

surge of voters and small contributors that brought him to the White House. If he does, he will change the country, and usher in a new era of democratic aspiration and energy. Once again, as so often in the country's past, democracy itself will be at the center of our politics, where it belongs. ▀

Opportunity

Elizabeth Warren and Amelia Warren Tyagi

Opportunity is the cornerstone of American values. Liberal or conservative, we embrace the religion of opportunity, the dream that we all will have the chance to make ourselves and our families safer, happier, and wealthier. It is the belief in opportunity that spares us significant moral pains when we contemplate the rampant inequalities in our society. If we all have chances to do better, we tell ourselves that those who are on top deserve to be there because they capitalized on their opportunities. By the same reasoning, those at the bottom deserved their fates as well. Even as we laugh at the refrain that George H.W. Bush was born on third base and thought he hit a triple, we cling tenaciously to the idea that America is a meritocracy: If we work hard, we will succeed.

And yet something unsettling has happened to opportunity in America over the last eight years. The poorest Americans have gained little since 2000, while their counterparts at the other end of the income scale have had an amazing run. The levels of opportunity at the extremes have been extreme. Those with less and less of a chance to climb out of poverty are silhouetted against gargantuan CEO salaries and bonus packages pulled down by those on top.

Most Americans, of course, live somewhere between those ends. For the middle class, opportunity is about timing, resources, and a finite number of chances. But it is also about larger forces that have recently, and subtly, shifted the opportunity landscape, making it harder for them to seize the opportunities that come by. In a detailed summary comparing middle class economics over the eight years of the Bush Administration with what happened to the middle class during the 1990s, independent analysts at Third Way concluded that the typical middle-class family—the family that is employed, has health insurance, is investing money in a retirement account, owns a home, and has a child in college—is

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worse off by \$94,929, thanks to a combination of falling wages, lost investment income, lost home equity, and higher costs for health care, food, fuel, and child care or college. They are doing everything right, but they are worse off for it.

Americans don't want to be coddled. They see life as open-ended, taking risks to improve their circumstances. For much of the twentieth century, the role of government has been to facilitate good risk-taking while discouraging bad risk-taking: improve education for young people; help Americans launch new businesses or train for new careers; and, if the new business doesn't work out, help a family get a badly-needed second chance. And yet, since 1980, the role of government as the catalyst for opportunity has been under assault. Under the guidance of George W. Bush, it has collapsed. The price of the social and intellectual capital needed to take good risks has shot beyond the reach of many middle-class Americans. At the same time, the guardrails guiding risk taking have disappeared, while the punishment for losing out on those risks has risen. A new administration gives us new hope that we will put government back on the side of the people, to embrace regulations that give people a chance to take reasonable risks, to accumulate wealth, and to build something for the future without worry that they will lose everything in a game that is rigged against them.

Look first at education, the time-tested key to moving ahead in America. The dream that education is the equalizing road to opportunity, with college as the final, crucial step to prepare to capitalize on opportunities, has given way to a very different reality. Despite seven years of No Child Left Behind, public schools continue to leave behind millions of children with alarming frequency. For those lucky enough to graduate high school and make their way to college, the path has become far steeper: Nearly three-quarters of students at the nation's top colleges come from families in the top quarter of the socioeconomic status scale, compared with only 3 percent from the lowest socioeconomic status quartile.

Moreover, the price tag continues to climb. During the past eight years, the cost of college has increased 34 percent faster than the rate of inflation at public institutions and 20 percent at private institutions. The Bush Administration has deliberately shifted those costs onto students through borrowing. Today, undergraduate borrowers leave school with an average of \$20,000 in debt, and average graduate borrowers owe \$45,000. The average young adult now devotes a whopping 24 percent of her income to paying off debt.

Thanks in part to these growing costs, a college admission slip is no guarantee of success. Students from wealthy families are more than six times more likely to graduate than their lower-income counterparts, and white students are far more likely to complete their degrees than their African American and Latino

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counterparts. Financial barriers also prevent half of college-qualified low- and moderate-income students from ever enrolling in four-year colleges. Taking on loans that are double the family's annual income is understandably daunting, so they become cautious, resigning themselves to less education and fewer lifetime opportunities. For these young people, the repercussions of this decision will last a lifetime. Real wages for adults who never attended college have fallen over the past eight years, leaving them with half the income of their better-educated counterparts. By shifting these risks onto students, the federal government has closed the doors of higher education to millions of students.

Traditionally, the story would end here. A young person gets an education (or doesn't), and now has the opportunity to succeed (or not). Of course, opportunity isn't just about a good education; what you do with it matters even more. Opportunity is about the chance to achieve the American dream—work hard, get a good job, a home, and give the children a chance for a better life. In financial terms, this translates loosely into the opportunity to build wealth and security.

