

HOUSING POLICY: AN AVENUE FOR AMERICANS TO ACHIEVE ECONOMIC
MOBILITY AND OPPORTUNITY

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ABSTRACT

The debate over income inequality has dominated America's political debates and campaigns since the end of the Great Recession. Yet for the past 50 years the country has been engaged in a War on Poverty but a record number of individuals still live in poverty. While there is income inequality in America, political policies should focus on promoting economic opportunity and mobility, which allow all individuals to achieve the American Dream. Owning a home is an integral part of what many Americans refer to as the American Dream. Housing policy should be crafted to allow optimal economic and income mobility, and mixed neighborhoods is a federal policy where the private sector and the government can work together to assist individuals in moving out of impoverished areas of the country and into neighborhoods with less crime, better educational opportunities and job possibilities.

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TABLE OF CONTENTS

Introduction: The War on Poverty and Income Disparity,	1
Chapter 1: The Progressive Movement and the Role of Government in the Wealth Debate,	7
Chapter 2: The American Dream and Income Disparity,	32
Chapter 3: Housing Mobility for Low-Income Individuals,	57
Conclusion: The Federal Government and Private Sector Working Toward Economic Mobility,	81
Bibliography,	84
Curriculum Vita,	97

Introduction: The War on Poverty and Income Disparity

The United States has been involved in fighting a war against poverty for the past 50 years. In his 1964 State of the Union Address President Lyndon Johnson said, “Our aim is not only to relieve the symptom of poverty, but to cure it and, above all, to prevent it. No single piece of legislation, however, is going to suffice.”¹ Declaring America to be officially in a war against poverty Johnson declared, “This administration today, here and now, declares unconditional war on poverty in America. I urge this Congress and all Americans to join with me in that effort.”² Numerous Presidential administrations engaged in the work the Johnson Administration began in the 1960s, yet, despite the years of work, programs and billions of dollars spent, millions of Americans still suffer in poverty today. This thesis will analyze income disparity and economic mobility in America, as it stands today and examine how best to assist low-income individuals in achieving economic mobility, and securing the American Dream, though mixed income and diverse neighborhoods.

Last year there were 42.6 million Americans living in poverty, and 2.6 million of these people fell into poverty that year.³ In fiscal year 2011 welfare means tested programs constituted the largest item in the federal budget, with 83 overlapping federal means tested programs costing \$1.03 trillion.⁴ Despite these programs and money,

¹ “The War On Poverty; Fifty Years Later,” The House Budget Committee, March 3, 2014, accessed March 30, 2014, http://budget.house.gov/uploadedfiles/war_on_poverty.pdf.

² “State of the Union Address, 1964,” PBS, accessed May 3, 2014, <http://www.pbs.org/wgbh/americanexperience/features/primary-resources/lbj-union64/>.

³ “Poverty Statistics: Poverty USA,” Poverty Program, March 30, 2014, accessed March 30, 2014, <http://www.povertyprogram.com/usa.php>.

⁴ “CRS Report: Welfare Spending the Largest Item in the Federal Budget,” United States Budget Committee, March 30, 2014, accessed March 30, 2014, http://www.budget.senate.gov/republican/public/index.cfm/files/serve/?File_id=34919307-6286-47ab-b114-2fd5bcedfeb5.

income disparity continues to be a main political topic in America's politics. The 2012 Presidential election was in large part a debate between both political parties on what their plan was to assist individuals still recovering from the recession, put more money in people's pockets, create jobs, and grow the economy for future generations. President Obama has focused a large part of his second term presidential agenda on income inequality and policies he believes will assist individuals in moving up the income ladder.

Referring to income inequality in a speech on the economy during the 2012 presidential campaign in Osawatomie, Kansas, President Obama made the following remarks:

*This is the defining issue of our time. This is a make-or-break moment for the middle class, and for all those who are fighting to get into the middle class. Because what's at stake is whether this will be a country where working people can earn enough to raise a family, build a modest savings, own a home, secure their retirement.*⁵

In his 2014 State of the Union address, President Obama set the stage for the policies he wished to implement in the upcoming year, many of which had rooting in the income inequality debate, like raising the minimum wage. He said, "After four years of economic growth, corporate profits and stock prices have rarely been higher, and those at the top have never done better...But average wages have barely budged. Inequality has deepened. Upward mobility has stalled"⁶ Today, our politics focuses on two political parties which are extremely divided on how best to assist Americans still recovering from the recession and create opportunity in the economy. The income disparity debate, and the ideas this

⁵ Barack Obama, "Remarks by the President On the Economy in Osawatomie, Kansas," The White House, Office of the Press Secretary, December 06, 2011, accessed April 27, 2014, <http://www.whitehouse.gov/the-press-office/2011/12/06/remarks-president-economy-osawatomie-kansas>.

⁶ Dave Boyer, "Obama State of the Union: 'reverse the Tides' of Income Inequality," The Washington Post, January 28, 2014, accessed April 27, 2014, <http://www.washingtontimes.com/news/2014/jan/28/obama-state-union-reverse-tides-income-inequality/>.

thesis examines on promoting housing opportunity for low-income individuals, is extremely timely given the political climate and issues being debated in Congress.

Progressivism viewed the government as the guarantor of rights, specifically economic rights. Progressives thought that government bureaucrats could run the government more efficiently than the people and saw government programs as plausible solutions to society's ailments. Although Progressives believed the government was in the best position to fix income classes and alleviate income disparity, when it comes to housing policy their philosophy toward government programs has merit and should be examined. Notable Progressives during this era engaged in the noble task of examining policies and attempting to identify avenues by which government could foster opportunity. In the income disparity debate that is occurring in our country today, we should examine this movement's ideas and see if there is a way our current policies can borrow something from their initiatives, specifically related to housing policy. The first chapter of this thesis will examine the Progressive movement's political philosophy, famous Progressive thinkers, and their view of the role of government in the wealth debate.

Since the Great Recession, many Americans, especially middle class Americans have been struggling to regain lost ground from the real estate bubble bust. During the years prior to the Great Recession, home prices were increasing and individual's wealth was increasing if they owned a home because the value of it dramatically increased. A majority of middle class families held a substantial portion of their wealth in their home. When the real estate bubble burst, housing values plummeted, household wealth decreased, jobs were lost and many Americans found themselves in financial stress. It

also did not help that in the years leading up to the real estate bubble, the middle class as a whole accumulated the largest debt-income ratio in 24 years.⁷

The American dream has been sought after by many Americans, and is the thought that one's children will have more opportunities in the future. Additionally, in large part, a major component of the American dream is owning a home. Housing policy is an important government policy and one that can either hurt individuals financially or could be a policy that can assist individuals in achieving the American dream and providing them a launch pad to economic mobility. Income disparity has been a main political debate in America. The debate over income disparity has not simply focused on whether income disparity exists in America, but rather how best to address the issue.

A recent study from the University of California at Berkeley found that 95 percent of income gains from 2009 to 2012 went to the 1 percent of American earners, who saw a 34 percent increase in their income over this period compared to .4 percent growth in incomes to the bottom 99 percent of Americans.⁸ Commenting on this study, President Obama said, "The folks in the middle and at the bottom haven't seen wage or income growth, not just over the last three, four years, but over the last 15 years."⁹ Examining individual income tax returns, however, paints a slightly different picture of the state of income disparity and opportunity in America. U.S. Treasury analysis found, "There was considerable income mobility of individuals in the U.S. economy during the 1996 through 2005 period as over half of taxpayers moved to a different income quintile over

⁷ Edward Wolff, "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle Class Squeeze- an Update to 2007," Levy Economics Institute, March, 2010, accessed May 3, 2014, http://www.levyinstitute.org/pubs/wp_589.pdf.

⁸ Emmanuel Saez, "The Evolution of Top Incomes in the United States," University of California, Berkely, September 3, 2013, accessed May 3, 2014, <http://eml.berkeley.edu/~saez/saez-UStopincomes-2012.pdf>.

⁹ Hibah Yousuf, "Obama Admits 95% of Income Gains Gone to Top 1%," CNN Money, September 15, 2013, accessed, <http://money.cnn.com/2013/09/15/news/economy/income-inequality-obama/>.

this period.”¹⁰ While the Treasury analysis examined a period of time where there was substantial economic growth, this analysis illustrates that individuals are moving up the income ladder when the economy is doing well. Income disparity does exist in America, yet politicians have different views as to the best policy proposals to alleviate the issue. The second chapter of this thesis will examine the American dream, why the middle class is essential to a health economy and the state of the income disparity in America.

