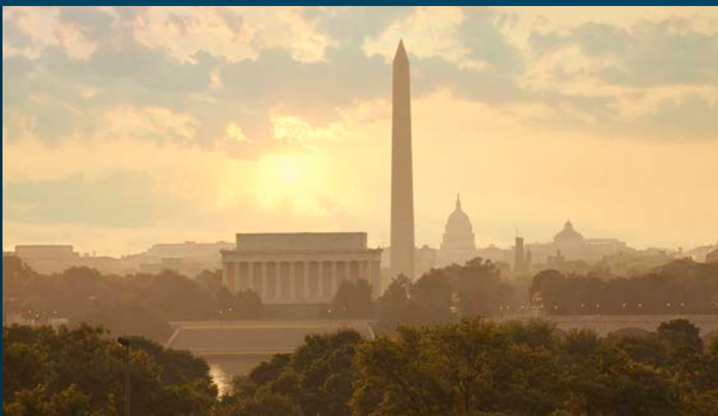

October 14, 2016

WHAT'S NEXT, AMERICA?

Providing solutions to important economic issues facing the next U.S. Administration

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UNC KENAN-FLAGLER BUSINESS SCHOOL

UNC FRANK HAWKINS KENAN INSTITUTE OF PRIVATE ENTERPRISE

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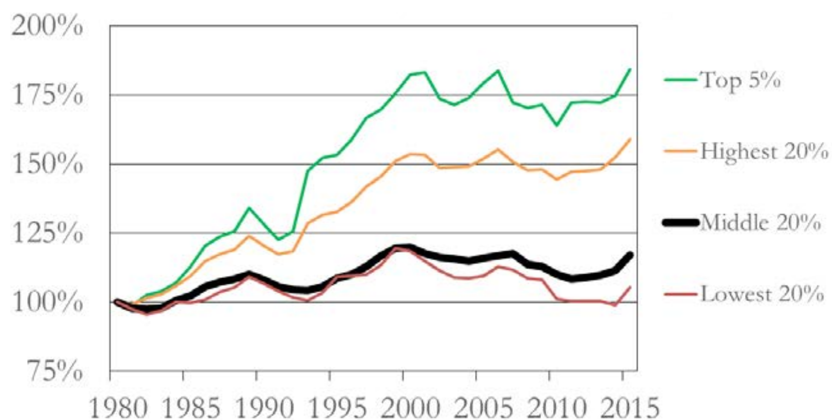
OPENING REMARKS

Today we are going to be talking about solutions to our country's economic challenges. But is it enough to just have better infrastructure, or more efficient tax policy, or a more innovative economy? Of course we all want these things, but what ties them all together?

At the end of the day what we really want is an improvement in our standard of living at the individual level. There are lots of different ways to measure that but one good way is to look at real (inflation adjusted) household income. Consequently, I want to spend a few minutes to illustrate how household income is a good way to frame today's conference.

> "At the end of the day what we really want is an improvement in our standard of living at the individual level."
>
> Greg Brown

Household Income (Indexed to 1980 = 100%)



We know that household income growth has been a problem for years. In particular, median real household income has been on a slight downward trend over the last 15 years after growing consistently for several decades prior to that. Why is this happening? This downward trend pre-dates the recent recession and financial crises. And our real GDP is well above pre-crisis levels and continues to grow. In fact, as it turns out, income is growing—just not for the typical household.

This chart shows income growth for different household segments—those at the

top of the income scale and those at the bottom. The thickest black line is real median household income indexed to 1980. You can see here that the trend has been generally down since 2000. But if we look at the top 20% of households (the yellow line) or top 5% (the green line), we see that income growth was much higher overall since 1980 and has held up better since 2000. Both of these groups had record high real income in 2015. It's not on this graph, but if we look at the top 1% of households, they have experienced even stronger real income growth.

If we instead look at the bottom 20% of households, they have lost even more ground than the median household and are barely better off than in 1980. In fact, the middle 60% of households have seen no improvement since about 1990. This is a discouraging state of affairs. I personally think that this is the root cause of the disenchantment we are seeing among the electorate on both the left and the right. The typical person sees the economy growing and the rich getting richer, and, frankly, it seems unfair to a lot of people even if they disagree on the cause or what should be done about it.

> "I am increasingly convinced that we are in the midst of one of the most rapid economic shifts in the history of mankind."
>
> Greg Brown

So what can we do about it? A knee-jerk reaction is to tax the rich and redistribute the wealth. And I think that is going to happen to some extent, and it probably should, but just to a limited degree and in some specific ways. However, soaking the rich is treating the symptom and not the disease.

So what is the disease? Immigration? Trade? Greedy rich people rigging the system? There are many explanations being discussed this election cycle, amongst family members, friends and political candidates. But I believe the problem is much bigger than any one of these soundbite explanations.

I am increasingly convinced that we are in the midst of one of the most rapid economic shifts in the history of mankind. The fundamental structural changes to the global economy are coming so fast that the broad labor force cannot keep up.

Let's consider two examples.

First, the internet and information technology have rapidly and radically impacted how the private sector operates. Before the internet, technology allowed existing businesses to do the things they always did better and faster. But the internet has changed everything. Instead of existing companies getting more efficient, the internet has spawned a raft of companies that are rapidly disrupting a wide range of industries from retail to financial services. This has resulted in a fundamental shift in the skillsets required by growing companies in numerous industries and dislocated many existing workers.

Think about the manager at the Barnes & Noble or the one-hour photo guy at the drugstore or a bank teller, or any number of other people you would have interacted with 15 years ago who no longer have jobs because of new companies and technologies. The economy has always evolved and needed different skills, but the pace over the last 15 years is very rapid and the need for human labor in moderate-wage industries is declining. One interesting way to think about this shift in commercial activity, is to consider the movement in economic activity from older firms to newer firms. Big companies have never been younger than they are right now. Just in the top 10 we have Google, Amazon, and Facebook none of which existed 20 years ago.

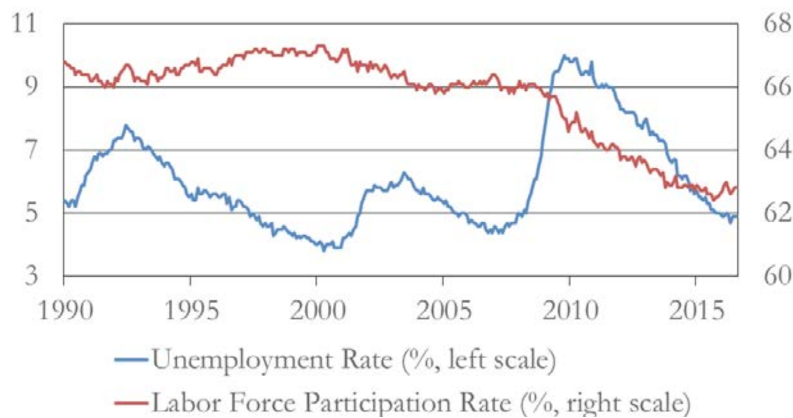
Second, global trade and manufacturing has disrupted economies around the world. Trade has been happening for thousands of years, but so many types of middle-wage jobs in manufacturing have been impacted over the course of a couple decades, that local economies and workers could not adjust without it devastating parts of many local economies. A good example of this is the furniture industry here in North Carolina where employment has significantly contracted, but the skills of the affected workers are quite specialized.

Almost all economists agree (which is rare) that there are important economic benefits to trade. However, from a policy perspective we have done a very poor job of addressing the economic costs of the rapid expansion in trade.

These are just two of many examples how rapid changes in economic structure have resulted in economic challenges. Overall rapid change in the economy is creating a substantial premium for workers with specialized skills and nimble talents. Workers who have difficulty adjusting will see the value of their labor erode. Unfortunately, this hurts their long-term earning potential, but it also hurts us all as they stop being productive assets in the economy. This is very evident in what has happened in labor markets since the financial crisis.

The blue line in this graph shows how the unemployment rate spiked up from below 5% in 2007 to 10% in 2009. It has since come down to under 5% again. This seems like very good news that the unemployment rate is back below its long-run average. However, the way we got there is a bit troubling. In the U.S. the primary measure of the unemployment rate only counts you if you are actively seeking work in the last 30 days. The red line in the graph shows that most of the decline in the unemployment rate actually came from workers exiting the workforce. In other words, they became unemployed during the crisis and eventually gave up looking for work. While about half of this can be explained by an aging population the rest is unexpected.

Declining Unemployment and Participation



This is a huge cost to the economy as well as a very bad thing for these millions of workers. If these people could go back to work in a new productive capacity it would result in a substantial increase in household income and real GDP for the U.S.

In summary, we need to think about policies that are going to make the economy, and workers in particular, better able to adjust to rapid change. Most fundamentally, we need to come to grips with policies that will let us deploy capital and workers in a way that minimizes frictions in the economy and lets as many people as possible share in prosperity. The bigger challenge is to devise policy that achieves its objective by aligning private sector incentives with the public good so that it generates as little distortion as possible of investment and production.

So our charge today is to think about how not just to improve the overall economy, but make sure that those gains are shared broadly so that not just a small fraction of the population are able to participate in America's prosperity.

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FOUR DOMESTIC PRIORITIES THAT WILL DRIVE OUR COMPETITIVENESS

Disruptive geo-political, economic, and demographic forces are dramatically transforming all of the world's institutions. We are living in a globally interdependent world where the new normal is "certain-uncertainty" (Joerres, 2014). Recent acts of domestic and international terrorism, the Brexit vote, the European Union refugee crisis, natural disasters, the recent spate of senseless police shootings and police killings in multiple U.S. cities, and the divisive political rhetoric that dominated the presidential election cycle—are all evidence of our precarious state.

"Pursuing successful policymaking in these four domains–income inequality, labor force skills, infrastructure, and diversity–I believe, has the potential to quell much of the discontent that is currently tearing our country apart."

Jim Johnson

Given this state of affairs, what must the next President do to maintain and enhance our nation's competitiveness in the global marketplace? To be sure, the "to do" list is long and international in scope. However, I shall focus here on four domestic priorities that I believe require our next Commander in Chief's immediate attention.

- Solving America's most persistent dilemma—the income inequality/poverty problem—by creating a more inclusive economy.
- Re-engineering our system of education and training programs so that moving forward, the U.S. labor force possesses the requisite skills to compete successfully for jobs and/or business opportunities in the new world of work.
- Rebuilding the nation's infrastructure by fixing spaces and places. This rebuilding should not solely guarantee that we are able to move information, goods, services, and capital at the speed of business, but also, and equally as important, to assure that people of all ages are able to live independently and navigate the built environment with relative ease for as long as humanly possible. This is especially the case for our rapidly growing population of older adults with various and oftentimes multiple mobility constraints.
- Garnering bipartisan support for embracing our demographic diversity as a strategic business imperative in the hyper-competitive global economy.

Below, I address each one of these recommended priorities in serial order.

CREATE A MORE INCLUSIVE ECONOMY

We are slowly but surely rebounding from Great Recession, the worst economic downturn since the Great Depression (Farber, 2011). Between 2007 and 2009, we lost 8.7 million jobs in this country. And our unemployment rate skyrocketed to 10% in 2009, up from 5% prior to the onset of the recession in 2007 (Goodman, 2009).

To work our way out of the economic malaise, economists told us in 2012 we needed to create 208,000 jobs every month over the next eight years to return to pre-recession employment levels (Looney and Greenstone, 2012). A recent Center on Budget and Policy Priorities report suggests that we are on target: For a record setting 80 consecutive months, our economy has created nearly 200,000 jobs a month—a total of 15.5 million jobs since early 2010 when the recession was declared over (Center on Budget and Policy Priorities, 2016).

As a consequence of this strong job growth, our unemployment rate has returned to the pre-recession level of 5% and the labor force participation rate has increased since the end of the Great Recession (BLS, 2016). Emboldened by reports of strong job growth, many of those formerly classified as discouraged workers are now re-entering the labor market and actively looking for gainful employment. In addition, companies are laying-off and firing *fewer* workers. And the "quit" rate in firms is on the rise—a sign of growing confidence on the part of workers that job growth is sufficiently robust that they will be able to find another—and perhaps better—job if they quit the one they currently have (K@W, 2014).

"We are living in a globally interdependent world where the new normal is "certain-uncertainty."

Joerres
2014

Moreover, and likely the strongest evidence of a sustained economic recovery, the U.S. economy grew at an annual rate of return of 2.9% in the third quarter of 2016—reportedly the best quarterly advance in two years (Morath 2016). Wage rates and household incomes also increased markedly this past year (BLS, 2016; Applebaum, 2016). And the incidence of poverty decreased among all race/ethnic groups (Furman, Black, and Fiedler, 2016; Luhby, 2014).