But for the middle class, opportunity-through-hard-work is on the ropes. Day to day, the middle class has been trounced by a one-two punch of stagnant wages coupled with rising costs for basics expenses. Average real wages declined by \$2,000 for workers under 65. At the same time, core costs—mortgages, health insurance, transportation, food, and a landline telephone—have increased \$4,655 over the past eight years, adjusted for inflation. Interestingly, there are sectors where employment is booming. On the low-wage side, jobs for debt collectors have skyrocketed, while at the other end of the income spectrum, jobs for Washington lobbyists have also doubled. Demanding debts or trolling for political favors have replaced producing goods and services as hot growth areas.

With incomes down and core expenses up, families turn to debt. Like medicine, debt can be good for you—just what the doctor ordered to buy a home, get a degree, or launch a new business. But the American middle class surpassed those healthy doses of debt decades ago, and it has long been struggling with the consequences. Over the past eight years, debt loads have continued their breathtaking climb, and today more than 50 million Americans cannot pay off their credit card bills; 35 percent of those credit card accounts slipped into default at least once last year. Payday lending has ballooned into a multi-billion-dollar business that charges upwards of 400 percent interest to working families.

And yet instead of putting even the mildest curbs on lending, the federal government has looked the other way, giving lenders a free hand to trick and trap unsuspecting consumers. When states tried to enforce consumer protection

laws earlier this decade, Washington regulators stepped in on the side of the lenders, fending off regulations that might have protected families. Ironically, the federal government remained unwilling to intervene until the entire system seemed on the verge of collapse—at which point Congress intervened on the side of rescuing the banks, not the borrowers.

Just as education opens doors, heavy debt loads close them. Big student loans? Don't become a public school teacher, a firefighter, or a police officer—the pay is too low. Crushing credit card debt? Better not go into business for yourself—too risky when you have to make those payments every month, rain or shine. Don't apply to graduate school—just more debt. (In fact, more than four out of 10 college graduates cite student loan debt as the reason for not pursuing graduate school.) Today's young people talk about delaying marriage, forgoing

homeownership, and working full-time when babies are born, just so they can keep paying their debt.

Debt was once used to accumulate wealth. Millions of families used long-term, fixed-rate mortgages to purchase homes, making homeownership the most significant source of wealth and long-term savings for the middle class.

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Yet for the past eight years, the Federal Reserve, Fannie Mae, Freddie Mac, and pretty much everyone else in Washington studiously ignored rampant “cashing out” of home equity, rising numbers of high-interest adjustable-rate mortgages, teaser rate refinancing, and growing defaults. A new phrase—equity stripping—emerged to describe a multi-billion-dollar business that relied on marketing teaser-rate mortgages to current homeowners. The resulting bubble and crash have devastated millions of families who thought they were dealing with reputable lenders, while the resulting chaos took down millions more who never touched a subprime mortgage. By early 2008, homeownership rates had already fallen back to their 1999 levels, and one in six homeowners owed more on the mortgage than the house was worth. For the first time since the federal government started tracking the data in 1945, banks—not families—now own the majority of home equity in America.

For families lucky enough to sidestep the terrors of a falling housing market, another threat lurks in the shadows: illness. The financial consequences of medical problems are worsening. Over the past eight years, the number of uninsured has increased by six million people. And while health insurance may not seem to have much to do with the opportunity to go to school or get a good job, it has

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everything to do with the ability to hold onto the fruits of those labors. Just ask the half-million or more families going bankrupt in the wake of a serious illness every year. Even more frightening, the majority of medical bankruptcies are filed by people who actually have health insurance—a testament to the proliferation of exclusions and deductibles that can now sink a lifetime of savings.

Rising costs and falling incomes, the lack of health insurance, and loads of debt are the thieves of opportunity. Without an economic cushion, who can start a new business? Without the guarantee of health insurance, who can take a new job at a start-up? Without savings in the bank and a Pell Grant from Uncle Sam, who can go back to school or get extra training? When debts pile up, opportunities to build wealth vanish, and even hope begins to fade. One in five Americans now expects to live in debt forever, paying off credit cards and other loans until they die.

Adding insult to this injury is that another core component of opportunity—the chance to start over—has also faded. When things go wrong—when the job disappears, when a kid fails chemistry, when Grandpa gets Alzheimer’s or the baby needs surgery—will there be another opportunity for the family to pull things together?

The importance of second chances cannot be over-stated. When Walt Disney had the idea for a business that would speak to the child in all of us, he failed. His first venture collapsed into bankruptcy after only two years, but he rebounded with a legacy that has shaped the world. General Motors, Trump Enterprises, Hershey Foods, and dozens of other well-known companies all survived early bankruptcies. Second chances opened the way for Francis Ford Coppola, Willie Nelson, and Mark Twain to leave their marks on world cinema, music, and literature.