Housing is an important and large sector of the economy. Housing did extremely well before the recession, but plummeted after the recession and is still recovering. When we examine housing policy, we must remember that the location of a particular house is influential in determining a resident’s economic mobility.¹¹ Location is key to determining whether a home fits one’s lifestyle, yet low-income individuals do not have the luxury of picking the exact location where they would like to live, rather if they are a recipient of housing vouchers they have limited choices which may not provide them with employment opportunities, education, public services and amenities. Mixed neighborhoods are a government policy that can attract assistance from the private sector, and local community to assist low-income individuals secure affordable housing, and promote mobility with better jobs, education and safety. The government’s housing policy could provide a catalyst for low-income individuals to enter the middle class and stay in the middle class.

¹⁰ “Income Mobility in the U.S. from 1996 to 2005,” U.S. Department of the Treasury, November 13, 2007, accessed May 3, 2014, <http://www.treasury.gov/resource-center/tax-policy/Documents/Income-Mobility-1996to2005-12-07-revised-3-08.pdf>.

¹¹ “Study Reveals Potential for Upward Economic Mobility Varies Strongly by Location,” National Low Income Housing Coalition, July 26, 2013, accessed May 3, 2014, <http://nlihc.org/article/study-reveals-potential-upward-economic-mobility-varies-strongly-location>.

In order to promote economic mobility in housing, governmental policy should focus on mixed income and diverse neighborhoods because increased economic mobility is most likely to exist in integrated neighborhoods compared to areas with there is low income inequality and a high concentration of poverty.¹² The third chapter of this thesis will examine why housing is an important government policy, what happens when housing is doing poorly and why mixed neighborhoods are an optimal federal government policy.

Income disparity exists in America and is an issue that we as Americans should be aware of and should work together toward a feasible solution. Working to alleviate poverty and growing the middle class is a noble task. Government policies, specifically in housing, should focus on individuals and how policies can assist individuals in moving to the middle class and not falling back into poverty. Government policies should not talk about people in terms of income classes, rather, should talk about individuals, their successes, and policies for the future. By assisting low-income individuals with mixed neighborhoods it will assist them in achieving the American dream, promote mobility by giving them a leg up to the middle class, and is a way that government policies can work together with the private sector.

¹² Ibid.

Chapter 1: The Progressive Movement and the Role of Government in the Wealth Debate

The principles and ideals of the Progressive movement are still alive in our politics today. The Progressive movement's role in politics has had a direct impact on America's policies in the twentieth century, as well as our modern politics and policies today. In particular, the income inequality debate that is occurring in our country has its roots and philosophy in the Progressive movement. Progressives during this time period undertook the cause of examining political policies, and how these policies could best serve individuals, with the government at the center of the reform. A closer examination of the history of the Progressive movement, its philosophy and its political followers will provide a better understanding of America's politics today regarding income disparity and the need to promote economic opportunity, particularly in housing policy.

This chapter will examine the Progressive movement's political philosophy regarding income inequality and how their philosophy of government's role can be utilized in housing policy to assist low income individuals in achieving economic mobility. This chapter will examine the beginning of the Progressive movement, its philosophy, and what its founders hope to achieve in society. Additionally, this chapter will examine the role of the middle class in the Progressive policies, and how Progressives thought government could best assist the middle class. Following this examination, this chapter will study famous Progressive thinkers and politicians, like Woodrow Wilson, Herbert Croly and Franklin D. Roosevelt and how their speeches and policies were influential in persuading the American people of the merits of their ideas

and view of government. Finally, this chapter will end with explaining the Progressive's contribution to government housing policy and the income inequality debate, and how this movement sought to create economic fairness in society.

Progressivism fundamentally sought to reform the role of government in the lives of its citizens and sought to reform the way government was administered, taking it out of the hands of the people and instead into the hands of expert federal administrators. Progressivism broke from the Founder's understanding of the Constitution, specifically the separation of powers and sought to create an administrative state with an expanded role of the executive branch of government.

The beginning of the twentieth century ushered in an era of social and economic change in the country coming in the form of industrialization, urbanization, labor unions, and the rise of big business. Industrialization brought serious social and economic change to America. Industrialization came sweepingly and moved America into one of the top economic spots in the world economy.¹³ Prior to this economic expansion, the United States grew its economy through agriculture. Industrialization brought the wealth and poverty debate to the forefront of people and politician's minds, because so many individuals were doing well at the time same many individuals were hurting. The Progressive movement was formed by the middle class, and for the middle class, to represent their views and problems in government. Understanding the history of the movement, as well as the problems industrialization presented in America, is tantamount to comprehending income inequality and housing policy with federal government involvement.

¹³ Richard Franklin Bense, "The Political Economy of American Industrialization 1877-1900," Cornell University, 2000, accessed May 4, 2014, <http://catdir.loc.gov/catdir/samples/cam031/00023677.pdf>.

Progressivism used the various crises of the time as a natural avenue to introduce the American people to their reforms. This new era changed the politics of America and formed the basis of the Progressive movement. Progressives believed that the government needed to take a strong, proactive role in the economy by regulating big business, immigration, and labor and urban growth because they thought people were harmed by these new societal changes. Progressives also believed that America needed to move beyond the principles of the Founding and evolve because the laws were not keeping pace with the politics.

The principles of the American founding came under assault during the nineteenth and twentieth centuries. Progressives believed that the Constitution and the Declaration of Independence were outdated and ineffective. They viewed the Founder's ideas as unhistorical, believing that humans were not born free, but had the ability to become free, specifically with the assistance of the federal government.¹⁴ Progressives advocated the development of the administrative state to assist minorities, the poor, and the middle class.

The Progressive movement was a movement formed by the middle class and for the middle class. Mirroring the ideals and words of nineteenth century progressive presidents President Obama proclaimed in his 2012 presidential campaign that the threats to the middle class come from big corporations because they are allowed to play by their own sets of rules. The Progressivism that President Obama espouses and the original

¹⁴Thomas West and William Schambra, "The Progressive Movement and the Transformation of American Politics," July 18, 2007, <http://www.heritage.org/research/reports/2007/07/the-progressive-movement-and-the-transformation-of-american-politics> (accessed March 16, 2013).

Progressive movement presents an interesting paradox, as Peter Berkowitz of the Hoover Institute writes,

The paradox of American progressivism, old and new, is rooted in the gap between its professed devotion to democracy, or the idea that the people legitimately rule, and its belief that democracy consists in a set of policies independent of what the people want...On the one hand, progressives proclaim their intention to democratize American politics by making it more responsive to the will of the people and giving the people greater say in government, On the other hand, progressives favor the steady enlargement of the national government's responsibilities, which increases the distance between the people and the government, while supporting the expansion of an educated administrative elite which reduces government's accountability to the people.¹⁵

The expanded role of the federal government to promote fairness will expand the administrative state with a rule by the elite, or federal administrators. The formation of the administrative state followers of this movement argued was absolutely necessary to protect the people and promote fairness. This relates to a famous statement by former President Wilson, "The laws of this country have not kept up with the change of political circumstances in this country; and therefore we are not even where we were when we started."¹⁶ Since the government by the Founders is outdated, they argue it should be replaced. They argued that this replacement would be better than the original framework installed by the Founders, because they believed it to be modern and more in line with the social problems of the day.

THE BEGINNING OF THE WEALTH DEBATE

The issue of societal wealth has been a contested issue since the beginning of civilization. Greek philosophers addressed this issue and Aristotle too wrote on this issue

¹⁵Peter Berkowitz, "Obama and the State of Progressivism, 2011," *Hoover Digest* no. 164 (December 1, 2010): <http://www.hoover.org/publications/policy-review/article/57971> (accessed March 16, 2013).

¹⁶Woodrow Wilson, "What Is Progress?" (1913), <http://teachingamericanhistory.org/library/index.asp?document=942> (accessed March 16, 2013).

in his *Politics*. This issue has also been on the minds of U.S. policymakers since its initial mention in the Senate in 1898.¹⁷ Are rich people greedier than poor people? Greed and selfishness are natural to human nature and because of this; individuals since the earliest civilization have been concerned that they are at an economic disadvantage. The wealth issue has resulted in countless political writings and commentary on the issue of what is equality, justice and individual rights. Adam Smith the Founders and Alexis de Tocqueville all wrote on these topics and their ideas provide insightful analysis on the political ideology on economic equality.