Building upon the policy prescriptions the Obama Administration implemented to stimulate economic, employment, wage, and household income growth, the next President of the U.S. must pull additional policy levers to continue to undo or reverse income inequality in America—the hollowing out of the middle class and polarized growth of low and high income households (Freeland, 2011; LaPore, 2015; PewResearchCenter, 2015; Samuelson, 2016; White, 2016). Commenting on the enduring nature of the problem, Porter (2016) notes that

Despite last year's wage and household income gains, the bottom 60 percent of households took a smaller share of the income pie than four decades ago. The bottom 20 percent took in only 3.4 percent of all income—compared with 5.6 percent in the mid-1970s. The richest 5% of Americans, by contrast, have done much better for themselves—taking in about 22% of the nation's income, 6 percentage points more than they did in 1975.

This stubbornly persistent divide between the haves and have-nots is the source

of much of the anti-immigrant and anti-government sentiment expressed in the current election cycle (Bahrampour and Clement, 2016; Davis and Fields, 2016). It also is partly responsible for America's drug overdose epidemic which is concentrated disproportionately in the U.S. population with less than a four-year college degree—a crisis that reportedly is adversely affecting the life expectancy at birth of the non-Hispanic white population (Popovic, 2016; Kolata, 2015).

To quell this widespread discontent and address the income inequality challenge head on, the next Commander in Chief must advocate for policies designed to:

- Eliminate the "jobs gap" that continues to stymie the American economy. Despite the consistently strong employment growth of the past six years, the *demand* for jobs continues to exceed the *supply* of jobs. This state of affairs exist because, over the most recent six year period, the working age population (15.8 million) grew more rapidly than the number of jobs created (15.5 million) (Merline, 2016).
- Resolve the involuntary part-time employment problem. The number of involuntary part-time employees has decreased significantly in recent years. But there are still too many people locked in part-time work (5.9 million) who actually desire or need full-time employment (BLS, 2016).
- Ensure that newly created jobs pay livable wages. Many former dislocated workers are not only locked into involuntary part-time work, but their wages also are far below their pre-recession earnings and therefore challenge their ability to live an above poverty level existence.
- Assure that the emerging innovation economy, particularly the high-tech sector, is more inclusive of not just Asians but all people of color as well as women (Pratt Center, 2015; White, 2016; Gruman, 2016).
- Guarantee participants in the "gig" or freelance economy access to the same worker protections that full-time employees in the mainstream economy enjoy (Pofeldt, 2014; The Editorial Board, 2016).

RE-ENGINEER EDUCATION AND TRAINING TO ALIGN WITH THE FUTURE OR WORK

The challenges faced by three distinct demographic groups illustrate the breadth and depth of our education and training challenges in an economy and society where the new normal is certain uncertainty: nonwhite youth in our public education system, white workers with less than a four-year college degree, and college-educated millennials under the age of 25.

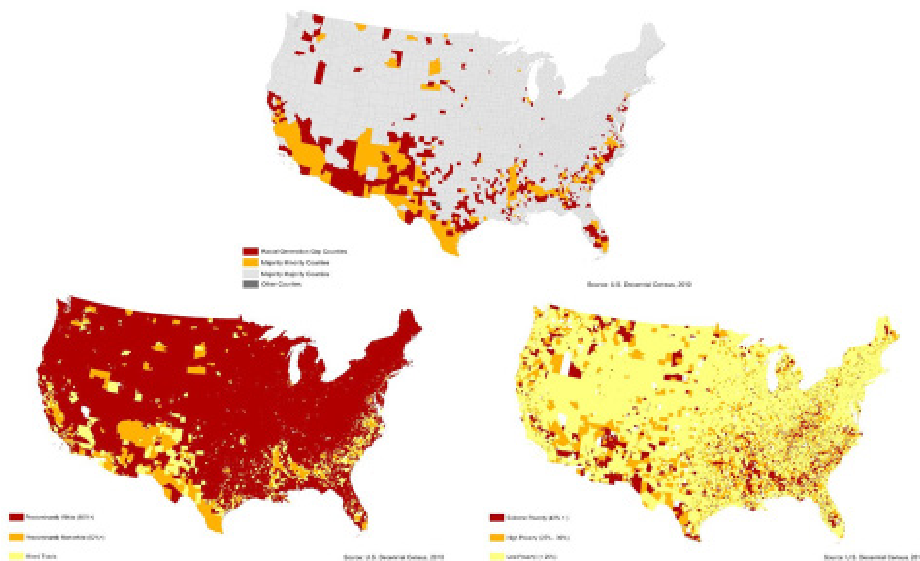
America's nonwhite youth are rapidly becoming the numerical majority in our nation's public schools. And, through no fault of their own, they are increasingly

faced with a triple whammy of geographic disadvantage in their educational pursuits (Johnson, et.al., 2016).

The daunting challenges that nonwhite youth face are rooted in two colorful demographic processes that are dramatically transforming both the race/ethnic complexion (browning of America) and the age structure (graying of America) of our communities. "Browning" is immigration driven and "graying" is driven by the aging of the boomer generation and increasing longevity among our senior population (Johnson and Kasarda, 2011; Johnson and Parnell, 2013).

Owing to these demographic shifts, nonwhite youth are disproportionately concentrated in U.S. counties where there is inadequate political (racial generation gap counties) or financial (majority-minority counties) support for public education (whammy No. 1). At the same time, they are also highly concentrated in residential neighborhoods characterized by hyper-segregation (whammy No. 2) and extreme poverty (whammy No. 3) (Figure 1).

Figure 1: The Triple Whammy of Geographic Disadvantage



An estimated 9.3 million of the nation's youth—81% of whom are nonwhite—are affected by this triple whammy of overlapping geographic disadvantages, which place them at a grave risk of falling through the cracks of our K-12 public education system and of failing to acquire the requisite advanced skills to compete in the unsparing global economy of the 21st century. These are our most disadvantaged students and the group is 93% nonwhite.

There is a second group of students whose educational achievements are constrained by a double whammy of sorts—routine exposure to two of the three whammies

(e.g., hyper-segregation and extreme poverty). About 12 million of America's youth are in this situation and this group is 81% nonwhite.

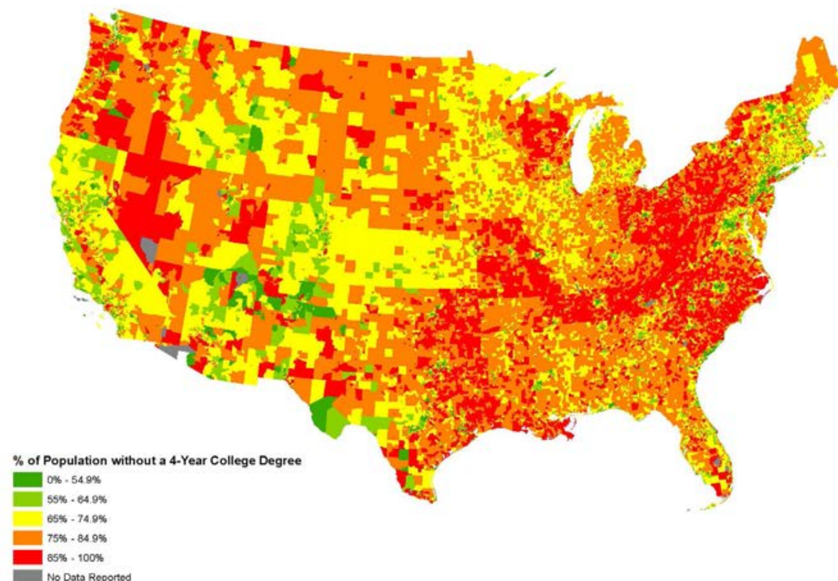
A third group of students—about 20 million—is hampered by a single whammy (e.g., extreme poverty or segregation) and that group is only 39 percent nonwhite. These students certainly deserve our attention but the investments required to improve their educational outcomes are not nearly as great as the resources required to address the educational needs of the other two groups.

About 40 percent of our nation's youth—32 million—are not hampered by these constraints. They live in areas of concentrated affluence where there is considerable support for their education. But there is one caveat.

Nearly three-quarters of the students are white and 28% are nonwhite. Even in these areas of concentrated affluence, the nonwhite youth are either concentrated in racially isolated schools or under-represented in the college preparatory tracks in the "good" schools.

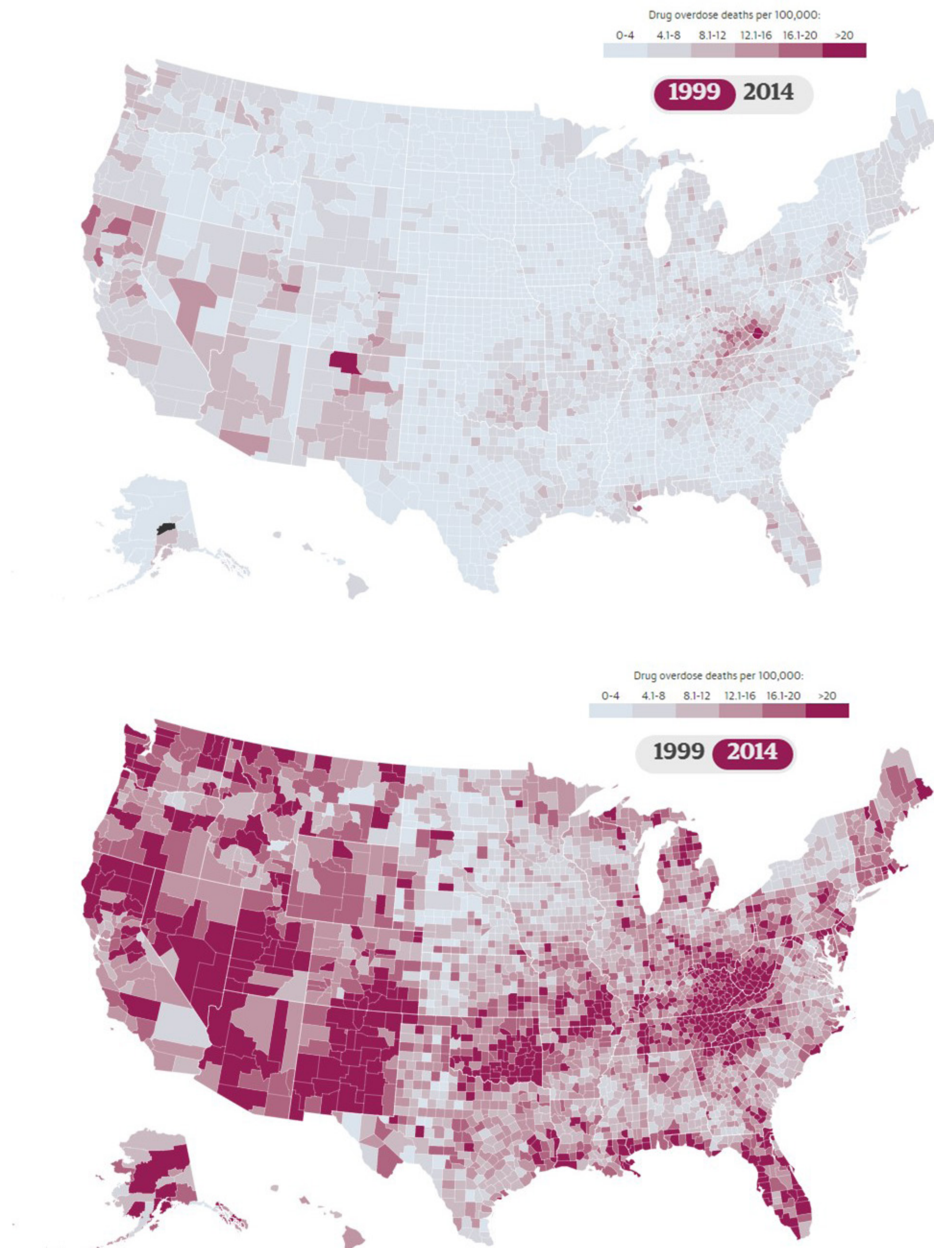
The current experiences of the U.S. population with less than a four-year college degree foreshadows what we can expect if we fail to properly educate nonwhite youth who are challenged by the triple whammy of geographic disadvantage today. They are concentrated primarily in rural communities throughout the backbone of an industrial economy that propelled our nation for much of the 20th century. This population has experienced significant difficulties in their efforts to make the transition to our post-industrial, information driven economy (Bahrampour and Clement, 2016; Davis and Fields, 2016).

Figure 2: America's Population with Less than a Four Year College Degree



Lacking the requisite skills, they have experienced long spells of unemployment and, in some instances, encountered what they view as unwelcomed competition from immigrant newcomers who have settled in their communities, found employment, and/or launched successful businesses (Adamy and Overberg, 2016). Angry and disillusioned about their current plight and perceived bleak future prospects in America, a high prevalence of illegal drug use, prescription drug abuse, suicide, and other aberrant behaviors has increased (Popovich, 2015). Clearly there is an urgent need for interventions to reverse this trend.