The Founding Fathers understood the role of second chances. Even before they drafted the Bill of Rights, they enshrined the idea of second chances into the Constitution, requiring a “uniform law of bankruptcies” that would help risk takers get back on their feet to find another opportunity.

Americans today need their second chances. Job losses, medical problems, and family break ups account for 90 percent of all bankruptcies. For these families, filing for bankruptcy helps them wipe out past debts. This stops creditors from garnishing wages, giving a family the chance to catch up on the mortgage and the car payments to avoid a foreclosure or repossession. The family gets some breathing room, while the kids can stay in the same school and the parents can still drive to work. Even if they live in reduced circumstances, the family can start fresh, with no more collection calls and no more threats. If they work hard,

they may pull themselves out of a financial hole. This is the ultimate opportunity for a chance at a “comeback”—to use the new-found freedom to try again, with a new job, a new business idea, a new life.

In 2005, this second-chance opportunity got a lot harder. After intense lobbying by the financial services industry, Congress passed a long and complex series of changes to bankruptcy laws that made bankruptcy much less accessible and shrunk the protection it offered. Never mind that the overwhelming data showed that families and small businesses in distress used the laws to rebuild shattered lives. Even as economic troubles increased across the country, the number of families able to use the bankruptcy system constricted by about 800,000 a year.

The latest research shows that nearly all of the new non-filers were eligible for bankruptcy, but the higher filing fees, higher lawyers costs, and bad publicity kept them away. Newly emboldened creditors did their part too: The families that filed told about ominous threats from debt collectors, telling them (falsely) that they would be “reported” if they tried to get bankruptcy help or that the IRS investigates everyone who files for bankruptcy.

One particular provision of the 2005 amendments is worth special attention. As it reduced protection for ordinary families, the new law also constricted entrepreneurial opportunities. For the first time in American history, Congress wrote a law that explicitly cut off small businesses from certain opportunities that were available to big corporations: A new category of “small business bankruptcy” was born which, like its consumer counterpart, made bankruptcy tougher and more expensive. So, for example, small businesses—but not big ones—now must file reams of extra forms, meet with government officials to have their progress checked, and live with tight deadlines for sending a plan of reorganization to their creditors for approval. More than 80 percent of the small businesses that successfully reorganized before the 2005 amendments would not have met the newly-imposed rules. The costs of the new law will be measured in the number of businesses that shutter their doors rather than attempting to save themselves—and the people they employ—through Chapter 11 reorganization. The chance to try again—to pick up after a failure and have another shot at success—should be reopened for families and small businesses alike.

Opportunities are precious. For most Americans, the supply of opportunities is limited. Every opportunity lost echoes through a lifetime. Chances may not come around again and again. For centuries, the federal government has recognized this fact, and it has worked to ensure that opportunity lay at the bedrock of its social policy.

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But over the last eight years, that government failed us. Instead of encouraging opportunities for middle class families by strengthening educational opportunities, it coupled an education with skyrocketing student debts. Instead of supporting laws that made home mortgages and personal loans the engines of wealth accumulation, it embraced deregulation, unleashing predators intent on stripping families of wealth. Instead of protecting a second chance for families brought low by medical debts and job losses, it turned away, passing punitive new bankruptcy laws. While a few profited, millions of people saw opportunities disappear.

In any new social agenda, rebuilding opportunity should be a top priority. The financial pressures imposed by the unfunded war in Iraq and the bailouts on Wall Street will constrict the maneuverability of the government, but the lessons of the past eight years shed light on the importance of investment in Americans. Through education, better health care finance and controls over the credit industry, and enhanced changes for families and entrepreneurs to start again, we have a unique chance to strengthen a struggling middle class.

A college loan program that would let all students borrow the full costs of four years of college and repay by taking up four years of service in the military, the Peace Corps, Teach for America, or other public service would let young people launch their lives without the overhang of debt. Universal health insurance would make it safer to start a business and more profitable to run one. A Financial Product Safety Commission that would curb abusive lending practices would make borrowing to buy a home or to finance a new idea safer and more predictable. The opportunity infrastructure can be woven from many different pieces.

Opportunities echo across society as well. Opportunities for the middle class are opportunities for the poor. They provide a chance for those who have little to move forward, creating the space to take on a new job or buy a small house. Middle-class opportunity is also about strengthening the economy, a reminder that most economic growth expands the chances for everyone to prosper.

Americans' appetite to take advantage of opportunities remains strong. The desire to give children a solid foundation and to send them to college has never been higher. The willingness to invest in the future by buying a house or starting a business runs deep. With the right structural changes, the thieves of opportunities can be turned away and Americans can begin building their own futures. **D**