Adam Smith believed that justice was a type of private good and the concept and reality of justice was necessary in order to have a private exchange of goods and services.¹⁸ Adam Smith wrote that all men were equal and defined justice as, “the main pillar that upholds the main edifice.”¹⁹ In society, Smith recollected, there is bound to be people to have more than their neighbor, but he attributed this phenomenon to the “division of labor.” Even though people have different talents, it is the constant trading and bartering that reaffirm that all men are equal and rely on each other for survival.²⁰ In his eyes, justice was a necessary prerequisite for government formation.

The Founding Fathers sought to build that framework for a government that would protect inherent individual rights but they also addressed the issue of scarce

¹⁷ Thomas Hungerford, “Changes in the Distribution of Income Among Tax Filers between 1996 and 2006: The Role of Labor Income, Capital Income and Tax Policy,” Congressional Research Service, <http://www.fas.org/sgp/crs/misc/R42131.pdf> (accessed March 16, 2013).

¹⁸ Gary Anderson, “Adam Smith, Justice, and the System of Natural Liberty,” The Mises Institute, http://mises.org/journals/jls/13_1/13_1_1.pdf (accessed March 16, 2013).

¹⁹ Adam Smith, *Theory of Moral Sentiments*. Ed. A.L. Macfie and D.D. Raphael. Indianapolis: Liberty Press, 1982, III.ii.4.

²⁰ Matthew Braham, “Adam Smith's Concept of Social Justice” (PhD diss., University of Hamburg, 2006), 14, <http://www.excellentfuture.ca/sites/default/files/Adam%20Smith's%20Concept%20of%20Social%20Justice.pdf> (accessed March 16, 2013).

resources. In the Declaration of Independence famous declares, “All men are created equal,” which does not mean that everyone was entitled to the same amount of wealth, but that all men possessed the inherent capability to reason and to accumulate wealth.²¹ The Founders believed that protecting these individual rights was central in a democratic society. Madison in the Federalist Papers wrote, “From the protection of different and unequal faculties of acquiring property, the possession of different degrees and kinds of property immediately results.”²² If people have a vested interest in producing, this is not only beneficial for those who own the land, but for society at large, as Founder James Wilson writes, “Who would cultivate the soil, and sow the grain, if he had no peculiar interests in the harvest?” If a country did not protect individual rights, like the right to property, then destitution could result.

A society that had no inequality, where everyone owned the same amount of property and had the same amount of money would in a perverse way equalize individuals but would not be free or democratic. Forced equalization by government is not equality at all. The Founders sought to step away from a serfdom society where one’s class was determined by birth and instead sought to empower individuals to determine their own economic future, which might result in inequality, but it would be the greatest experiment in democratic government.

A BIPARTISAN MOVEMENT IN NATURE

²¹Haven Bradford Gow, “The Founding Fathers and Equality,” *The Freeman*, http://www.fee.org/the_freeman/detail/the-founding-fathers-and-equality#axzz2Nzp16pOW (accessed March 19, 2013).

²²James Madison, Federalist No. 10: "The Same Subject Continued: The Union as a Safeguard Against Domestic Faction and Insurrection." *New York Daily Advertiser*, November 22, 1787.

The Progressive revolution engulfed both political parties, for instance both Republican president Theodore Roosevelt and Democrat president Woodrow Wilson were self-proclaimed progressives. They argued that scientists and bureaucrats knew what they were doing and were better alternatives to a people directed government. Political leaders must be progressive, Theodore Roosevelt argued, “The prime problem of our nation is to get the right type of good citizenship and, to get it, we must have progress, and our public men must be genuinely progressive.”²³ Followers worked toward this goal of replacing the government with a government of bureaucrats that could protect people from the corporate machine and greed which they said was threatening the masses because a government by the people and elected by the people was no longer effective.

Progressives extended the idea of public responsibility to one where the government, in certain circumstances, was viewed as the guarantor of economic security.²⁴ To perform this role Progressives sought to expand the role of the federal government by a more powerful executive role and also the use of the courts as agents of change. The political progressives in their rise to power in America attacked the American founding, undermined the American theory of self government, sought to cause division in society by distinguishing individuals into distinct classes, expanded the role of the federal government, implemented an entitlement and regulatory society and lastly never let a crisis go to waste.

PROGRESSIVISM AND THE CONSTITUTION

²³Theodore Roosevelt, “New Nationalism Speech” (Osawatomie, Kansas, August 31, 1910), <http://teachingamericanhistory.org/library/index.asp?document=501> (accessed March 19, 2013).

²⁴Sidney M. Milkis and Jerome M. Mileur, *Progressivism and the New Democracy*, Amherst: University of Massachusetts Press, 1999, 9.

Progressivism's criticism of the American founding was "the backbone of the entire movement."²⁵ Progressives wanted to overturn the separation of powers, strengthen the role of the presidency and use the courts as an active agent of change. The Founders intentionally designed the government to be a combination of checks and balances to protect the people from the government but also to protect the government from itself. Progressivism violated this design and instead fought for a regulated state, an expanded role for the executive branch and an economy controlled by a centralized administration. The doctrine of separation of powers was a hindrance to their motives, because it limited administrative growth and what power it could have. James Madison rightfully feared unchecked government power and deemed the separation of powers to be necessary, as he said, "Ambition must be made to check ambition."²⁶

Herbert Croly, one of the most influential intellectuals in the Progressive movement, did not see himself as questioning the Constitution, the separation of powers, or the founding of America. In 1909 he published his book, *The Promise of American Life*. Croly's ideas were influential in the development of Theodore Roosevelt's "New Nationalism" speech as well as the development of Franklin Roosevelt's New Deal. Croly and others who were influenced by his philosophy did not see themselves as questioning the founding of America. They famously couched their mission as using

²⁵Ronald Pestritto "Progressivism and America's Tradition of Natural Law and Natural Rights," *Critics of the Natural Law Tradition*, <http://www.nlnrac.org/critics/american-progressivism> (accessed March 19, 2013).

²⁶Alexander Hamilton and James Madison, Federalist No. 51: "The Structure of the Government Must Furnish the Proper Checks and Balances Between the Different Departments." *New York Packet*, February 8, 1788

Hamiltonian means to achieve Jeffersonian ends.²⁷ Croly believed that both Jefferson and Hamilton had fundamental weaknesses, “The weaknesses with Jefferson was his resistance to the growth of national power, and the weakness of Hamilton was his resistance to democracy. Excessive democratic individualism in Jefferson fought with excessive economic concentration of power in Hamilton.”²⁸

Contrary to the Founder’s visions Progressives, like Theodore Roosevelt, said that the government should seek to create a real democracy, with a centralized power.²⁹ According to Roosevelt the ends of good government are, “to secure by genuine popular rule a high average of moral and material well-being among our citizens... The only prosperity worth having is what affects the mass of the people.”³⁰ The economic and social problems during the 20th century, the Progressives argued, could be remedied if the government was able to engineer a better society where people were more equal and if the government gave them more “rights”. In order for the government to give people more “rights”, the Constitution must be a living document, they argued, which could evolve and change with the times.

A “LIVING” CONSTITUTION

²⁷ David Nichols, “The Promise of Progressivism: Herbert Croly and the Progressive Rejection of Individual Rights,” *Oxford Journals*, 1987, accessed June 2, 2014, <http://publius.oxfordjournals.org/content/17/2/27.short>.

²⁸ Sidney Pearson, “Herbert D. Croly: Apostle of Progressivism,” *The Heritage Foundation*, March 14, 2013, accessed May 4, 2014, <http://www.heritage.org/research/reports/2013/03/herbert-croly-progressive-apostle>.

²⁹ Theodore Roosevelt, “Address at the Openings of the Jamestown Exposition”, http://books.google.com/books/about/Address_at_Opening_of_the_Jamestown_Expo.html?id=khCCGwAACA AJ (accessed March 19, 2013).

³⁰ Theodore Roosevelt, “A Charter for Democracy” (sermon, Ohio State Constitutional Convention, Columbus, OH, February 21, 1912), <http://teachingamericanhistory.org/library/index.asp?document=1126> (accessed March 19, 2013).