Figure 3: America's Drug Overdose Epidemic, 1999 and 2014



In the past we have instituted a host of education and sector-specific or custom training programs to help dislocated workers and people with less than a four year college degree retool for the information economy. But the world of work is changing dramatically and the last three recessions have taught us an important lesson: while advanced training and/or a college degree is necessary, it may not be sufficient to get a job—or one that matches acquired education and skills—in today's volatile and hyper-competitive global business environment (Johnson, 2015).

The experiences of young, college-educated millennials are emblematic of the challenge. Across the last three recessions, long term joblessness—those unemployed for six months or longer—increased more rapidly among people with some college, a bachelor's degree or higher than it did among people with a high school diploma or less (Allegretto and Stettner, 2004; Mishel, 2011; White, 2014). In 2011, 54% of bachelor's degree holders under the age of 25 were either unemployed or underemployed, up from 41% in 2000. Moreover, the incidence of poverty also increased more rapidly among the better educated during the most recent recession. And today, one in eight 2016 college graduates are underemployed and the unemployment rate is nearly twice as high for black college graduates as it is for all college graduates between the ages of 22 and 27.

These data suggest that other tools and skills—above and beyond a degree—are required to secure and sustain employment in today's economy. HR professionals assert that talent is the new capitalism in today's ever-changing global economy. They also quickly add that "talent isn't just people; rather, it is people with specific skills, behaviors, and way of operating...in a chaotic, global environment that fits the needs of their organizations" (Joerres, 2014).

Corporate leaders assert that they struggle to recruit and retain college graduates who have the rare ability to navigate an unpredictable and competitive external environment (Schwartz, Kwan, and Liakopoalos, 2010). Given this state of affairs, the next President must aggressively promote the development of a seamless system of education and training—from pre-K through higher education—that ensures the current and future U.S. workforce is equipped with four skills that are essential to thriving and prospering in today's highly volatile global economy (Johnson, 2015):

- **Entrepreneurial acumen**—demonstrated ability to deal with ambiguity, a willingness to take incalculable risks, and the capability to be tenacious and decisive in responding to the unexpected;
- **Contextual intelligence**—an acute sensitivity to the social, political, technological, economic, and demographic drivers of change that will define the future—acquired by leveraging the latest knowledge management and

advanced analytics software tools to process information and mine data in real time;

- **Soft skills/cultural elasticity**—the ability to think critically, reason analytically, solve problems, communicate clearly orally and in writing, and work in teams that transcend cultural and international boundaries; and
- **A learning mindset**—the discipline to manage certain uncertainty by continuously engaging in contextual intelligence gathering that leads to sensitive, nimble, and quick responses to both challenges and opportunities that are likely to characterize our lives and work in the future.

Equipped with this tool kit, members of the U.S. workforce will be better positioned to anticipate changing environments in a speed-driven global economy where the new normal is certain-uncertainty.

FIX SPACES AND PLACES

There is widespread agreement that our nation's physical infrastructure is crumbling and a concerted effort is needed to rebuild it. These discussions have focused primarily on the need to modernize our system of roads, railroads, subways, airports, and air traffic control systems; bridges, dams, and levees; inland waterways and marine seaports; water and waste water, solid waste, and hazardous waste treatment systems; electric power grids; and schools, public parks, and outdoor recreation areas.

There is widespread agreement that our nation's physical infrastructure is crumbling and a concerted effort is needed to rebuild it.

Simply pushing for implementation of the Rebuild America Act proposed by Senator Bernie Saunders would be a step in the right direction for the next President to take. However, our nation's infrastructure challenges extend beyond what the Rebuild America Act covers (S.268—114 Congress, (2015-2016).

In the U.S., the 65+ population is growing much more rapidly than the total population and is projected to continue to grow at a faster rate through 2050 (Johnson and Parnell, 2016-17; Ortman, Vielikoff, and Hogan. 2014). The challenges of aging, including diminished hearing, vision impairments, and other chronic disabilities, will require that all public, private, and commercial spaces are redesigned to be age friendly. Consider that one quarter of older adults between ages 65 and 74 had one or more disabilities and, in 2014, 16 percent of all older adults had independent-living constraints. As one might expect, the percentages with disabilities and independent-living constraints were much higher for the ages 75 and older population than for the ages 65 to 74 population (U.S. Census Bureau, 2015a).

Despite these disabilities, most older adults prefer to age in place—remaining as long as possible in their homes and their communities (Johnson and Parnell, 2013). In order for them to do so, we must redesign existing communities and

design new ones that substantially reduce the likelihood of costly and possibly life-threatening slips and falls. Falls result in trips to hospital emergency rooms, extended hospital stays, and long-term placements in institutionalized care settings. Making communities age friendly requires going beyond the types of adjustments/modifications that are required to comply with the Americans with Disabilities Act.

Among other characteristics, age-friendly communities house institutions that are easy to visit, provide easy access to transport systems, offer pedestrian crosswalks with extended walk times, have street signage that is large and readable, and feature older adult or multi-generational playgrounds and fitness parks (Bergal, 2016a,b; Goneya and Hudson, 2015; Guzman and Harrell, 2015; Hudson, 2015; Lawler, 2015; Phillipson, 2015).

Some efforts are underway to build age-friendly communities (Goneya and Hudson, 2015; Hudson, 2015; Neal, DeLaTorre, and Carder, 2015). If we are to scale these efforts, the next President will have to push for the implementation of policies that (Lawler, 2015):

- Ensure that transportation investments at the federal *and* state levels of government reflect the realities of conditions of the growing senior population;
- Allow older adults to safely access the equity in their homes while they remain in place, increase the availability of affordable rental housing, better coordinate between health services and housing supports, and integrate aging-in-place concerns across a range of federal programs; and,
- Leverage the power of public–private partnerships and creative financial products and incentives that integrate older adults into the economic development strategies of cities, counties, and states.

If policy prescriptions are implemented in these domains, I am convinced that our nation will be a far more attractive place in which to live and do business in the years ahead, especially for our rapidly growing older adult population.

EMBRACE OUR DIVERSITY

Republican presidential nominee Donald Trump's "Make America Great Again" campaign slogan is a not so thinly veiled advocacy for a far less diverse nation than exists today. Trump's egregious treatment of women, negative stereotyping of non-white immigrants (Mexicans, Muslims, and Syrian refugees), and insensitive mocking of people with disabilities make this evident. And his association with the Alt-Right Movement and the ex-KKK Grand Dragon David Duke's endorsement of Trump for President reinforce this view (Potok, 2016).

Rejecting our diversity is the wrong path to take if the U.S. is to remain globally competitive. The next President must make the case for *embracing* our demographic diversity and, with an eye to strategic policymaking, help the electorate and Congress understand the strong demographic connection between population aging and international migration. At present, federal policy makers are unable or unwilling to recognize how synergistic policies affecting our aging Americans and global migrants will positively influence U.S. prosperity in the years ahead (Johnson, 2013).

Rejecting our diversity is the wrong path to take if the U.S. is to remain globally competitive.

Most people recognize the U.S. population is aging as demonstrated in ongoing debates about the long-term viability of Social Security, Medicare, and Medicaid. Yet political discourse about comprehensive immigration reform suggests most do not understand that—precisely because the U.S. native-born population is aging—we simply can't thrive and prosper in a hyper-competitive global economy if we close our borders to new talent and fail to find a place for the 11.5 million unauthorized immigrants who are already live on our shores (Johnson, 2013).

Nor do they seem to understand, by extension, that if we are not globally competitive, we cannot build the economy needed to sustain the social safety net programs that serve seniors and other vulnerable populations.

Several forces are driving the aging process and amplify the need for immigration reform.

First, U.S. fertility rates have declined sharply, especially among native-born, non-Hispanic white women over the past quarter century. The decline is related, in part, to the growing role of women in the paid workforce. Some women have responded to increased opportunities to work by delaying marriage and/or childbearing until they are well established in their careers.

For others, career goals and aspirations have overshadowed marriage and/or childbearing altogether. Whatever the reason, the percentage of U.S. women between the ages of 40 and 44 choosing not to have children doubled between the mid-1970s and the mid-2000s.

As a consequence of this demographic dynamic, the non-Hispanic white total fertility rate—a statistical measure of the number of children a woman is likely to have—has fallen below the replacement level of 2.1 for almost two decades. In part for this reason, and despite the fact that aging boomers and pre-boomers are living longer, "deaths exceeded births among non-Hispanic white Americans for the first time in at least a century" during the year ending July 1, 2012 (Roberts, 2013).

Second, these two demographic forces—declining fertility and population aging—are threatening the future fiscal and economic viability of many U.S. communities, further fueling the necessity for immigration reform. Between 2010 and 2015, 21 percent of the nation's metropolitan areas (79) and 52 percent of the nation's 536 micropolitan areas (277) lost population. In nearly all of these communities, deaths exceeded births and internal migration was not sufficient enough to offset natural population loss. Bereft of mainstream employment opportunities, these communities are literally dying as young adults leave in search of opportunity.

The critical role that immigration can and will have to play in their revival is evident. An even larger number of U.S. metropolitan areas would have lost population were it not specifically for the influx of immigrants between 2010 and 2015. Immigrants are breathing new life into these communities, fostering population, economic and employment growth through their entrepreneurial acumen (Appold, Johnson, and Kasarda, 2013; Johnson and Appold, 2014). Across the nation, immigrant newcomers were critical drivers of growth in almost all of the metropolitan areas and micropolitan areas that gained population between 2010 and 2015.

Third and perhaps most importantly, given the aging of our native-born population, we must recognize that immigration is highly selective of young people, who are much more likely to move. There is, for example, a 15-year differential between the median age of native born non-Hispanic whites (42) and Hispanic immigrants (27) in the U.S. Taking this age differential into account, it is a strategic imperative for our nation to move beyond our pre-occupation with fiscal impacts – the short-term costs and benefits associated with immigrants – and focus instead on the broader and longer term economic impacts of immigration (Johnson and Kasarda, 2009).

Even if the short-term fiscal impacts are negative, these costs are often offset or overshadowed by the direct and indirect impacts of immigrant consumer spending in local communities. Our studies of the economic impact of immigrants in North Carolina and Arkansas before and during the Great Recession revealed, for example, that these two states received in return for every dollar invested in K-12 education, health care, and corrections between \$6 (AR during the recession) and \$10 or \$11 (North Carolina and Arkansas, respectively, prior to the recession) in business revenue and taxes from their immigrant populations. And notably these were the cost-benefit ratios after subtracting roughly 20% of the immigrant purchasing power that was sent home in the form of remittances. Moreover, through their consumer expenditures, the immigrant newcomers were responsible for the creation of 171,000 spinoff jobs in North Carolina and 36,100 in Arkansas (Johnson and Appold, 2014; Appold, Johnson, and Kasarda, 2013; Kasarda, et.al., 2007).

Immigration-driven population diversity has added substantial economic value in our aging U.S. society. If we become more draconian in our treatment of immigrants, the negative economic impact will be substantial and very difficult, if not impossible, for our nation to overcome.

CONCLUDING THOUGHTS

Pursuing successful policymaking in these four domains, I believe, has the potential to quell much of the discontent that is currently tearing our country apart. Growing inequality is the root cause of much the unrest and a concerted effort to create a more inclusive economy through rebuilding the nation's infrastructure to be age friendly will go a long way toward solving the long-term jobless and involuntary part-time unemployment problem in America. Population aging, in my view, can be a new engine for innovation, business development, and employment growth (Johnson and Parnell, 2016-17). This, in turn, could significantly reduce the drug overdose epidemic that is currently destroying lives and tearing families apart in our country. But all of these outcomes, of course, will hinge on the next President's ability to mobilize the electorate around the fact that we are a nation of immigrants and that our future prosperity is intricately tied to our willingness to embrace our diversity.

Professor James H. Johnson, Jr.
William R. Kenan Jr. Distinguished Professor of Strategy and Entrepreneurship and Director, Urban Investment Strategies Center
UNC Kenan-Flagler Business School

EXECUTIVE SUMMARY

On October 14, 2016, the Frank Hawkins Kenan Institute of Private Enterprise at the University of North Carolina Kenan-Flagler Business School hosted a conference titled "What's Next, America." Convened fewer than four weeks prior to the presidential election, the objective of the forum was to allow influential business leaders, academics and policy makers to examine issues critical to the U.S. economy now and in the future. The conference offered actionable solutions to the most important economic issues facing the next administration.

"Our charge today is to think about how not just to improve the overall economy, but make sure that those gains are shared broadly so that not just a small fraction of the population are able to participate in America's prosperity."

