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OPINION: AN INVISIBLE WOMAN, INCOME INEQUALITY AND INNOVATIVE INVESTMENT

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Social Covenant Bonds -- putting people to work

Sixty years ago the novelist Ralph Ellison wrote of a man cloaked in invisibility, dwelling in a symbolic and societal dungeon -- unseen and unheard. Ellison's mid-20th century novel, "Invisible Man," made clear that race rendered the humanity of African-Americans invisible.

In this second decade of the 21st century, the "invisible man" is all too often a woman. Her name is ALICE. She is you or your wife, sister, daughter, neighbor, coworker, or fellow congregant. ALICE is defined in a recently released report focused on the most financially insecure members of the middle class -- often, but not only, women who are Asset Limited Income Constrained and Employed (ALICE).

The ALICE Report, featured nationally in The Washington Post, was written by Rutgers University Professor Stephanie Hoopes Halpin and sponsored by the United Way of Northern New Jersey. Hoopes Halpin gives voice to a rising moral consensus, backed by current economic data, making two points clear. First, the empirical case for the worsening state of income inequality is difficult to ignore -- even if we ignore the people behind the statistics. Second, there are innovative and fiscally conservative investments we can employ that will lower income inequality and lift ALICE families into higher-wage work.

Unlike the federal definition of poverty, which undercounts the poor and near poor in high-cost states like New Jersey, the ALICE report reveals those experiencing financial hardship using a realistic budget based on housing, food, transportation, childcare, and healthcare.

This report discloses the 13,500 moms in New Jersey struggling on $40,000 a year, mothers who are not stereotypical "welfare queens" but rather a diverse demographic of caregivers and custodians of the next generation. The ALICE analysis reveals a diversity of desperation that makes clear that one out every three New Jerseyans is living hand (to often an empty) mouth. Half of our seniors are spending more than half of their income on housing -- leaving precious little for heat, food, prescription drugs, or trips to the doctor.

In a nation where nearly everyone claims middle-class membership, many have been losing ground for decades. Divide American households into five income bands from extreme poverty to enviable wealth and, for most of the past fifty years, the second and third income bands rose and fell together, according to author, Andrei Cherny. The lowest-income band and the middle or third income band have stabilized in the wake of the Great Recession. Disturbingly, the second income band from the bottom has lost ground, with income growth since 1967 being only 60 percent of those middleclass folks above them and their poorer neighbors in the band beneath them.

Former Labor Secretary Robert Reich reminds us that the average male worker in 1978 earned $48,000, adjusted for inflation, while a member of the 1 percent in that long-ago economy earned eight times as much, or $390,000. In a more recent but less egalitarian era, circa 2010, the same middle-class male worker's wage declined to $33,000 while the members of the elite 1 percent were earning 33 times as much, or $1.1 million.

The mere presence of income disparity, in a market-driven economy where wealth fuels everything from innovation to philanthropy, is not inherently evil. That said, the degree, pace, and face of this inequality is alarming. More and more global research makes it clear that a measure of economic equality produces societies that are healthier and happier.

Assuming the increasing inequality to be a problem, what can we do about it? The consensus answer from many economists in New Jersey and the nation: invest in education and large-scale building projects, or infrastructure, to create a platform for job growth and equip people for higher-wage work.

There is little fiscal appetite or political will for the massive state borrowing that would be required to build infrastructure. So, how can we leverage existing infrastructure project investments to achieve greater economic equality? One answer is the use of an innovative investment strategy I term "Social Covenant Bonds."

For decades, colleges, universities, hospitals, and other major institutions that have a large physical and economic presence in their communities have been the pillars of what is known as the anchor institution movement.

Leading anchor institutions as diverse as the University of Pennsylvania and Syracuse University (from which the new Rutgers-Newark Chancellor Nancy Cantor hails) have used university construction projects as a catalyst to expand single-family residential development, provide workforce development training, promote diverse and local hiring, and support small businesses within the community.

These laudable yet limited efforts have largely been the result of visionary leadership -- with too few financial incentives. Social Covenant Bonds would essentially reward investors looking to earn both a financial and social return on their investment, while training and putting people to higher-wage work.

For example, social impact investors, a $9 billion market, would agree to purchase a Social Covenant Bond in exchange for commitments by, say, a New Jersey college to use the construction project to fulfill specific socially beneficial goals such as job training or hiring a certain number of local and/or lower-income workers.

In exchange for fulfilling these social impact commitments, the anchor institution would receive a discount on the bond. Lest anyone assume that this is a radical proposal, these kinds of commitments are already made and fulfilled by anchor institutions on a limited basis across the country -- without financial incentives. The innovation here is simply providing a financial incentive for anchor institutions to do more, less expensively.

With the support of Gov. Chris Christie, Senate President Steve Sweeney, and Speaker Sheila Oliver, New Jersey voters have already approved the first major infrastructure investment in higher education in 25 years, with the passage of a $750 million bond referendum.

Why not leverage underutilized social impact investor capital to put people who are currently excluded from the economy to work? Taking a hard look at the hardships experienced by ALICE households demands that we take an equally hard look at Social Covenant Bonds as an innovative way to use community investments to address income inequality.

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