Progressives called for a “living” Constitution. In their view, the Constitution and Declaration of Independence were outdated. These documents addressed issues in a different time, and as Wilson said, were worse than useless for modern issues. In his famous speech, *What is Progress?*, Wilson said, “The Declaration of Independence did not mention the questions of our day.”³¹ Wilson does not want to completely disregard the Constitution and the other documents of America’s past because, he says, “you cannot tear up ancient rootages and safely plant the tree of liberty in soil which is not native to it.”³² He stressed that the Constitution and its ideas were necessary to move society forward. Wilson’s rhetoric and purpose were indeed revolutionary, specifically when he said that there was no need to start from scratch when it came to a new Constitution because Progressives, he argued, had the same intentions that the Framers of the Constitution did but they simply were legislating for a different time in history. He argued that government must be quick to respond to current issues and evolved documents could make this happen.³³ Economic inequality occurred in the early twentieth century because the laws and founding documents were outdated, Progressives argued.

Progress is essential in society, Progressives believed, and outdated laws and founding documents were prohibiting necessary progress. Society is moving, society is living, Wilson argued. Human beings, now enlightened he argued, could now be entrusted with power without abusing it.³⁴ Ronald Pestritto in his book, *Woodrow Wilson*

³¹ Woodrow Wilson, “What Is Progress?” (1913), <http://teachingamericanhistory.org/library/index.asp?document=942> (accessed March 16, 2013).

³²Ibid.

³³Ibid.

³⁴ Ronald Pestritto “Woodrow Wilson and the Rejection of the Founder's Principles,” <https://constitution.hillsdale.edu/document.doc?id=313> (accessed March 19, 2013).

and the Roots of Modern Liberalism, writes, “Wilson...agreed that progress beyond the narrow constitutionalism of the founding generation was essential.”³⁵ America must take on the role of architects and engineers and build and construct new laws and governing limits to free the American people of the tyranny that the government of special interests now has over them.³⁶ How can society be allowed to move and evolve if the governing documents of the country are stuck in a different time? The Constitution, which had been around and guided politicians since the American founding, was limiting, restrictive and rigid. As Progressives rejected the Constitution, they too rejected the Declaration of Independence believing it to be unhistorical and naive.³⁷

The Declaration of Independence was based on self-evident truths, which Progressives argued were no longer applicable. This founding document acknowledged the presence of natural law, which would govern man and the country. Human beings were not inherently born free, John Dewey said refuting the Founders, free is something, ‘to be achieved,’³⁸ he wrote. The Declaration of Independence protected inherent natural rights of individuals; it did not grant people more rights or take any rights away. This is a central point in understanding what Progressives wanted government to do for the people. Progressives want the government to grant people more “rights”, which were not self-evident. Progressives attacked this idea that the purpose of the government was to protect individual rights prescribed in natural law. Woodrow Wilson said, “If you want to

³⁵Ronald Pestritto, *Woodrow Wilson and the Roots of Modern Liberalism* (n.p.: Rowman & Littlefield Publishers, 2005), 187.

³⁶Woodrow Wilson, “What Is Progress?” (1913), <http://teachingamericanhistory.org/library/index.asp?document=942> (accessed March 16, 2013).

³⁷Thomas West and William Schambra, “The Progressive Movement and the Transformation of American Politics,” The Heritage Foundation, <http://www.heritage.org/research/reports/2007/07/the-progressive-movement-and-the-transformation-of-american-politics> (accessed March 19, 2013).

³⁸ John Dewey, *Liberalism and Social Action* (Prometheus Books, 2000), 40-41.

understand the real Declaration of Independence, do not repeat the preface.”³⁹ Wilson went so far as to suggest that the first two paragraphs of the Declaration of Independence be disregarded,⁴⁰ “No doubt a great deal of nonsense has been talked about the inalienable rights of these individual, and a great deal that was mere vague sentiment and pleasing speculation has been put forward as fundamental principle. The rights of man are easy to discourse of...but they are infinitely hard to translate into practice. Such theories are never: “law.”...Only that is “law” which can be executed, and the abstract rights of man are singularly difficult to execute.”

Subsequently, if you reject one portion of the document, like the Declaration of Independence, you essentially reject it all because every part is intertwined to convey the original intention and appropriate role of government in society. In Wilson’s view since governments are practical and adjust and progress, their principles must do the same and change with circumstances.⁴¹ He said,

*We are not bound to adhere to the doctrines held by the signers of the Declaration of Independence: we are as free as they were to make and unmake governments. We are not here to worship men or a document...Every Fourth of July should be a time for examining our standards, our purposes, for determining afresh what principles, what forms of power we think most likely to effect our safety and happiness. That and that alone is the obligation the Declaration lays upon us.*⁴²

Progressives faced resistance to their beliefs, creating tension and war. Wilson argued that this new war Progressives had engaged in was to free people from tyranny.⁴³

³⁹Woodrow Wilson, Address to the Jefferson Club of Los Angeles, May 12, 1911, in Papers of Woodrow Wilson (ed. Arthur Link): Vol. 23, pp. 33-34.

⁴⁰ Ronald Pestritto, *Woodrow Wilson and the Roots of Modern Liberalism* (n.p.: Rowman & Littlefield Publishers, 2005)

⁴¹ Ibid.

⁴² Woodrow Wilson, “The Authors and Signers of the Declaration”, <http://teachingamericanhistory.org/library/index.asp?document=1104> (accessed March 19, 2013).

⁴³Woodrow Wilson, “What Is Progress?” (1913), <http://teachingamericanhistory.org/library/index.asp?document=942> (accessed March 16, 2013).

Political progressives reformed campaign styles and the public role of the presidency. Prior to Presidents Roosevelt and Wilson, presidents were did not give speeches to the people—Congress was their audience. Previously, when Andrew Johnson was President he gave a speech and was told that his actions threatened the integrity of Congress—resulting in an article of the impeachment charges. The move to a different style of presidential campaigning and a different style of executive governing were signs that the nature of the presidential office was changing. The executive was becoming more powerful and more prominent to the people. The role of the Presidency became an important tool for Progressives to change American politics and a powerful executive could move the legislative and judicial branches into the direction he wanted. The ballot initiative, the referendum, and the recall election were among the democratic measures initiated by the Progressives.⁴⁴ By reforming campaign styles and taking on the role of Congress Presidents could speak directly to the people and court them to support their initiatives.

THE RISE OF CLASS DISTINCTIONS

A middle class began to form in America after the Gilded Age that was highly educated, yet discontent with their status in society. The middle class sought a new individualism, a new politics that would end, “the friction and conflicts of the industrializing nation.”⁴⁵ This new middle class became very content and began to develop interest in new leisure activities, even the youth, which were not available before

⁴⁴ Ronald Pestritto “Woodrow Wilson and the Rejection of the Founder's Constitution,” Hillsdale College, <https://constitution.hillsdale.edu/document.doc?id=318> (accessed March 19, 2013).

⁴⁵ Michael McGeer, *A Fierce Discontent: The Rise and Fall of the Progressive Movement in America (1870-1920)*, New York: Free Press, 2003,9.

as now better employment opportunities were presented and available to people.⁴⁶ Society was changing and this new middle class was leading the way, “The American Victorians were no longer Victorians...Rejecting individualism, reconsidering work and pleasure, and redesigning the body, middle class men and women had cast off much of their old identity. Strengthening themselves, they were becoming new people.”⁴⁷ This movement sought to free the poor from big business and greed because they were being exploited in the name of individual freedom and laissez faire capitalism. The wealthy, businessmen and corporations were subjected the poor and the middle class to harsh working conditions, child labor and low wages.

A “FAIR” ECONOMIC CLIMATE

Big business was the culprit in the eyes of Progressives and had to be regulated to promote economic and social fairness. Theodore Roosevelt advanced aggressive regulatory reforms against businesses because he believed that state governments alone could not govern corporations without national government assistance.⁴⁸ He argued that in order to protect people from greedy corporations the national government’s role had to be strengthened in order to effectively regulate and protect people from economic servitude, “Our purpose is to build up rather than to tear down. We show ourselves the truest friends of property when we make it evident that we will not tolerate the abuses of property.”⁴⁹ This centralization of administrative federal power was exactly against what Tocqueville hated, but America had not centralized power, his native France had done

⁴⁶Joel Shrock, *The Gilded Age* (n.p.: Greenwood Publishing Group, 2004), 39.

⁴⁷ McGeer, *Ibid*.

⁴⁸ William Morrisey, *The Dilemma of Progressivism: How Roosevelt, Taft and Wilson Reshaped the American Regime of Self Government* (New York: Rowman & Littlefield Publishers, 2009), 55.