Greg Brown

In an essay written in advance of the conference, James H. Johnson Jr., the William R. Kenan Jr. Distinguished Professor of strategy and entrepreneurship and director of the Urban Investment Strategies Center at the Kenan Institute, laid out four domestic priorities that he believes require the next president's immediate attention:

- Solving America's most persistent dilemma, income inequality, by creating a more inclusive economy;
- Re-engineering our system of education and training programs such that our labor force has the skills to compete successfully for jobs and business opportunities in the new workforce;
- Rebuilding the nation's infrastructure by fixing spaces and places; and
- Garnering bipartisan support for embracing our demographic diversity as a strategic business imperative in the hyper-competitive global economy.

These were among the primary issues addressed in the "What's Next, America?" proceedings.

In his opening remarks, Kenan Institute director Greg Brown suggested that household income was a good way to frame what was to follow.

"I personally think that this is the root cause of the disenchantment we are seeing among the electorate on both the left and the right," Brown said. "The typical person sees the economy growing and the rich getting richer, and, frankly, it seems unfair to a lot of people even if they disagree on the cause or what should be done about it.

"I am increasingly convinced that we are in the midst of one of the most rapid economic shifts in the history of mankind. The fundamental structural changes to the global economy are coming so fast that the broad labor force cannot keep up."

We must devise policies that help us adjust to such rapid change, Brown said.

"Our charge today is to think about how not just to improve the overall economy, but make sure that those gains are shared broadly so that not just a small fraction of the population are able to participate in America's prosperity."

The "What's Next, America?" conference was comprised of eight sessions on the following topics: aging, education, financial policy, health care, inequality, infrastructure, tax policy and tech innovation. Following is a brief overview of topics discussed and recommendations offered.

AGING

Two primary issues addressed in the panel on Aging were the cost of health care for seniors and the senior-care workforce. America is aging, the panel acknowledged, and we need to shift from thinking in terms of competing generational interests to creating comprehensive policies and systems that successfully address the issues faced by seniors.

The panel offered the following recommendations for addressing the aging of America:

- Redesign the skilled nursing facility industry to facilitate a more natural environment in which for people to age.
- Invest more heavily in Section 202 and Section 8 housing.
- Provide federal funds to encourage people to pursue careers in long-term care, and a living wage for those who do.
- Consider a more open-door immigration policy to bolster the long-term care workforce.
- Invest in telemedicine and in the infrastructure it requires.

EDUCATION

The workforce landscape is rapidly shifting. In 1973, a person without a high school diploma was considered qualified for a third of the jobs in the workforce; that number is now about one in 10. Moreover, the recession took a heavy toll on relatively less educated workers: Four of five jobs lost were those that required only a high school education or less.

Addressing our education issues, the panel asserted, is less about how we deliver education and more about how, and how much, we pay for it.

The Education panel provided the following recommendations to the next president:

AGING

MODERATOR
Jim H. Johnson, Jr.
William R. Kenan Jr. Distinguished Professor of Strategy and Entrepreneurship, UNC Kenan-Flagler Business School

PANELISTS
Tom Akins
President & CEO, LeadingAge North Carolina

Joyce Rogers
Senior Vice President, Government Affairs, AARP

Patricia Sprigg
President and CEO, Carol Woods Retirement Community

Louis Tenenbaum
Founder, Aging in Place Institute

EDUCATION

MODERATOR
Jesse O'Connell
Strategy Officer, Lumina Foundation

PANELISTS
Kim Dancy
Policy Analyst, Education Policy Program, New America

Ben Miller
Senior Director, Postsecondary Education, Center for American Progress

Jenna Ashley Robinson
President, The John William Pope Center for Higher Education Policy

FINANCIAL POLICY

MODERATOR
Greg Brown
Director, Frank Hawkins Kenan Institute of Private Enterprise
Professor of Finance, Sarah Graham Kenan Distinguished Scholar, UNC Kenan-Flagler Business School

PANELISTS
Patrice Blanc
Chief Executive Officer, Amundi Smith Breeden LLC

Lissa Broome
Director, Center for Banking and Finance, UNC-Chapel Hill

Larry Wall
Director, Center for Financial Innovation & Stability, Federal Reserve Bank of Atlanta

- Integrate information silos to facilitate a more comprehensive use of all available federal data sources to develop a better understanding of the issues and how to address them.
- Bridge the gap between high-level policy decisions regarding financial support and how they play out in students' lives.
- Encourage the establishment of a more binding agreement between students and institutions about financial roles and responsibilities.
- Provide loans based on projected income and income-based payback.
- Assess educational institutions based on students' workforce and salary outcomes in addition to academic rigor.

FINANCIAL POLICY

Is there too much financial regulation? Is the burden having an affect on real growth? And is there insufficient competition among financial institutions? The Financial Policy panel affirmed that there have been a great many changes in the financial system since the global crisis of 2007-08, and that there remain many issues that the next administration will have to confront.

The panel made several recommendations to the incoming president:

HEALTH CARE

MODERATOR
Barbara Entwisle
Kenan Distinguished Professor, Sociology, UNC-Chapel Hill

PANELISTS
Stuart H. Altman
Sol C. Chaikin Prof. of National Health Policy, Irving Schneider and Family Institute for Health Policy

Mark Holmes
Director, Cecil G. Sheps Center for Health Services Research, UNC-Chapel Hill

Sam Lai
Assistant Professor, Eshelman School of Pharmacy, UNC-Chapel Hill

Carol Lewis
UNC Innovation & Health Care System, UNC-Chapel Hill

- Prioritize ongoing work on developing a credible resolution mechanism for "too-big-to-fail."
- Strengthen surveillance of markets.
- Reduce government incentives for consumers and financial firms to take on debt.
- Devise a more rational risk model for dealers that allows for proprietary trading.
- Address the de facto protectionism in the asset-management sector by simplifying the regulatory environment that foreign asset managers face.

HEALTH CARE

A primary issue discussed by the Health Care panel was cost. Price increases are driving our health care spending growth, but there's no silver bullet for controlling costs. America, it was suggested, will not stand for a radical change to health care, but it will stand for slower growth.

Among the recommendations offered by the panel were:

- Change provider incentives by eliminating or modifying fee-for-service and exploring bundled payments and patient-centered medical homes, health maintenance homes and accountable care organizations.

- Change patient incentives by educating patients to think more preventatively, increasing copayments and deductibles and/or limiting networks of care.
- Control costs through government regulation of prices and/or total budgets.
- Encourage providers to think more holistically, beyond their areas of expertise, about their patients' overall health and well-being.
- Invest in experiments in ways to improve the payment model.

INEQUALITY

A panel on Inequality addressed three populations that have faced stagnated economic opportunities: veterans, residents of rural areas and low-skilled workers. The panelists were asked to address the question of how to create a more inclusive economy with higher-wage job growth and balanced wealth creation.

The panel provided the following recommendations to the next administration:

- Implement economic-development strategies to connect skills developed in lost industries to new industries.
- Recalibrate the tax system to help create a more just society.
- Raise the minimum wage.
- Provide more federal money to fund workforce-development initiatives.
- Make health care more affordable and accessible.

INEQUALTY

MODERATOR
Kristin Wilson
Assistant Professor of Strategy and Entrepreneurship, UNC Kenan-Flagler Business School

PANELISTS
James D. Gailliard
Pastor, Word Tabernacle Church

Amy Glasmeier
Professor and Head, Housing, Community and Economic Development Group, Massachusetts Institute of Technology

Nichola Lowe
Associate Professor, City & Regional Planning, UNC-Chapel Hill

INFRASTRUCTURE

In its 2013 report on the status of infrastructure in the U.S., the American Society of Civil Engineers (ASCE) gave the country an overall rating of D+. According to the ASCE, a $3.6 trillion investment was needed by 2020.

The panel emphasized that while the federal government's role in funding the needed upgrades to our infrastructure is critical, analysts don't expect the federal government to contribute much more than it already is, especially given the current gridlock in Congress. States must get creative.

The panel offered the following recommendations to state and local governments:

- Borrow now to bolster infrastructure.
- Fully explore public-private partnerships.
- Be clear about your priorities.
- Solicit and incorporate public input.
- Understand that financing is a tool to solve a problem; funding is that larger conversation.

INFRASTRUCTURE

MODERATOR
Greg Gaskins
Deputy Treasurer, NC Department of State Treasurer

PANELISTS
Navjeet Bal
Vice President and General Counsel, Social Finance

Douglas Carter
President & Managing Director, DEC Associates, Inc.

Kil Huh
Senior Director, Pew Charitable Trusts for State and Local Fiscal Health

TAX POLICY

MODERATOR
Patrick Conway
Chairman, Department of Economics, UNC-Chapel Hill

PANELISTS
Donald Dwight
Tax Director, Ernst & Young

John Graham
Mead Family Distinguished Professor of Finance, Duke University

Linda Struyk Millsaps
Research Director, NC Association of County Commissioners

TAX POLICY

The primary question posed to the Tax Policy panel was: "Is U.S. corporate tax policy hurting the U.S. economy? And if so, what can and should be done?" The short answer, according to the panelists, is "probably so," but they added that there are numerous other factors that must be taken into consideration.

The Tax Policy panel offered the following recommendations for addressing this issue:

- Lower the corporate tax rate to be closer to the OECD average of 25 percent.
- Gradually reduce the repatriation tax.
- Lower the income tax rate but broaden the base by eliminating the deductibility of debt-interest expense.
- Incentivize broader, geographically speaking, venture capital investment.
- Incentivize investment in opportunity zones.
- Address the cost of health care for small and medium-size businesses.
- Invest more heavily in rural areas.

TECH INNOVATION

MODERATOR
Maryann Feldman
Heninger Distinguished Professor of Public Policy, NSF and UNC-Chapel Hill

PANELISTS
William Bonvillian
Director, MIT Washington Office, Massachusetts Institute of Technology

Dane Stangler
Vice President, Research and Policy, Ewing Marion Kauffman Foundation

Charles Weiss
Distinguished Professor of Science, Technology & International Affairs, Georgetown University

TECH INNOVATION

The framework for the Tech Innovation panel was the suggestion that the U.S. economy is becoming less entrepreneurial and that while attracted to "the next best thing," the U.S. is not applying innovation to legacy sectors. Addressing this issue requires understanding of the economic, political, cultural, social and legal context required for successful innovation.

The following recommendations were made for promoting innovation in legacy sectors:

- The federal government should provide for innovation through procurement practices.
- Universities should provide more support for entrepreneurship.
- State governments should provide support for relatively low-tech, labor-intensive industries that don't require a lot of money for R&D or equipment.
- Established firms and startups that have technologies that can advance their objectives should collaborate.

PANELS

AGING

The panel on Aging launched with an overview of some aging-related hot-button issues for the next president to consider.

First, some money issues: Median per capita assets in the U.S. are $105,000; the average cost of long-term care is $92,000. Seventy-seven% of people over 80 and 70% of those over 70 receive more than half of their income from Social Security, which comes to about $16,000 on average. Median savings are $20,000.

Aging and health intersect not only at the individual level but significantly at the societal level.

Second, by 2030, we're going to need two-and-a-half times as many care workers as we have today. Who's going to take on this task?

Third, 82% of seniors have a chronic condition; 54% have two or more. This makes them more difficult to care for, but we already have a tremendous shortage of properly trained and skilled workers.

America is aging, the panel confirmed, and we need to shift from thinking in terms of competing generational interests to creating comprehensive policies and systems that successfully address the issues faced by seniors. Aging and health intersect not only at the individual level but significantly at the societal level.

With this "age wave" upon us, the need for long-term support and services is increasing. Seventy% of those 65 and over will need a minimum of three years of care. To deal with this, the panel asserted, we need to completely redesign the skilled nursing facility industry. Nursing homes are built on the hospital model, not on keeping people in as natural and familiar an environment as possible. And they're very expensive.

Private long-term insurance covers only 10% of the cost of caring for seniors. The panel attested to the need for more affordable housing. Half the income of those 65 and older goes to housing; 45,000 people 65 and older are homeless. Greater investment in Section 202 and Section 8 housing is badly needed.

Caregiving by family members costs the country $34 billion in lost productivity. Meanwhile, caregivers are spending down all their assets, their retirement funds, and elderly family members still too often end up having to go to a Medicare facility.

Workforce development was cited by the panel as in need of considerable investment. Federal funds are required to encourage people to pursue careers in long-term care, and they then must be paid a living wage: One in four homecare workers lives under the federal poverty level. According to the panel, nursing schools caution students not to go into long-term care because there's too little money and no glory.

Panelists from left to right: Louis Tenenbaum, Patricia Sprigg, Joyce Rogers, and Tom Akins

But the question of where this workforce will come from is a significant one. In 2010, there were 7.2 potential caregivers for every senior in need; now it's 2.9. The median age of a non-Hispanic female in the U.S. is 42; the median age of a Hispanic female is 28. That being the case, it was suggested that in order to address the aging of America we must think in terms of a more lenient immigration policy.

In regards to end-of-life care, the panel asserted that the models of care are obsolete and care is fragmented. The tendency is to approach it with a "need to cure" mentality. There's a widespread lack of understanding of what palliative care is, leading to too-late referrals and inadequate advance planning. Integration of the financing of federal, state and private medical and social services is needed: a true case-management model based on interdisciplinary input and a less restrictive approach to medication.