⁴⁹ Theodore Roosevelt, “Address at the Openings of the Jamestown Exposition” (April 26, 1907), http://books.google.com/books/about/Address_at_Opening_of_the_Jamestown_Expo.html?id=khCCGwAACA AJ (accessed March 19, 2013).

this. In America the government was also located in state and local hands but now Roosevelt advocated for power to be held in oligarch hands to regulate businesses. Roosevelt said he believed that morality should be central to finance, but the problem with this is that the government and the bureaucrats were now the judges of what correct morality was in finance.

GOVERNMENT: A GUARANTOR OF ECONOMIC RIGHTS

The Founders sought to build a government that would protect the inherent rights of every man, etching in stone that all men were created equal. They did not form a government that would give its citizens more rights, but instead formed a government that would protect citizen's God-given rights because they understood that people's rights came from God, not government. Progressives, on the other hand, deemed this to be inadequate and sought to grant citizens more "rights", specifically economic rights.

Roosevelt famously initiated his Square Deal, saying, "I stand for the square deal. But when I say that I am for the square deal, I mean not merely that I stand for fair play under the present rules of the game, but that I stand for having those rules changed so as to work for a more substantial equality of opportunity and of reward for equally good service."⁵⁰ Roosevelt proclaimed that not only did people have the right to a job, but they had a right to a good job that paid well. Roosevelt set the government up to guarantee people this "right." Roosevelt claimed that his Square Deal would protect the public interest by breaking monopolies, protecting consumers and labor and regulating big business. It was a program aimed at protecting the poor and small business from being taken advantage of by the wealthy and big business. The Sherman Anti-Trust Act, Elkins

⁵⁰ Theodore Roosevelt, "New Nationalism Speech" (Osawatomie, Kansas, August 31, 1910), <http://teachingamericanhistory.org/library/index.asp?document=501> (accessed March 19, 2013).

Act and the Anthracite Strike are all examples of Roosevelt's actions that he claimed were to protect consumers but in actuality were building a greater presence of the federal government in the private market.

Mimicking the writers of the Bill of Rights, Franklin Roosevelt said these new economic rights, which he laid out in his 1944 State of the Union, were self-evident. The Economic Bill of Rights Roosevelt outlined specified that regardless of your economic placement, race or creed you not only had the right to a job, but to a job that paid you well and provided recreation. You also had the right to a decent home, medical care, a good education, and protection from the fears of getting old, becoming unemployed or sick.⁵¹ Given that this speech was delivered during the midst of World War II, Roosevelt implied that the problems America faced within its own borders regarding economic inequality were just as important to address to Congress as the war was.

Progressives believed that through government regulation they could help ensure social equality and economic opportunity for the people. Theodore Roosevelt did not seek to abolish big businesses, but he thought that the government had to regulate big business to protect the welfare of society, he said, "We wish to control big business so as to secure among other things good wages for the wage-workers and reasonable prices for the consumer."⁵² President Roosevelt believed that the government should use its resources and power to protect consumers, thus when there was a coal strike in Pennsylvania in 1902 and he thought that the supply of coal was being threatened and a

⁵¹Franklin Roosevelt, "State of the Union Message to Congress" (sermon, U.S. Capitol, Washington, DC, January 11, 1944), <http://www.presidency.ucsb.edu/ws/index.php?pid=16518#axzz1vFNR7OeS> (accessed March 19, 2013).

⁵² Theodore Roosevelt, "New Nationalism Speech" (Osawatomie, Kansas, August 31, 1910), <http://teachingamericanhistory.org/library/index.asp?document=501> (accessed March 19, 2013).

possible looming supply shortage, he decided to intervene. Although Roosevelt could not negotiate an end to the strike directly, he indirectly was able to because he threatened the use of U.S. troops to seize the mines and run them if an end of the strike did not occur. In the end the strike was ended and Roosevelt called this deal, a “Square Deal”, inferring that everyone in America benefited from these actions. Additionally, while Roosevelt condemned monopolies and big businesses, he did not advocate breaking them up simply because they were big, but only if they violated the tenants of his Square Deal, “No effort should be made to destroy a big corporation merely because it is big, merely because it has shown itself a peculiarly efficient business instrument. But we should not gear, if necessary, to bring the regulation of big corporations to the point of controlling conditions so that the wage-workers shall have a wage more than sufficient to cover the bare cost of living, and hours of labor not so excessive as to wreck his strength by the strain of unending toil and leave him unfit to do his duty as a good citizen in the community.”⁵³

The Constitution and Bill of Rights were written with the intention of protecting the people from the government but Roosevelt now put the government in the position of guaranteeing and handing out what he called additional human rights, economic rights. Roosevelt explained that old understanding of constitutional rights were inadequate in industrial America.⁵⁴ The terms of our basic rights “are as old as the Republic.”⁵⁵ These

⁵³ Theodore Roosevelt, “A Charter of Democracy: Address Before the Ohio Constitutional Convention” (sermon, Ohio State Constitutional Convention, Columbus, OH), <http://www.theodore-roosevelt.com/images/research/txtspeeches/704.pdf> (accessed March 19, 2013).

⁵⁴ William Forbath, “Social and Economic Rights in the American Grain: Reclaiming Constitutional and Political Economy,” University of Texas, http://www.utexas.edu/law/faculty/wforbath/papers/forbath_social_and_economic_rights.pdf (accessed March 19, 2013).

new times called for new rights and the political rights had to be supplemented with economic ones.⁵⁶ Because these new rights were government invented, and had to be government enforced, Roosevelt in his New Deal implemented programs and policies to protect these rights, like the beginning of Social Security, youth employment programs and later Medicare in the Great Society. Roosevelt's Economic Bill of Rights paved the way for the formation of government programs and policies to enable people. Starting with the Square Deal with Theodore Roosevelt and followed by the New Deal and Great Society, the progressive movement's idea of the government intervening to equalize people materially and socially expanded the role of the federal government and was an initiator in creating an entitlement society.

The Square Deal was another way that Roosevelt and the Progressive leaders could create class division in society. It was also another way that Progressives sought to expand the role of federal bureaucrats in government, "One of the fundamental necessities in a representative government such as ours is to make certain that the men to whom the people delegate their power shall serve the people by whom they are elected, and not the special interests."⁵⁷ This proclamation is directly in line with the movement's ideology, to remove politics from government; to make administration more of an accurate science rather than a philosophy.

If you remove politics from government, they believed, special interests would also be eliminated and then the government could begin to be a moral entity full of moral

⁵⁵ Franklin Roosevelt, "State of the Union Message to Congress" (sermon, U.S. Capitol, Washington, DC, January 11, 1944), <http://www.presidency.ucsb.edu/ws/index.php?pid=16518#axzz1vFNR7OeS> (accessed March 19, 2013).

⁵⁶ James Kloppenberg, "Franklin Delano Roosevelt, Visionary," *Reviews in American History* Vol 34, no. 4 (December 2006).

⁵⁷ Theodore Roosevelt, "New Nationalism Speech" (Osawatomie, Kansas, August 31, 1910), <http://teachingamericanhistory.org/library/index.asp?document=501> (accessed March 19, 2013).

public servants, according to President T. Roosevelt, “I hold it to be the duty of every public servant, and of every man who in public or private life holds a position of leadership in thought or action, to endeavor honestly and fearlessly to guide his fellow-countrymen to right decisions.”⁵⁸ Roosevelt is affirming that he believes that bureaucrats and experts can run the government more effectively and fairly than the people can, and he is making people believe that their democratically elected government is corrupt, thus a new scientific government with experts must replace them in order to give everyone a fair handshake in life.

WEALTH DEBATE AND HOUSING POLICY

Prior to the start of the Progressive movement, many housing reformers were wary of government involvement in housing policy, as was occurring in Western Europe, and thought it was bad principle for the government to compete with private enterprise in this sector of the economy.⁵⁹ Private sector philanthropists promoted model tenements to assist the poor and improve living conditions, but there was not enough support to assist all the individuals that needed assistance.

In 1936, Congress considered establishing a national housing program.⁶⁰ Prior to the 1900s, there was a rise of slums in the inner cities. When individuals were able to afford to move out of the cities, they choose to move to the country in a single-family

⁵⁸ Theodore Roosevelt, “A Charter of Democracy: Address Before the Ohio Constitutional Convention” (sermon, Ohio State Constitutional Convention, Columbus, OH), <http://www.theodore-roosevelt.com/images/research/txtspeeches/704.pdf> (accessed March 19, 2013).

⁵⁹ Peter Dreier, “Philanthropy and the Housing Crisis: The Dilemmas of Private Charity and Public Policy,” Fannie Mae Foundation, 1997, accessed May 4, 2014, http://content.knowledgeplex.org/kp2/kp/text_document_summary/scholarly_article/relfiles/hpd_0801_dreier.pdf.

⁶⁰ Alexander von Hoffman, “The Origins of American Housing Reform,” Harvard University, August, 1988, accessed May 4, 2014, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/von_hoffman_w98-2.pdf.

home. The problems of slums and unsanitary conditions were troubling issues long before the Progressive movement even formed, yet in the early 1900s, states began passing legislation and creating commissions related to child welfare, labor laws, minimum wage, housing and other social issues.⁶¹ There are other important examples of Progressive housing reforms that even pre-date the New Deal. For example, Progressive supporters urged individual cities to pass sanitation standards for housing with government standards to promote health and safety.⁶² Progressives wanted the government to regulate private housing to ensure sanitary conditions were met. The New York Tenement Law of 1901 was an example of the reform the Progressives championed, regulation of private housing enterprise.

The government's involvement in housing policy with various initiatives and programs stemmed during four economic crises,

*In recent American history, four crises related to housing led the United States government to initiate large-scale housing programs for low-and moderate-income Americans. During the economic crisis of the Great Depression, Franklin Roosevelt's New Deal produced the public housing program. In response to the acute housing shortage at the end of World War II, the government took a couple of wrong policy turns before finding a winning formula in the housing component of the G. I. bill. To help solve the urban crisis of the late-1960s, the Johnson administration set a high goal for national housing production and enacted two large low-income housing production programs based on subsidizing private industry. When these programs careened into crisis in the 1970s, Richard Nixon inaugurated a new approach of vouchers, although it would take almost a generation before that policy was fully accepted.*⁶³

⁶¹ "Chapter 3: Progressive Era Promotes Growth," Alliance for Children and Families 1911-2011, accessed May 4, 2014, <http://alliance1.org/centennial/book/progressive-era-promotes-growth-1900-1920>.

⁶² Peter Dreier, "Philanthropy and the Housing Crisis: The Dilemmas of Private Charity and Public Policy," Fannie Mae Foundation, 1997, accessed May 4, 2014, http://content.knowledgeplex.org/kp2/kp/text_document_summary/scholarly_article/relfiles/hpd_0801_dreier.pdf.

⁶³ Alexander von Hoffman, "History Lessons for Today's Housing Policies: The Political Processes for Low-Income Housing Policy," Harvard University, August, 2012, accessed May 4, 2014, http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w12-5_von_hoffman.pdf.

The Roosevelt Presidency took significant steps in the New Deal to assist low-income Americans, specifically in housing. The 1930s represented the beginning of the expanded federal government's role in housing, through promotion of homeownership and housing subsidies to the poor. The U.S. Housing Act of 1937 set up the permanent housing program that is still part of government's housing policy today. In the early 1940's the federal government's role in promoting affordable housing expanded even further, "Additional government programs in the early 1940s provided housing for defense industry workers and their families in overcrowded manufacturing centers during World War II. Nearly 700 large-scale public housing projects, built either as "low-rent" housing during the Great Depression or "defense" housing during World War II, continue to operate today within the federal public housing program."⁶⁴ The economic crisis of the Great Depression was a catalyst for Franklin Roosevelt to promote an expanded role of the federal government in housing policy to assist low-income individuals move to the middle class.

PROGRESSIVISM TODAY

Progressives believed it to be the government's role and responsibility to protect citizen's interest socially and economically. To protect people economically, they advocated for regulation of big businesses. To protect people socially, progressives claimed that everyone had more rights than the ones outlined in the founding documents, economic rights too. Progressive thoughts can be seen today in the income disparity debate that has been occurring in our country since the end of the Great Recession. One

⁶⁴ "Public Housing in the United States, Mps," United States Department of the Interior, August, 2002, accessed May 4, 2014, <http://www.nps.gov/nr/publications/guidance/Public%20Housing%20in%20the%20United%20States%20MPS.pdf>.

side of the debate policymakers argue, like the Progressives did, that the government should do more to alleviate income disparity, like raise taxes on some, more government programs or promoting certain policies in society with incentives.

The Founders designed a government that would protect individual rights but Progressives advocated for a government that would grant rights, specifically economic rights. Progressives believed there to be a role for the government to protect people from almost every possible harm which could exist in society. President Franklin D. Roosevelt said in his 1944 State of the Union Address to Congress, “We have come to a clear realization of the fact that true individual freedom cannot exist without economic security and independence.”⁶⁵ Where economic and social disparity occurs, he implied, dictatorships have a greater possibility of forming because people are destitute and looking for an escape, “People who are hungry and out of a job are the stuff of which dictatorships are made.”⁶⁶

The actions taken by those who wished to expand the role of the federal government paved the way for future presidents, progressive or not, to not only further develop the role of the federal government in policy and practical federal programs. As the Heritage Foundation points out, Progressives’ viewed government’s responsibility to create institutions that would build people up and assist them in achieving their full potential, which is in direct contrast to the Founder’s view of human nature, “Creating

⁶⁵ Franklin Roosevelt, “State of the Union Message to Congress” (sermon, U.S. Capitol, Washington, DC, January 11, 1944), <http://www.presidency.ucsb.edu/ws/index.php?pid=16518#axzz1vFNR7OeS> (accessed March 19, 2013).

⁶⁶ Ibid.

individuals" versus "protecting individuals": this sums up the difference between the Founders' and the Progressives' conception of what government is for."⁶⁷

The Progressives viewed the government as a resource that could assist people and make their lives economically better. There are some policies, however, that have their foundation in Progressive ideology, but can provide people assistance and relief while also focusing on involving the private market, like housing vouchers.

CONCLUSION

The robust and expansive history of the Progressive political and philosophical movement is meant to provide the reader with a sense of the economic and social factors leading up to this notorious movement. The wealth debate in our country has been occurring in politics since the time of the Founders, who debated the importance of the middle class participating in the political system. Industrialization brought about social and economic reform, and even though there were great advances during this time, a lot of people were hurting trying to make an affordable living. Industrialization was changing the structure of economies and societies.⁶⁸ A history of national events leading up to the Progressive movement, as this chapter provides, is essential in understanding why the Progressive movement arose, and why their political reforms were influential in society for the middle class.

⁶⁷Thomas West and William Schambra, "The Progressive Movement and the Transformation of American Politics," July 18, 2007, <http://www.heritage.org/research/reports/2007/07/the-progressive-movement-and-the-transformation-of-american-politics> (accessed March 16, 2013).

⁶⁸Nancy Birdsall, Carol Graham, and Stefano Pettinato, "Stuck in the Tunnel: Is Globalization Muddling the Middle Class," The Brookings Institute, August, 2000, accessed May 4, 2014, <http://www.brookings.edu/es/dynamics/papers/middleclass/midclass.pdf>.

The Progressive movement, according to historian Sidney Milkis was as, “momentous reconstructions of politics.”⁶⁹ This was a movement by the people, the middle class in particular, that demanded their government be accessible and influential in their lives to alleviate social ills. The leaders of this movement undertook a noble cause of assisting individuals, because it was individuals that were hurting. The underpinnings of this social experiment can be found in the aftermath of the Industrialization. While industrialization did bring jobs and industry to America, as opposed to farming, children were working in factories, conditions were terrible, poverty was growing, and housing conditions were at times unbearable. Seeing these plights, Progressive leaders arose and sought to address these issues through the power of the federal government.

Progressivism and those who espoused to its philosophy had a positive view of what government could do in people lives. Specifically, Progressives believed that people had certain rights outside of the Bill of Rights and the Constitution, specifically economic rights. The Progressive way of thinking is still apparent in our politics today, specifically in the income disparity debate. This chapter provides an examination of the beginning of the federal government’s involvement in housing policy for low-income individuals, which is essential to comprehending the continuation of some of their policies relating to housing today. When it comes to the economic disparity debate, Progressives, like Franklin Roosevelt, sought government solutions to fix this issue, but the next chapter will illustrate that regarding housing policy for low-income individuals, an effective

⁶⁹ John Halpin, “Progressive Traditions: Social Movements and Progressivism,” Center for American Progress, April 14, 2010, accessed May 4, 2014, <http://www.americanprogress.org/issues/progressive-movement/report/2010/04/14/7593/social-movements-and-progressivism/>.

policy can take points from the Progressive view and blend them with market incentives to promote economic mobility.