The panel then advanced the belief that there's an opportunity to turn the challenges the U.S. faces from a financial black hole into an economic engine. Silos need to be destroyed, they argued, not just in government but in the private sector too. The bulk of change in long-term care will come in single-family homes; there's good evidence that it's cheaper to provide care in the home. A plan is needed for

bringing those homes up to the necessary standards of accessibility and comfort.

Aging in place is complex, the panel asserted; it requires a dynamic ecosystem-like strategy. One potential mechanism would be to incentivize small personal investments in renovating your home to prepare for aging. An example would be a safer bathroom. A means of doing this would be to allow seniors to invest in renovations by using existing retirement savings like IRAs and 401Ks with no tax penalty.

The panel argued that aging in place saves health care dollars because there are fewer injuries in updated homes and you get better faster because you're happy to be back in your home. These renovations also add jobs to the economy.

Longevity is a crowning achievement of public health, research and technology, the panel affirmed. But if the U.S. can't come together to support it, means of greater longevity should not be persued.

Telemedicine was discussed as a relatively inexpensive, effective means of providing a range of health care services to seniors. But more investment in the necessary infrastructure at the federal and state levels, particularly for rural areas, is required. We must also ensure that seniors are sufficiently computer savvy.

How do we build mutually beneficial strategies and alliances?

Across the board, more investment in innovation is required, the panel continued – innovation for new products and services. The AARP is fully on board with this, offering innovation funds and Shark Tank-type competitions to pitch new ideas.

But they stressed that all this requires invigorating the public – most fundamentally, eliminating ageism, starting at the community level, and in state government, where more can get done more quickly than at the federal level.

"But how do we make the business case for all this?" an audience member asked.

The response was that the U.S. must first demonstrate what the economic impact could be of redesigning environments to be more universally accessible. Make the case for how many jobs could be created. Ways to broaden the appeal to reach beyond political partisanship must be found, they argued; job creation can do that, and a bipartisan case must be made.

"And what about the private sector?" another audience member asked. "How do we build mutually beneficial strategies and alliances?"

Again, look at the economic benefits, the panel responded. Make the case for the number of dollars seniors spend. Consider the talents they bring. Make the case for more fully incorporating them into the economy, the workforce, and as volunteers.

The business community is starting to understand the potential here. An example cited: Lowe's and Home Depot are now focusing on the aging in place market, realizing the revenue potential.

Further, it was suggested that there's a huge economic-development opportunity in public space—public health departments, courthouses, the entire infrastructure of our communities—so much of which isn't age friendly. How do you rebuild communities around age-friendly principles and getting the private sector to understand the potentially huge returns on investment for rebuilding communities? Questions such as this, the panel affirmed, can only be answered through a coherent, comprehensive strategy.

> We must connect and leverage all the resources at our disposal, the panel stressed, most particularly, the experience and expertise of seniors.

The U.S. must connect and leverage all the resources at its disposal, the panel stressed in closing, most particularly, the experience and expertise of seniors. There's a huge economic-development opportunity to be taken advantage of while creating more universally accessible communities. Seniors, they urged, should be considered assets, not liabilities. It's not us versus them.

Panelists offered these recommendations for addressing the aging of America:

- Adjust from thinking in terms of competing generational interests to creating comprehensive policies and systems that successfully address the issues around aging.
- Redesign the skilled nursing facility industry to facilitate a more natural environment in which for people to age.
- Invest more heavily in Section 202 and Section 8 housing.
- Provide federal funds to encourage people to pursue careers in long-term care, and a living wage for those who do.
- Consider a more open-door immigration policy to bolster the long-term care workforce.
- Integrate the financing of federal, state and private medical and social services for end-of-life care.
- Incentivize small personal investments to renovate homes for greater accessibility.
- Invest in telemedicine and in the infrastructure it requires.

EDUCATION

A Pew Research Center poll released in October 2016 found that a majority of U.S. workers believe that new skills and training hold the key to their future success. This recognition of a workforce landscape dependent on workers with more than a high school education formed the backdrop for the education panel.

Workers today feel less prepared for today's workforce.

That landscape, the panel acknowledged, is rapidly shifting. According to the Pew poll, the number of workers with jobs that require an "average or above average level of preparation" increased from 49 million in 1980 to 83 million in 2015. In 1973, a person without a high school diploma was considered qualified for a third of the jobs in the workforce; that number is now about one in 10.

The recession took a heavy toll on relatively less educated workers: Four of five jobs lost were those that required only a high school education or less. Workers today feel less prepared for today's workforce: Three in 10 with a bachelor's degree feel they don't have the skills needed to get ahead in the workplace.

As we look ahead at the next couple of decades, the panel noted, that landscape grows increasingly uncertain. As a way of framing the issues, the panel was asked: If elected president, what would be the first change you'd make to education policy?

One suggestion was the integration of information silos to facilitate a more comprehensive use of all available federal data sources to develop a better understanding of the issues and how to address them. What's working and what's not? How are institutions of higher education comparing to one another?

A primary concern addressed was those students who don't complete their education, particularly those who are forced to drop out due to financial considerations. This is an issue exacerbated by a number of states reducing their support for higher education. A complex calculus is involved in completing a degree, and the panel argued that more must be done to bridge the divide between high-level policy decisions regarding financial support and how they play out in students' lives.

A primary issue, according to the panel, is that people make borrowing decisions on a yearly basis, rather than thinking in terms of the duration of their overall education. A potential solution would be to establish a more binding agreement between students and institutions about financial roles and responsibilities—a discussion about reasonable expectations for what a family can and should pay, what the state and federal government can provide, and how to fill that gap. Figure out how to make the math work, the panel urged, and then make the agreement binding.

This would help focus the conversation on the student's end goals, addressing questions such as, "What's the purchasing power of a Pell grant?" This approach, the panel suggested, is more aligned with the approach we take to health care, where some math is applied to determine what the cost should be for a given package of benefits.

Some discussion gathered around the fact that there are increasingly more nontraditional students today: 38% are over 25 years old, 47% are supporting themselves and 26% are raising a child. Little has been done to factor in the challenges that arise on a daily basis for these students. Child care is a huge issue for many. These challenges must be addressed in order to make it more feasible for those with extenuating circumstance to return to school.

An issue that generated much discussion was the question of quality. Moving forward, the panel suggested, quality will be framed in a way that's less about academics per se; rather, it will be defined by proxy measures that consider workforce outcomes and the percentage of graduates earning a wage that puts them above the federal poverty level. Are they going to be able to repay their loan? Is the debt load excessive? These are basic considerations that must be factored in.

According to the panel, we can't be agnostic about the outcome of loans. If a particular model of financing is consistently turning out students who pay back their loans and make a decent wage, that's success. Institutions must be held more accountable, the panel argued. Stronger gatekeeping is required regarding whether schools are operating at an acceptable level of quality and should continue to receive federal and state money.

An audience member asked how universities can be held more accountable for cost control. An issue, according to the panel, is that there is so much flexibility in how institutions choose to price aid packages, but no accountability. The aforementioned binding agreements are a means of addressing that.

Should we consider alternative means of government compensation for universities? Money could be allotted for the specific services provided, and then it's up to the university to make the math work. Or a penalty model might be used. If you charge too much, and it results in excessive levels of debt that go unpaid, you share in the risk.

The panel discussed competency-based (CB) education, suggesting that these programs exist today in an "awkward regulatory environment." If a CB program fails, students have to pay the loan back, and the federal government has little recourse to address the issue. What's needed is a mechanism to test CB programs and ease those showing positive results into the federal financial-aid system.

An appeal of competency-based education for nontraditional students is that they can receive credit for skills developed from previous experience – the military being a good example. But it's difficult today for students to find federal aid for a program doesn't resemble a traditional higher-education experience. How do you cobble together a degree based on a combination of classroom education and experience and receive adequate financial support for it? These are issues that should be addressed.

The panel discussed whether the country is experiencing a student debt crisis. According to panelists, the vast majority of students defaulting on debt are dropouts: Of those who borrowed money to enter college in 2003 and were in default by 2009, 60% had dropped out and another 20% had earned no more than a certificate. We should make it less risky to enter college by getting rid of first-year borrowing, the panel urged. A potential solution presented was giving a Pell grant in the freshman year rather than senior year.

A second concern is graduate students with debt in the hundreds of thousands of dollars. Most high-figure debt is among grad students. They don't generally default, but they have "payment smoothing" issues. This is a compelling argument, the panel suggested, for loans based on projected income and income-based payback.

What about free college? The panel hypothesized that "the devil is in the details." How do you implement it? How do you replace the lost revenue? Would you then be pulling in less academically prepared students? These issues must be addressed.

The panel acknowledged that equity issues persist. More attention must be paid to the needs of minority populations. We must more closely examine the full potential consequences of any policy decision.

The importance of financial literacy was then discussed. The panel agreed it's important, but not a "silver bullet," and that too many students aren't making a choice about where to attend school based on cost. They're choosing schools that are closest to home or otherwise most readily available to them.

Most of what had been discussed by the panel pertained to incremental change. But, an audience member asked, what about longer-term solutions? It was suggested that there's nothing yet ready for "prime time," and that we must determine what looks promising and encourage calculated risk in investment. The government is better placed to do this because it can assume more risk. But Congress, according to the panel, has showed no interest in funding small-scale evaluations, and, when they do, they're interested only in immediate successes. As soon as something gets labeled a failure, it's done.

Addressing the broader issues, the panel asserted, is less about how we deliver education – online education, for example, is on the rise, and is widely encouraged – and more about how, and how much, we pay for it. A more holistic approach is required throughout.

In summary, the Education panel provided the following recommendations to the next president:

- Integrate information silos to facilitate a more comprehensive use of all available federal data sources to develop a better understanding of the issues and how to address them.
- Bridge the gap between high-level policy decisions regarding financial support and how they play out in students' lives.
- Encourage the establishment of a more binding agreement between students and institutions about financial roles and responsibilities.
- Establish a mechanism to test competency-based education programs.
- Meet child care needs for student-parents.
- Provide loans based on projected income and income-based payback.
- Assess educational institutions based on students' workforce and salary outcomes in addition to academic rigor.
- Fund evaluations to test long-term solutions to education access.

FINANCIAL POLICY

Among the issues a panel on Financial Policy set out to tackle were: Are there costs to the capital-allocation process in the U.S. that are leading to slow growth? Is there too much regulation? Is the burden having an affect on real growth? And is there insufficient competition among financial institutions?

> There have been a great many changes in the financial system since the global financial crisis of 2007-08, and that there remain many issues that the next administration will have to confront.

The panel affirmed that there have been a great many changes in the financial system since the global financial crisis of 2007-08, and that there remain many issues that the next administration will have to confront. These include:

- Key regulatory changes, including living wills, stress testing, liquidity rules and the state of systemically important financial institutions (SIFIs). How have these factors changed banking?
- The overall environment facing banks, yield dynamics and profitability impacts, and the divergence in European and U.S banking. What do these mean for the U.S. financial system and the competiveness of institutions?
- Challenges ahead regarding return on equity, systemic risk, the role of monetary policy and market liquidity.

In addressing the current state of affairs, the panel asserted that it's imperative we understand the Dodd-Frank Act and its response to the financial crisis. Among the outcomes of Dodd-Frank:

- Establishment of the Financial Stability Oversight Council to address systemic risk;
- Curbs on federal government emergency lending and the FDIC's use of the systemic risk exception; and
- Establishment of the Consumer Financial Protection Bureau; and
- Orderly liquidation authority.

The Consumer Financial Protection Bureau was created to regulate providers of consumer financial products and services and protect consumers from unfair, deceptive or abusive practices. It regulates any provider of a mortgage loan and

offers a consumer complaint procedure. CFPB enforcement activity has brought more than $11.4 billion in relief to some 25 million consumers.

Since the financial crisis, there have been very few new bank charters. In 2007, there were 164; from 2012 to 2016, there were only two. There has been a lot of industry consolidation through mergers and acquisitions, in part due to the cost of compliance with the new regulations.

Out of the crisis came an agreement, both domestically and internationally, that stricter regulation was required. Changes include:

- Stricter capital adequacy rules;
- The closing of accounting loopholes;
- New quantitative liquidity requirements;
- Better alignment of bankers' compensation with their risk taking;
- A reduction of banks' exposure to market risk;
- Measures to limit banks size and complexity; and
- Measures to facilitate the orderly resolution of failed systemically important financial firms.

Although these actions make the financial system more robust, the panel acknowledged that work remains to be done. For example, while stricter regulation is helpful in reducing systemic risk, in many ways it's an inefficient substitute for credible resolution, and regulation also becomes increasingly ineffective as banks become better at finding ways to avoid regulations. Another unresolved issue is that policy focus has been placed on resolving idiosyncratic failures rather than on how to handle the insolvency of multiple SIFIs.