Chapter 2: The American Dream and Income Disparity

The beginning of the twentieth century can be pinpointed as a time in American history where the boom and bustle of the economy, industrialization and progress were thought to never end. Hard times were ahead for America, and a busting economy gave way to an economic Depression, the worst the country had ever seen. For those who had survived the economic collapse of the financial system, steps and measures were taken to ensure these days would stay in the past, never to return. The Progressive movement brought the start of a national dialogue focused on income inequality, wage inequality and class status. The themes of the Progressive movement still impact the economic disparity debate in our country today because they sought an expanded role of the federal government in assisting individuals with economic ailments. However, the focus on inequality should instead shift to a focus on income disparity, specifically economic opportunity and mobility, which will be demonstrated in this thesis.

This chapter will begin by discussing the American dream and why it is central to understanding income disparity and assisting people in achieving economic mobility. Owning one's home is a central component of the American dream. Next, this chapter will then delve into the reasoning why a strong middle class is essential to a vibrant economy and ensuring that all Americans have an opportunity to pursue the American dream. Then, this chapter will examine income disparity and examine the impact the Great Recession had on all income classes but specifically the middle class. By focusing on the middle class struggles after the recession, and examining the growth of income among different classes of individuals. Finally, I will conclude by examining the relationship between income disparity (the gap between one individual's income to

another) and the need for economic mobility (the ability of individuals to increase their wealth and move up income quintiles).

What is the American dream? One of the hallmarks of the American Dream is equal opportunity.⁷⁰ Immigrants travel from afar in search of it, children hear their grandparents talk about it and politicians never stop alluding to it. What is the American dream that so many generations have aspired to and longed to achieve?

The American dream is the belief that despite one's background, race or economic standing anyone can pick them self up by their boot straps and succeed in life. Although this success can be measured in different ways, it is the idea that America provides its citizens with the opportunity to develop their own initiatives. The American dream is not so much about what you want to achieve, rather, it is the promise that you have the freedom to pursue your talents and entrepreneurial interests. Additionally, it is the promise that a brighter future exists tomorrow for your children with more opportunities than you have been given in life.

The term, American dream, has been alluded too since America's founding, but was written about in 1931 by James Truslow Adams, a historian, in his book, *The Epic of America*. Adam writes, and this is an important point to observe,

“The American Dream is that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement. It is a difficult dream for the European upper classes to interpret adequately, and too many of us ourselves have grown weary and mistrustful of it. It is not a dream of motor cars and high wages merely, but a dream of social order in which each man and each woman shall be able to attain to the fullest stature of

⁷⁰ “Moving On Up: Why Do Some Americans Leave the Bottom of the Economic Ladder, but Not Others?,” The Pew Charitable Trusts, November 7, 2013, accessed March 30, 2014, <http://www.pewstates.org/research/reports/moving-on-up-85899518104>.

which they are innately capable, and be recognized by others for what they are, regardless of the fortuitous circumstances of birth or position.”⁷¹

Adams wrote his book in the aftermath of the 1929 crash of the stock market and the Great Depression. His book mirrored the ideas and thinking of many previous political philosophers, as well as the Declaration of Independent, who alluded to the idea of the American dream including John Winthrop, Benjamin Franklin and Thomas Jefferson.

Political figures such as Franklin D. Roosevelt, Ronald Reagan, Nancy Pelosi and President Obama have all alluded to the American dream in their political speeches. Of the American dream former Speaker of the House Nancy Pelosi said, “The American Dream is about freedom.”⁷² Former President Bill Clinton associated the American dream with jobs, saying, “I want American dream growth - lots of new businesses, well-paying jobs, and American leadership in new industries, like clean energy and biotechnology.”⁷³ On the other side of the political aisle former Senator Mel Martinez associated the American dream with immigration, saying, “Forty-two years ago, I came to America from communist Cuba so I might have a better way of life, a freer way of life - a more democratic way of life. I wanted to live the American Dream where if you worked hard and put your mind to the task, anything was possible.”⁷⁴ Senator Rand Paul, too, associates the American dream with an immigration odyssey, saying, “My great-

⁷¹ Adams, James Truslow. *The Epic of America*. Boston: Little, Brown, and Company, 1931.

⁷² “Nancy Pelosi DNC Speech,” *Politico*, September 5, 2012, accessed November 10, 2013, <http://www.politico.com/news/stories/0912/80771.html>.

⁷³ “Bill Clinton On Principles and Values,” *On The Issues*, accessed November 10, 2013, http://www.ontheissues.org/celeb/Bill_Clinton_Principles_+_Values.htm.

⁷⁴ Mel Martinez, accessed November 10, 2013, <http://www.brainyquote.com/quotes/quotes/m/melmartine168643.html>

grandfather, like many, came to this country in search of the American dream.”⁷⁵ As you can see the American dream is bipartisan in nature, meaning different things to different individuals, but at the core of the American dreams is freedom to live and work. How best to foster and make the American dream attainable in our modern society is an extremely partisan debate, and is rooted in the income disparity debate.

It is clear from the quotes discussed above, along with many others, which have not been mentioned, that the American dream is deeply associated with opportunity, which culminates in jobs, education, freedom and starting a business. Essentially, the American dream is different to everyone. Even though it is different to every individual, it is still important because every American has the opportunity in this country to pursue happiness, as outlined in the Declaration of Independence. A recent survey found that 87% of adults say the idea of the American Dream is important to them and close to two-thirds of individuals that did not graduate from college say that the American Dream is very important and meaningful to them.⁷⁶ The American Dream symbolizes opportunity, and all Americans are able to pursue opportunity how they see fit in their lives.

Opportunity for every individual that comes to this country can be seen in the quotes by both Senators Martinez and Paul, who address the underlying fact that communist countries, such as Cuba, restrict liberty and freedom, which corresponds to a restriction in economic freedom, which is why their family members came to America because Americans were free. Their ancestors were searching for a country where they

⁷⁵ Rand Paul, “Transcript of Senator Rand Paul's Speech at the RNC,” *Fox News*, August 29, 2012, accessed November 10, 2013, <http://www.foxnews.com/politics/2012/08/29/transcript-sen-rand-paul-speech-at-rnc/>.

⁷⁶ “The American Dream,” KRC Research, November 2, 2009, accessed May 4, 2014, http://www.krcresearch.com/news_americanDream.html.

would be free to live and work without the overbearing hand of the government squashing their endeavors. President Clinton associated the American dream with economic opportunity too, drawing a parallel between opportunity and creating jobs and businesses for a thriving economy. The American dream is not about money, creating wealth or becoming rich, rather, it is about having the freedom to pursue wealth, having the freedom to pursue a quality education and college and having the freedom to pursue one's talents, goals and ideas which can amount to wealth and what is deemed to be a successful material life. Opportunity, however, is where many disagree, specifically how best to foster opportunity in America so more people can secure the American dream.

A strong and thriving middle class is closely associated with the American dream because entering the middle class, and staying in the middle class, is almost the universal American dream. At the time of debates over ratification of the Constitution, there was a healthy debate about the role the middle class would play. At the New York ratifying Convention, Melancton Smith, in his debates with Hamilton, captured this well, saying,

The idea that naturally suggests itself to our minds, when we speak of representatives, is, that they resemble those they represent. They should be a true picture of the people, possess a knowledge of their circumstances and their wants, sympathize in all their distresses, and be disposed to seek their true interests. Would you exclude the first class in the community from any share in legislation? I answer, By no means. They would be factious, discontented, and constantly disturbing the government. It would also be unjust. They have their liberties to protect, as well as others, and the largest share of property. But my idea is, that the Constitution should be so framed as to admit this class, together with a sufficient number of the middling class to control them. You will then combine the abilities and honesty of the community, a proper degree of information, and a disposition to pursue the public good. A representative body, composed principally of respectable yeomanry, is the best possible security to liberty.⁷⁷

⁷⁷ "1788- New York Ratifying Convention- Melancton Smith and Alexander Hamilton Debate Representation, Aristocracy, and Interests," Read the Constitution, Stupid, June 21, 1788, accessed March 30, 2014, http://readtheconstitutionstupid.com/en/?option=com_content&view=article&id=1913:1788-

Even in the beginning days of America's government politicians were discussing the importance of the middle class, and how to involve this class in workings of the government.