The panel suggested that regulatory overreach has harmed many U.S. households and businesses. The world has changed since the financial crisis in a number of ways, but two of the most important cited by the panel are the major reduction in broker-dealer balance sheets that has lowered liquidity in bond and other over-the-counter markets and stringent regulation of foreign asset managers that effectively limits investment options for U.S.-based investors.

The most obvious effect, the panel continued, is an impact on bond market liquidity. While overall volatility has been low, the susceptibility of markets to dislocations because of information shocks has increased. Ultimately, this raises the cost of capital because asset prices will reflect an additional liquidity premium. Investors lose because dealer-effective spreads have increased for large trades.

The market has tried to solve liquidity issues in various ways. For example, in fixed-income markets, trading with more credit default swap has resulted in larger discrepancies between cash and CDS prices. And monetary authorities around the world have had a negative impact on liquidity, buying large percentages of liquid investment-grade fixed income securities.

Regulations, the panel argued, are perceived by some foreign asset managers as being effectively protectionist, supported by U.S. financial institutions to limit competition. This, they suggested, likely has a detrimental impact on U.S. investors, especially smaller investors for whom it's cost-prohibitive to devise legal strategies to access non-U.S. strategies.

Recommendations made to the next administration included prioritizing ongoing work on developing a credible resolution mechanism for "too-big-to-fail," strengthening surveillance of markets and reducing government incentives for consumers and financial firms to take on debt—acknowledging that this last is a "stretch goal."

In regards to a credible resolution policy, the panel suggested limiting taxpayer exposure to losses and enhancing the effectiveness of prudential regulations. Any resolution must be considered credible by policy makers and the financial community. A credible resolution, according to the panel, is a work in progress that should continue to be a priority.

As regards reducing incentives to take on debt, the panel stated that the financial crisis arose from transactions between highly leveraged financial institutions and highly leveraged households. Mortgage interest deduction encourages consumers to take on more debt. Should the government encourage this kind of leverage? This question requires close scrutiny.

The panel further suggested that the U.S. needs to devise a more rational risk model for dealers that allows for proprietary trading, arguing that in the financial intermediation process during the crisis it wasn't the proprietary trading at banks per se that led to systemic risk; rather, it was fundamentally a credit-risk issue. So rather than instituting an effective ban on prop trading, it would be better for most market participants to comply with prudent risk capital requirements and risk controls. Careful management of implicit leverage and credit quality, for example, would serve to limit systemic fire-sale risk without creating systemic risk.

Further, the panel argued, the U.S. should address the de facto protectionism in the asset-management sector by simplifying the regulatory environment that foreign

asset managers face. Streamlining this process while maintaining appropriate controls to prevent fraud would both decrease the cost of foreign investment and offer improved access to products that increase portfolio diversification for many U.S. investors.

A discussion ensued during the Q&A portion of the session about whether mega-institutions should be broken up. It was suggested that perhaps a "sweet spot" could be found: big enough to have sufficient technological infrastructure to confront regulatory requirements, but not too big to preclude competition. Regardless, the panel said, we need to think about supporting small institutions in meeting those regulatory burdens.

Suggestions made by the Financial Planning panel to the incoming administration, include:

- Prioritize ongoing work on developing a credible resolution mechanism for "too-big-to-fail."
- Strengthen surveillance of markets.
- Reduce government incentives for consumers and financial firms to take on debt.
- Devise a more rational risk model for dealers that allows for proprietary trading.
- Address the de facto protectionism in the asset-management sector by simplifying the regulatory environment that foreign asset managers face.

HEALTH CARE

A presentation by Dr. Stuart Altman, the Chaikin Professor of Health Policy at Brandeis University's Heller School, framed the Health Care panel discussion. Altman's talk was titled "The Next Big Health Care Challenge: Can We Control Healthcare Spending?" and he pointed out that the U.S. is now spending nearly $3 trillion on health care in this country – almost 18% of our GDP, inching toward 20%. That's the highest, by a considerable margin, in the industrialized world.

> "Our health care financing system is a major factor in high costs and when we talk about controlling costs we're messing with the fundamentals of the economy and of important aspects of people's lives – not an easy sell."
>
> Dr. Stuart Altman

Economists say that the U.S. should stop health care delivery at "economic optimum," Altman said, rather than "maximum impact." Meanwhile, many observers fear we're now too often delivering a "harmful" level of care. Some argue that 40 percent of expenditures are wasted. When you're talking about $3 trillion, Altman emphasized, that's a lot of waste.

The primary questions that need to be addressed concerning health care cost containment, Altman said, are:

- How important is it to control health spending?
- What are the major factors driving increases in health spending?
- What techniques should we use to control health spending?

In regards to the importance of controlling spending, the questions we must ask are:

- How many health care jobs are we prepared to give up?
- How much lower quality care would we accept?
- How much of a reduction in access to care would we accept?

Our health care financing system is a major factor in high costs, Altman suggested, and when we talk about controlling costs we're messing with the fundamentals of the economy and of important aspects of people's lives – not an easy sell.

Altman then addressed insurance. Health insurance reduces the cost to the individual and increases usage. It allows the per-unit cost to rise. And it encourages

people to purchase more expensive services. High-deductible health plans are the new biggest growth in insurance, Altman said. The idea is that people should have "skin in the game"; they should "feel the pain" of health care costs. But that only seems to work with lower-income individuals, he argued. These plans are controversial, but continue to grow in popularity, and do have some impact on the use of care.

Panelists from left to right: Barbara Entwisle, Sam Lai, Stuart H. Altman, Mark Holmes, and Carol Lewis

What are the major factors driving increases in health spending? Altman suggested three for consideration: the use of too many expensive services, prices that are too high for the services we use, or a combination of both. He pointed out that the frequency at which we go to the hospital is actually among the lowest in the industrialized world. We also have a relatively low average length of stay. And we have a relatively low rate of doctor consultations. But we tend to use more technology: We have, for example, one of the highest rates of coronary bypass surgery. And while we're not buying more drugs than the rest of the world, we're spending more on them.

In sum, Altman said, price increases are driving our health care spending growth, but he stressed that there's no silver bullet for controlling costs. He laid out three primary components to consider:

- Change provider incentives: eliminate or modify fee-for-service and explore bundled payments and patient-centered medical homes, health maintenance homes and accountable care organizations.
- Change patient incentives: educate patients to live healthier lives and think

more preventatively, increase copayments and deductibles and/or limit networks of care.
- Control costs: consider government regulation of prices and/or total budgets.

Altman offered an overview of past attempts at health care cost control—federal price controls, a focus on HMOs, managed competition, a return to the fee-for-service model—and said that the balance of power now rests with big systems: the consolidation of provider groups, the use of market power to increase costs, much more fee-for-service for outpatient care.

So where are we headed? Cost growth is again on the rise. State government can play a role in helping change the system, Altman suggested, citing Massachusetts, which passed a law stipulating that health care costs can't rise beyond GDP. The state now has per capita expenditures below the national average, and Massachusetts hospitals are among the leaders in restructuring the state's delivery system.

Regarding the Affordable Care Act, lots of things are working, but lots of others are not.

Altman suggested audience members urge their state legislators to pass legislation to develop improved data systems to better understand what's going on with all major players—hospitals, doctors, Medicaid, Medicare—and base decisions of how to move forward on that knowledge.

The world won't come to an end if spending for health care rises to 20 percent of GDP, Altman affirmed. But it has to be addressed, because it has a tremendous impact on the deficit and debt. Controlling it is difficult, but we need to do something about prices. America, he said, will not stand for a radical change to health care, but it will stand for slower growth.

The panel then turned to further discussion of why we're where we are today. A recent study by the Commonwealth Foundation found that 27% of U.S. respondents believe our health care system should be completely rebuilt. The country with the next highest percentage of respondents who believe the same was Norway, at 12%.

As Altman pointed out, we spend a lot of money on very expensive things; MRIs, for example. Salaries of specialty doctors are relatively high. And hospital administration costs are also high: 25% of total hospital costs, as compared with 12% in Canada.

Regarding the Affordable Care Act, the panel ventured that lots of things are working, but lots of others are not. And sometimes you have to do some digging to determine the difference: For example, a recent Department of Health and Human Services report was cited that found that Marketplace premiums in states that have

expanded Medicaid are about 7 percent lower than in other states.

A discussion ensued concerning an analogy to climate change: A commitment has been made to reducing carbon emissions but not to controlling health care costs. That commitment must be made, the panel argued. It requires "drawing a line in the sand," with a goal of reducing costs by 50 percent by 2085. One way to get there is by investing heavily in technology.

An example cited was the cost of dialysis, estimated at $89,000 a year per patient. This costs Medicare alone $34 billion a year. The only good reason it's not cheaper, the panel suggested, is that there's been no real incentive to apply technology to do so. The conversation about how to control health care costs going forward should more consistently include researchers and engineers.

We need to improve our care for the elderly, which will require better educating primary care providers on their particular needs.

Other areas that should be addressed to bring down costs were then discussed. One is investing in changing behaviors. There are today insufficient incentives in place to motivate providers to work with their patients to ensure they're getting the best health care possible. The system is siloed, making it difficult to gain a holistic view. Primary and behavioral health are generally provisioned separately (and behavioral health is badly underfunded).

The "silver tsunami" is a major issue—americans are living longer, but quite often with multiple chronic diseases. Improvements must be made for care of the elderly, the panel argued, which will require better educating primary care providers on their particular needs.

Another issue is the need for more innovative changes to the payment models. A number of demonstrations that are now underway, the panel said, are working—penalizing hospitals for readmission rates, for example. More experiments are needed: such as one to incentivize doctors to once again make house calls. The result could be keeping people from ending up in the hospital unnecessarily.

And yet another suggested is investment in data and analysis, perhaps creating a national database.

The panel closed with a discussion of the pros and cons of a single-payer system. A positive is that it would help control administrative costs and complexity. A negative, Altman said, is that low-income people would suffer because the wealthier would opt out—and, further, that it would wipe out the tens of billions of dollars private insurance pours into the system, which would have a major impact on services.

The Health Care panel offered the following recommendations for improving health care in the U.S.:

- Change provider incentives by eliminating or modifying fee-for-service and exploring bundled payments and patient-centered medical homes, health maintenance homes and accountable care organizations.
- Change patient incentives by educating patients to think more preventatively, increasing copayments and deductibles and/or limiting networks of care.
- Control costs through government regulation of prices and/or total budgets.
- Make a commitment to controlling health care costs similar to the commitment made to reducing carbon emissions.
- Include researchers and engineers in conversations about how to control health care costs.
- Encourage providers to think more holistically, beyond their areas of expertise, about their patients' overall health and well-being.
- Improve education about the needs of seniors.
- Invest in experiments in ways to improve the payment model.
- Invest more heavily in data and analysis and work toward a more integrated system.

INEQUALITY

A panel on Inequality addressed three populations that have faced stagnated economic opportunities: veterans, residents of rural areas and low-skilled workers. The panelists addressed the question of how to create a more inclusive economy with higher-wage job growth and balanced wealth creation.

> Panelists were asked to address the question of how to create a more inclusive economy with higher-wage job growth and balanced wealth creation.

The federal government is now responsible for the care of some three million veterans of the conflicts in Iraq and Afghanistan. The number of those affected grows to roughly 10 percent of the population when contractors and families are included. Today's veteran population is different in several ways than in the past: Women's participation in the armed forces is rising, the veteran population is aging faster than the general population and today's veterans are at a higher risk of homelessness.

These conflicts have been longer and more unpredictable than previous wars, and this too impacts veterans' experiences and the services they need. Vets have been deployed for longer, and repeated, tours of duty. And more Reserve and National Guard soldiers, who go in with less preparation, have been deployed, and when they return they have fewer services, particularly in regard to health care.

A completely new understanding of what it means to be in a continuous state of conflict is needed, the panel suggested, and a different structure for providing services to veterans must address this. The panel asserted that we must work to change what happens both when military personnel enter and when they come out to better prepare them for the transitions. When they enter the military, they're asked to surrender a big chunk of their volition, to conform to the military way. Then when they come out, they're told they need to be independent.

There's a grave shortage of behavioral health care resources available to veterans, the panel said. There's a great need to address the trauma associated with living with or after physical wounds and with emotional wounds, a need for the integration of physical and mental health care and a need for "skill translation" from the military to the civilian economy. There's also a great need to restructure the military and the

support services around it, the panel stated, to more effectively meet the needs of women.

Regarding rural populations, unemployment is a huge issue. According to the panel, there's a great need for job creation and economic development. It was suggested that the shortage of economic opportunities is not so much a race issue as it is a "place issue," delineated by an urban/suburban/rural divide. This is a big issue in North Carolina, the panel affirmed, where 80 of 100 counties are rural.

Veterans have a lot of untapped skills that aren't valued in the traditional workplace: among them, an understanding of the value of teamwork, problem-solving skills in high-stress environments and a capacity for addressing unanticipated challenges.

Rural areas have seen a shift in job creation away from traditional industries like textiles, tobacco and manufacturing, which paid decent wages. These jobs have been replaced by growth in the service sector, with, on average, lower-paying wages. Wage inequality is further exacerbated as the effects of this shift to low-wage work is multiplied throughout the economy: Low wages cause decreased mobility, increased economic vulnerability, depressed local investment and discouragement of entrepreneurship.

As regards low-skilled workers, the panel suggested that skill development is generally viewed in the framework of formal education, which intensifies inequality, particularly for job-seekers with high barriers to access to higher education, and for small firms that lack the infrastructure to build and maintain a trained workforce. Exclusion of low-skilled workers limits opportunities for those at the bottom and the success of companies who could benefit from these workers' potential.

Panelists were asked about opportunities that are lost by excluding these populations.

Veterans have a lot of untapped skills, the panel argued, that aren't valued in the traditional workplace: among them, an understanding of the value of teamwork, problem-solving skills in high-stress environments and a capacity for addressing unanticipated challenges. Educational institutions should help employers see and value these skills by offering credit for military service and augmenting it with targeted education and workplace learning that builds on the skills.

In rural communities, skills developed in lost industries haven't been properly leveraged. Economic-development strategies should be put in place, the panel said, to connect these skills to new industries. And corporations need to be incentivized to come into these communities to take advantage of these skills. But the panel argued that new talent must also be recruited. Rural areas offer a quality of life that many, including veterans, would be attracted to if there were adequate employment opportunities. The panel asked: What if we located a state-of-the-art VA facility in a

rural community to draw veterans and investment?

The panel suggested that while skill is typically seen as an individual asset, it should be viewed as a mutually created resource, a social good. We need to challenge conventional notions of what skill is, how we measure it and who's responsibility it is to develop it – the burden should not rest solely on the individual.

The panel was asked, "How can policy solutions to economic inequality make the economy more inclusive *and* more competitive?

Public institutions of higher education are not being sufficiently utilized to promote local businesses, the panel said. We must figure out how to make better use of educational institutions that already have strong connections to businesses, like community colleges, to engage employers in skill-development initiatives.

North Carolina needs to act as a state of regions instead of counties.

An example of this being done successfully is in North Carolina, where community colleges have partnered with the N.C. Biotech Center in Research Triangle Park. They mutually recognized that displaced textile workers had skills that could be leveraged with minimal additional training. Interventions like this, the panel argued, require funding and creative thinking, expanding the college's role to employer engagement and supporting work-based learning.

It was suggested that North Carolina needs to act as a state of regions instead of counties. Companies need anchor assets around them, beyond county borders. Libraries, hospitals and agricultural-extension agencies could all function as anchors. What if the hospital provided workforce training for high school and middle school students? Counties should not be competing with one another; they should be actively encouraged, and incentivized, by state government to think more broadly.

Panelists argued that tax policy has been a primary cause of wage inequality over the past 35 years. A recalibration of the tax system is needed—not to destroy the benefits at the top but to help create a more just society. Further, the panel urged, we must raise the minimum wage; it's impossible to live on. The panel argued that the business community is aware of this and can figure out a way to balance it with their expectations, aiming at improving productivity, thinking more strategically.

"What is an appropriate level of intervention?" the panel was asked.

The Workforce Innovation and Opportunity Act brought back a pot of money that states can use to fund workforce-development initiatives. According to the panel, federal money is needed to fund these initiatives, supporting community colleges,

helping them experiment. Funding is needed for apprenticeships.

The workforce of the future is developing in technologies such as 3D printing that have the potential for widespread application. We must think creatively about how to add value to human activities that will not be easily automated. What is the shared benefit among employers and employees of the economy of the future? These discussions, the panel stated, are currently only taking place in engineering labs. They need to be held more broadly.

Students and families need to be helped to see early on that there are opportunities in industry that don't require a college education. Guidance counselors often only get credit for students enrolled in colleges; that shouldn't be the case. Barriers, such as transportation, to apprenticeship programs must be addressed. And we need a well-funded preschool system; without it, kids are behind from the beginning and the social costs end up escalating.

Finally, the panel argued, we must address health care. Two-thirds of people who don't have health insurance are employed. Health care must be seen as a primary driver of income inequality.

The Inequality panel provided the following recommendations to the next president:

- Implement economic-development strategies to connect skills developed in lost industries to new industries. Incentivize corporations to come into rural communities to take advantage of these skills.
- Recalibrate the tax system to help create a more just society.
- Raise the minimum wage.
- Provide more federal money to fund workforce-development initiatives.
- Invest in a quality preschool system.
- Make health care more affordable and accessible.

INFRASTRUCTURE

In its 2013 report on the status of infrastructure in the U.S., the American Society of Civil Engineers (ASCE) gave the country an overall rating of D+. According to the ASCE, a $3.6 trillion investment was needed by 2020. The situation is worst in and around older cities in the Northeast and Midwest, but no state received a good grade.

A panel on Infrastructure addressed this national concern.

Federal funding is obviously important, but the panel stressed that state and local governments contribute about three times more than the federal government to infrastructure: $150 billion a year from taxes and another $38-40 billion from fees and tolls. They then borrow or bond for additional investment.

But states are still reeling from the Great Recession. According to the panel, 2014 was the first year that many states began to turn things around; but two-thirds of local governments haven't yet bounced back. A major issue they're now facing, according to the panel, is that they "kicked the can down the road" on infrastructure. According to the ASCE, an estimated 240,000 water mains break each year across the country. Assuming every pipe needs to be replaced, the cost over the coming decades could exceed $1 trillion.

In its 2013 report on the status of infrastructure in the U.S., the American Society of Civil Engineers gave the country an overall rating of D+.

The panel emphasized that while the federal government's role in funding the needed upgrades to our infrastructure is critical—it often catalyzes projects—they noted that most analysts don't expect the federal government to contribute much more than it already is, especially given the current gridlock in Congress. So what does this mean for the country's infrastructure?

First: Interest rates are low, and states should borrow now to bolster infrastructure. But, the panel noted, there's no possible way they can borrow their way out of the depth of this problem—not without putting their credit ratings at risk.

As such, the panel urged, state and local governments must fully explore public-

private partnerships. The sale or lease of existing infrastructure is becoming more common. But, the panel stressed, governments must be very careful in their assessments of how these deals are structured and how the money is used. Indiana and Illinois offer great examples. In 2004, Illinois leased the Chicago Skyway, a 7.8-mile toll road, to a foreign firm for $1.83 billion to operate, maintain, and collect tolls for 99 years. Two years later, Indiana auctioned 157 miles of toll road to a construction firm consortium for $3.8 billion for 75 years.

But, according to the panel, these examples are polar opposites in terms of how the money was used. Indiana re-invested its money into infrastructure. It now has a 10-year fully funded transportation and infrastructure plan. Chicago used the money to pay off old debts and, the panel suggested, essentially squandered it.

Other states are getting creative in their public-private partnerships. Utah recently completed a project along its I-15 corridor, hitting all its major hubs and ski resorts, adding two lanes in either direction. They bonded $1.7 billion on the project, and it was launched during an economic downturn. They found a design firm that would work with them to plan and implement it. The state DOT collaborated with the design firm to devise the best way to allocate resources. The project came in $260 million under budget and took less than three years. The sate ended up with seven extra miles of road.

Bond financing is a smart way to spread out the cost of infrastructure over time.

The panel stressed that states have a lot of tools at their disposal. Some—South Dakota, for example—are increasing their gas tax to pay for infrastructure. Action is possible, and state and local governments, the panel asserted, are trying to get more creative, knowing they'll probably need to move forward without substantial help from the federal government. The Utah project, for example, had no federal involvement. Most states will most probably be borrowing.

Bond financing is a smart way to spread out the cost of infrastructure over time, the panel asserted. The thinking is that today's taxpayers shouldn't pay for something people will use 10 to 20 years down the road.

Taking the long view is important: Millions of dollars in public infrastructure can unlock billions in economic gain. Boston Harbor was cited as an example. The sewer system out of Boston Harbor was cleaned up such that the harbor is now usable for fishing and boating. The project was paid for with water and sewer fees on 60 communities. Now major construction is going on around the harbor. This, the panel noted, is a tangible example of how investment in infrastructure unlocks private investment.

Another example from Massachusetts: The state used to have an insufficient system for financing public school infrastructure. So it created a new school building authority, and funded it with revenue from a penny of the sales tax. The authority made priorities based on need and gave subsidies to localities to build schools, with cost constraints. There are now new prototype school buildings throughout the state.

Another suggestion raised for thinking more creatively about infrastructure is green bonds: There are no real rules to them; they're more a marketing ploy. Government borrows for green projects all the time, but if they package it as "green bonds," they can potentially reach a new group of investors.

It was suggested that local government can more easily fund projects than state or federal government because it's easier for them to engage the public. But discussions must be held that address the "real priorities." You can't accomplish it all; you have to set priorities. How do those priorities affect the well-being of your citizens?

The financial planning around these infrastructure projects is extremely important. An example cited was Charlotte. The I-85 corridor from Raleigh to Charlotte is now being touted as the next "East Coast megalopolis." It's estimated that in 2030 there will be more than 15 million people along that stretch of interstate. Charlotte is working to prepare for this growth. The city has more than $5 billion in debt; nonetheless, it maintains the highest credit rating achievable on every set of bonds. According to the panel, they're great financial planners.

Another example from Charlotte: The city enacted a half-penny sales tax to build its first light rail. It invested $2 billion, and already $3.5 billion in investment in the area has come in, with more than $2 billion proposed in one of the poorer neighborhoods in the city. It was a great investment in terms of creating jobs and tax revenues to better improve the community.

But public-private partnerships can have unintended consequences. The panel suggested how to try to avoid them:

- Define success for the project upfront, incorporating public input.
- Do a thorough due-diligence and vetting process to know appropriate costs and allocation of costs from different entities. Above all, look at fairness in allocation of individual contributions and how future rewards can be shared.
- Understand the particulars of the resources available from all parties that are coming to the table. A lot of bankruptcy and non-delivery occurs on the private side of the deal.
- Define who has ownership at the end of the partnership venture. Has it

become a private investment forever, or after a time is it public?

- Understand that the "public is always the deep pockets on these projects."

The panel stressed that mutually agreed-upon success is so important in public-private partnerships – all participants have to agree upfront. A rule was suggested: "If you do not know what you want as a public entity, and what you are willing to accept, and if you are not willing to walk away from the deal, you will make a bad deal for your citizens every time." You have to be an equal partner to get a partnership.

It was then suggested that financing is not funding. Financing can't be the only component of how a deal is put together. A down payment of sorts is needed. Working with your constituents is essential to determine what you really want and need, and establish that it's not free. What is seen as a success? Educating citizens on these projects and the long-term affects is essential.

Financing is a tool to solve a problem. Funding is that larger conversation. Discussions about the costs associated with funding—higher taxes, for example—are hard in public discourse, but are necessary. It's also important to design multiple payment methods. Paying for infrastructure projects with cash only is not possible.

One final observation offered by the panel: "Everyone likes their local government," but it's critical to think regionally. It's a difficult process, but it's necessary to think more broadly.

The Infrastructure panel offered the following recommendations to state and local governments:

- Borrow now to bolster infrastructure.
- Fully explore public-private partnerships.
- Consider bond financing, including "green bonds."
- Be clear about your priorities.
- Solicit and incorporate public input.
- Understand that financing is a tool to solve a problem; funding is that larger conversation.

TAX POLICY

The U.S. presently has a 35% corporate tax rate, the highest in the world. The primary question posed to the Tax Policy panel was: "Is U.S. corporate tax policy hurting the U.S. economy? And if so, what can and should be done?"

The panel launched with a discussion of repatriation taxes. If a U.S. company has operations in, say, Ireland, it pays a 12% tax rate there. If it then brings the profits back to the U.S., it pays 23% here. So to avoid that, many companies leave those profits overseas, and as long as they permanently invest there they never have to pay the additional tax. The U.S. Treasury estimates that corporate America is sitting on more than $2 trillion in offshore profits.

In 2005, the federal government offered a tax holiday, allowing companies to bring that money back at no more than 5 percent. Hundreds of millions of dollars came back. It was called the American Job Creation Act. But what did these companies do with the money? Some firms did use it to invest, but others used it for such financial measures as paying down debt. According to the panel, it's not at all clear that the holiday achieved its goal.

> The U.S. presently has a 35 percent corporate tax rate, the highest in the world.

A September 2014 *CFO Magazine* survey of CFOs was cited, in which 76% of U.S. CFOs said that other countries have tax policies that are more favorable to business than the U.S. tax code, and 47% said they aggressively tax manage where their profits are realized. Thirteen % said that, due to these considerations, they've considered reincorporating in another state or country.

Is the U.S. tax policy hurting us competitively? The short answer, according to the Tax Policy panelists, is "probably so," but they added that there are numerous other factors that must be taken into consideration.

The average corporate tax rate for the top 30 economies in the world is around 25%. As a percentage of government funding, our corporate taxes represent a larger portion of funding—at 22%, excluding Social Security—than most OECD countries. Lower is viewed as better by the investor community.

But the public perception seems to be that corporate America isn't paying its fair share. What's behind the math?

The U.S. tax regime is more residence based ("worldwide"), while that of most OECD countries is, or is moving to, source based ("territorial"). Worldwide means that residents are taxed on income gained anywhere in the world; territorial means they're only taxed on income gained within that country, regardless of residence. That said, U.S. tax policy provides a number of deductions, credits and deferrals to reduce the actual tax burden, and it's thus somewhat a worldwide/territorial hybrid.

Foreign governments have made up for lower statutory tax rates by expanding the taxable base, by, for example, reducing deductions such as interest or transfer pricing charges. Some countries also use value-added taxes to bolster government funding levels. These are measures the U.S. could pursue. But, the panel reminded, economic and revenue needs drive tax policy.

The challenge with tax reform is to fund the government while remaining competitive under increasing global scrutiny on whether companies are paying what's considered their fair share.

The current U.S. corporate tax regime does, in part, encourage business practices that may not always be in the best interests of the greater economic good.

According to the panel, many of the discussions presently taking place in Congress lean toward a more territorial-based tax rate: Eliminate deferral in exchange for lower rates and introduce consumption-based taxes. But there are other proposals that lean toward corporate tax integration, leaving the rates unchanged while attempting to alleviate the double taxation of corporate earnings through a system of credits, deductions or exclusions when such earnings are distributed. All agree something must be done to restore U.S. competitiveness.

The panel suggested that the current U.S. corporate tax regime does, in part, encourage business practices that may not always be in the best interests of the greater economic good. But there are other factors to consider. For example, analysts focus on quarterly results, which, the panel argued, can lead to myopic corporate decision-making.

Simply lowering corporate tax rates in the U.S. would not ensure that corporate America would be more competitive, the panel asserted. Moreover, Congress would have to replace the lost revenue, and some of the options might raise corporate cash tax outlays. The trick will be balancing the alternatives.

The panel then turned its discussion to issues faced at the state and local levels, where there's a dependence on individual income tax, which small businesses find to

be unfair. This needs to be addressed, the panel asserted.

Millennials are now entering the workforce. They are, in general, very entrepreneurial-minded, the panel noted, mostly because they have to be because the workforce is not what it used to be. Increasingly, they'll be private contractors. The panel suggested that we need a tax code that encourages their participation in the workforce. We must also incentivize investment in opportunity zones, creating jobs. But we need to know where to target it, and see to it that it goes where it's most needed.

The question then posed to the panel was: If we want to stimulate the economy in the next 12 to 18 months, what changes to the corporate tax code would they recommend?

Lowering the corporate tax rate to be closer to the OECD average was suggested as "the optimal strategy" for U.S. policymakers. Regarding the repatriation tax, one option would be to do it gradually, reducing it yearly, rather than making it a one-off holiday.

Lowering the corporate tax rate to be closer to the OECD average may be "the optimal strategy" for U.S. policymakers.

Another option would be to lower the income tax rate but broaden the base by eliminating the deductibility of debt-interest expense. This, the panel argued, would reduce corporate use of debt while increasing the cost of capital, but the effect would probably be minimal. Another option would be to retain debt-interest deductibility but remove the tax incentive to use debt by making dividend payments tax deductible.

According to the panel, research indicates that optimal corporate tax strategy is determined by investor taxes. A carefully designed revision to corporate tax policy needs to factor in investor tax rates.

But what about long-term solutions? What could be done?

The panel stated that 80% of venture capital investment comes from either California or the Boston-New York City-Washington, D.C. corridor; elsewhere, that money is hard to find. Attempts to incentivize investment in other parts of the country would, they asserted, be a wise move.

The American economy used to be driven by labor-intensive industry – manufacturing cars, for example. Tech companies today don't require nearly as much labor. Alabama offered incentives to bring in a Mercedes-Benz plant. Is this the sort of investment states should be focused on? And, if so, what kind of incentives will it

take? Or should they be more focused on spawning the next Silicon Valley? These are pressing questions that require further discussion.

According to the panel, a major issue holding back small and medium-sized businesses is health care; it impedes them from hiring and growing. They need help with that. The panel also believes that the disparity in investment between urban and rural regions must be addressed; we must invest more in rural communities.

In summary, the Tax Policy panel offered the following recommendations:

- Lower the corporate tax rate to be closer to the OECD average of 25 percent.
- Gradually reduce the repatriation tax.
- Lower the income tax rate but broaden the base by eliminating the deductibility of debt-interest expense.
- Retain debt-interest deductibility but remove the tax incentive to use debt by making dividend payments deductible.
- Incentivize broader, geographically speaking, venture capital investment.
- Incentivize investment in opportunity zones.
- Address the cost of health care for small and medium-size businesses.
- Invest more heavily in rural areas.

TECH INNOVATION

Some food for thought was shared at the outset of the panel on Tech Innovation.

First was the observation that the U.S. economy is becoming less entrepreneurial. Between 1978 and 2011 (the last year for which data was available), firm entry rates steadily declined, while firm death rates were lower than they've been historically.

Why do economists worry about this? It is expected that there be a certain amount of churn: In theory, firms that aren't productive should go out of business. New entrepreneurial-minded individuals then launch businesses with fresh ideas. This churn is critical to economic growth. But a sufficient number of these new entrants becoming full-fledged firms and viable entities is not evident. This, the panel noted, is a problem.

> "The most successful economies are driven by innovative industries that evolve to meet the needs of a changing world."
>
> Bill Gates

Next, some thoughts from Bill Gates were shared on what he would recommend to the next administration to help foster an innovative economy. Gates writes that, "The most successful economies are driven by innovative industries that evolve to meet the needs of a changing world." He then listed four key areas of transformative innovation:

- Affordable energy without contributing to climate change;
- Developing a vaccine for HIV and curing neurodegenerative diseases;
- Protecting the world from future health epidemics; and
- Giving every student and teacher tools for a world-class education.

The panel moderator suggested that these recommendations could have been written 10 years ago. Why are we not making the kind of progress we'd like to see?

These observations framed the panel discussion.

According to the panel, the U.S. is good at "the next best thing"—good at bringing technological innovation into new territory. An analogy was offered: In the days of expansion across the western frontier, if you didn't like where you were living you

took your covered wagon over the mountains to new territory.

This holds true for today's technology, the panel ventured: The U.S. packs up and leaves its legacy problems behind. Innovators like to land in "unoccupied territory," and legacy sectors are occupied territory. But there are huge economic gains to be made not only in the new but in fixing the old, they argued. Legacy sectors in which there are major issues to be resolved include: climate and energy, health care and education.

So how do we tackle these issues? Would bringing innovation to legacy sectors accelerate growth? While "frontier" sectors—for example, advanced manufacturing, new energy technologies, intelligent cars and online education—obviously offer tremendous potential, the panel suggested that a failure to bring innovation to legacy sectors will keep us mired in slow growth.

There are huge economic gains to be made not only in the new but in fixing the old. Legacy sectors in which there are major issues to be resolved include: climate and energy, health care and education.

To understand innovation in legacy sectors, the panel affirmed that we need to expand our analytical framework, taking into account, among other things, the many steps in the innovation process, the need to define an appropriate role of government, and the understanding of barriers to be overcome.

Innovation, the panel noted, needn't be restricted to cutting-edge "shining lights," but the barriers in applying it to legacy sectors must be acknowledged. Barriers in disparate legacy sectors have much in common, and encouraging innovation in these sectors requires attention to the entire innovation process. Economic, political, cultural, social and legal context is as important as the innovation systems, the panelists asserted.

Innovations take place in legacy sectors if they fit into the legacy sector's paradigm—fracking, for example. But they face high obstacles if they're driven by externalities—such as the environment, health, safety and security—rather than by market forces. That, the panel suggested, is why there are considerable obstacles to green innovation.

The panel stressed that understanding the innovation environment in the U.S. today requires understanding that it involves both innovation systems and innovation context. That context—economic, political, cultural, social and legal—is as important as the system, they affirmed, in defining whether innovation happens.

They then laid out the five models of innovation:

- Pipeline: support research, and innovation will follow;

- Induced: changing prices or policies;
- Extended pipeline: government support for not only research but technology and initial commercialization;
- Manufacturing led: the creative engineering required for the design and initial production of a marketable product; and,
- Innovation organization: the research support, policy and institutional change needed to overcome an innovation context that poses obstacles to innovation scale-up.

Innovation organization encompasses the four other models, and addressing legacy sectors requires applying all five models to remove the barriers.

They then described the five-step framework for launching innovation into legacy sectors:

- Strengthen the front end of the innovation system: encourage innovation and link technologies to operators;
- Identify the launch paths for emerging technologies;
- Match support policies to tech launch pathways;
- Analyze gaps in innovation systems; and
- Fill in those gaps.

But, the panelists stressed, to make this happen the economy must have organizations and individuals willing to be change agents. They then offered some historical perspective:

After World War II in the U.S., it was "innovate here, produce here." The focus was on the front end of the innovation system. Our mass production model totally dominated the world; it was the strongest, most productive system the world had ever seen. But we didn't factor manufacturing into innovations. Germany and Japan—having to rebuild post-war—did factor this in, and they developed manufacturing-led innovation systems.

Now it's "innovate here, produce there." But that runs the risk of becoming "produce there, innovate there," because manufacturing is part of the innovation system.

There are today in the U.S. nine advanced-manufacturing institutions in operation: 3D, lightweight metals, advanced composites, digital manufacturing, power electronics, flexible hybrid electronics, photonics, advanced fibers and textiles and "smart" manufacturing. Six more are planned in 2017, including assistive

and soft robotics and sustainable manufacturing, which includes recycling and remanufacturing

Germany, the U.K., Japan, and Taiwan are now following suit. China has just announced 15 new advanced-manufacturing institutions, and they now have the capability, the panel noted, to rapidly scale up production like nothing the world has seen previously.

To bolster innovation in legacy sectors, the panel advised, universities need to take a more proactive role. Rather than saying goodbye to you when you graduate, universities should continue to make resources available, serving as test labs for startups. This could be done, they suggested, without a lot of additional costs.

In order to bolster innovation in legacy sectors universities need to take a more proactive role.

The panelists then cited driverless car innovators as an example of entrepreneurs who are addressing policy issues in advance—for example, liability issues and how to work within the existing transit system. Other innovators, they urged, need to think ahead in this manner.

They suggested that states should encourage relatively low-tech, labor-intensive industries that don't require a lot of money for R&D or equipment. They cited burgeoning aging in place initiatives as a good example.

An audience member suggested that the federal government should take a more active role through procurement in advanced innovation – for example, using more energy-efficient products. The panelists also encouraged the collaboration of established firms with startups that have technologies that can advance their objectives.

China and India have shown that the tech-based innovation model can be successful in the developing world. These initiatives, the panel noted, have brought so many people into the middle class that it's changing the world. The potential global payoff is tremendous. But it's complex, they acknowledged, and we're still learning how adaptable the models are.

An audience member asked, though, if it's possible to have too many startups. Are there enough opportunities available? It's important to have a substantial talent pool, the panel responded, but we need institutional fixes that will enable more of them to succeed. Broadening the base of innovation, the panel concluded, is good for social well-being.

Recommendations to promote innovation in legacy sectors include:

- The federal government should provide more support for innovation through procurement practices;
- Universities should provide more support for entrepreneurship;
- State governments should provide support for relatively low-tech, labor-intensive industries that don't require a lot of money for R&D or equipment; and
- Established firms and startups that have technologies that can advance their objectives should collaborate.

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Agenda, October 14, 2016

8:00 AM-8:30 AM	**Registration** *Kenan Center Lobby*
8:30 AM-10:00 AM	**Plenary Session I** *Kenan Center Dining Room*
10:15 AM-11:45 AM	**Breakout Sessions I** **Education** **Health Care** **Inequality** **Tax**
12:00 PM-1:30 PM	**Lunch & Keynote Address** *Plated lunch in Kenan Center Dining Room*
1:45 PM-3:15 PM	**Breakout Sessions II** **Aging Population** **Financial Policy** **Infrastructure** **Technological Innovation**
3:30 PM-5:00 PM	**Plenary Session II** *Kenan Center Dining Room*
5:00 PM-6:00 PM	**Reception** *Kenan Center, Kenan Lounge*

The Kenan Institute would like to thank all those who participated and attended "What's Next, America?" Panelists included:

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Former U.S. Senator and Ambassador to China
Tom Akins
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