The American economy is partially judged and evaluated based on the welfare of the middle class. While there is no exact definition of what it constitutes to be in the middle class, the Congressional Research Services found that people self identify themselves as middle class with income between \$39,736 to \$104,087 in 2012.⁷⁸ While there is no exact definition of middle class, because income levels change constantly, the Census Bureau found the lower middle class typically has a college education and incomes between \$32,000 and \$60,000 and the upper middle class individuals typically obtained a graduate degree and often had incomes above \$100,000 but below \$150,000.⁷⁹ The middle class is indeed shrinking, according to individuals that self-report as middle class. According to a recent Pew Research Center study of 1,287 adults, nearly 85 percent survey said that it is more difficult now than a decade ago for the middle class to maintain their standard of living.⁸⁰ Furthermore, over the past decade the median income of the middle income tier of Americans fell by roughly 5 percent but the median wealth of the upper income tier increased by 1 percent.⁸¹ In a 2012 study the Brookings Institute found that a family was categorically in the middle class is they had a yearly income

[new-york-ratifying-convention-melancton-smith-and-alexander-hamilton-debate-representation-aristocracy-and-interests&catid=248&Itemid=847&lang=en.](#)

⁷⁸ Craig Elwell, "The Distribution of Household Income and the Middle Class," Congressional Research Service, March 10, 2014, accessed May 4, 2014, <http://www.fas.org/sgp/crs/misc/RS20811.pdf>.

⁷⁹ David Francis, "Where Do You Fall in the American Economic Class System?," U.S. News Money, September 13, 2012, accessed May 4, 2014, <http://money.usnews.com/money/personal-finance/articles/2012/09/13/where-do-you-fall-in-the-american-economic-class-system>.

⁸⁰ "The Lost Decade of the Middle Class," The Pew Research Center, August 22, 2012, accessed May 4, 2014, <http://www.pewsocialtrends.org/2012/08/22/the-lost-decade-of-the-middle-class/>.

⁸¹ Ibid.

greater than 300 percent of the federal poverty line, roughly \$68,000 for a family of four.⁸² The median income in 2012 according to the Census was \$51,017.⁸³ The Brookings Institute found that 60% of adults aged forty reached the \$68,000 mark and achieved the American dream while anywhere from two to five million adults had not.⁸⁴

President Obama in the first ten days of his Administration created the White House Task Force on the Middle Class, chaired by Vice President Biden, to evaluate the health of the middle class and determine what needs to be done to jump start the middle class after the recession. Vice President Biden writes in the report,

*Quite simply, a strong middle class equals a strong America We can't have one without the other This Task Force will be an important vehicle to assess new and existing policies across the board and determine if they are helping or hurting the middle class. It is our charge to get the middle class—the backbone of this country—up and running again.*⁸⁵

The backbone of President Obama's economic policy would be to secure the future of the middle class and make sure they do not get left behind.⁸⁶ This shows how important the success and prosperity of the middle class is to a successful Administration but more importantly to the growth of the economy after a recession.

⁸² Isabel Sawhill, Scott Winship, and Kerry Searle Grannis, "Pathways to the Middle Class: Balancing Personal and Public Responsibilities," The Brookings Institute, September 20, 2012, accessed November 10, 2013, <http://www.brookings.edu/~media/research/files/papers/2012/9/20%20pathways%20middle%20class%20sawhill%20winship/0920%20pathways%20middle%20class%20sawhill%20winship.pdf>.

⁸³ "Income, Poverty and Health Insurance Coverage in the United States: 2012," U.S. Census, September 17, 2013, accessed May 4, 2014, http://www.census.gov/newsroom/releases/archives/income_wealth/cb13-165.html.

⁸⁴ Isabel Sawhill, Scott Winship, and Kerry Searle Grannis, "Pathways to the Middle Class: Balancing Personal and Public Responsibilities," The Brookings Institute, September 20, 2012, accessed November 10, 2013, <http://www.brookings.edu/~media/research/files/papers/2012/9/20%20pathways%20middle%20class%20sawhill%20winship/0920%20pathways%20middle%20class%20sawhill%20winship.pdf>.

⁸⁵ "Annual Report of the White House Task Force On the Middle Class," The White House, November 10, 2013, accessed November 10, 2013, <http://www.whitehouse.gov/sites/default/files/microsites/100226-annual-report-middle-class.pdf>.

⁸⁶ "Annual Report of the White House Task Force On the Middle Class," The White House, November 10, 2013, accessed November 10, 2013, <http://www.whitehouse.gov/sites/default/files/microsites/100226-annual-report-middle-class.pdf>.

Americans like to feel that they are middle class and the fact that politicians often speak of helping the middle class or not squeezing the middle class, many think that politicians are speaking to them, according to Charles Murray of the American Enterprise Institute (AEI). Murray says, “In America, everyone wants to think they’re middle class, or at least historically that’s been the case.”⁸⁷ Murray acknowledges that indeed the rich are getting richer and the reasons for this stem from college and marriage. Regarding college, Murray writes in his book, *Coming Apart*,

*The reason that upper-middle-class children dominate the population of elite schools is that the parents of the upper-middle class now produce a disproportionate number of the smartest children. Among college-bound seniors who took the SAT in 2010, 87 percent of the students with 700-plus scores in the math and verbal tests had at least one parent with a college degree. Fifty-six percent of them had a parent with a graduate degree. The children of the well educated and affluent get most of the top scores because they constitute most of the smartest kids. They are smart in large part because their parents are smart.*⁸⁸

The gap in economic opportunity and lack of economic mobility not only affects parents, but as Murray points out, it directly impacts the future of children, specifically regarding college attendance, which will also impact their future generation. Robert Putnam, a professor at Harvard University, has studied income inequality and acknowledges, a cohort of, “lost kids we see in our data, who have no opportunity for economic mobility.”⁸⁹ Putnam focuses his research on the impact of the lack of opportunity on children and found, related to education, that more affluent parents are spending more on

⁸⁷ Sophie Quinton, “For Obama and Romney, 'Middle Class' Means Pretty Much Everyone,” National Journal, October 18, 2012, accessed November 10, 2013, <http://www.nationaljournal.com/politics/for-obama-and-romney-middle-class-means-pretty-much-everyone-20121018>.

⁸⁸ Charles Murray, “The Truth About Income Inequality in America,” The Atlantic, February 10, 2012, accessed May 4, 2014, <http://www.theatlantic.com/business/archive/2012/02/the-truth-about-income-inequality-in-america/252892/>.

⁸⁹ Amy Davidson, “Economic Inequality: A Matter of Trust?,” The New Yorker, December 4, 2013, accessed May 4, 2014, <http://www.newyorker.com/online/blogs/closeread/2013/12/economic-inequality-a-matter-of-trust.html>.

their children's education while less affluent parents are spending less. Over the past 40 years upper-income parents have increased the amount they spend on their children's education by \$5,300 per year, compared to \$480 per year from lower-income parents, adjusted for inflation, as reported by the New York Times.⁹⁰ This disparity has implications for society as a whole, not just in terms of educational attainment Putnam writes, "It's perfectly understandable that kids from working-class backgrounds have become cynical and even paranoid, for virtually all our major social institutions have failed them — family, friends, church, school and community."⁹¹ There is a gap in opportunity in America today, and one that if left untouched will impact future generations. The American dream of owning a home, sending children to college and saving for retirement must be attainable for all.

The American dream is quantified by reaching the middle class threshold, as Charles Murray described above. However, the middle class is not just about money, there are certain traits of the middle class, according to the World Bank, which writes that the middle class has long been perceived as drivers of social cohesion and growth.⁹²

The idea of a cute house in suburbia, a white picket fence, a two car garage, and a lawn to mow on Saturday afternoon is not just a fading scene from old movies, it still is the fictitious barometer to judge if one has "made it" to the middle class today. If this is still the fictitious barometer of the middle class, what does it take to enter the middle class and stay in the middle class? President Obama during a 2012 campaign stop to

⁹⁰ David Brooks, "The Opportunity Gap," The New York Times, July 9, 2012, accessed May 4, 2014, <http://www.nytimes.com/2012/07/10/opinion/brooks-the-opportunity-gap.html>.

⁹¹ *Ibid.*

⁹² Luis F. Lopez-Calva, "Is There Such Thing as Middle Class Values? Class Differences, Values and Political Orientations in Latin America," The World Bank, November, 2011, accessed May 4, 2014, <http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-5874>.

Knox College outlined his proposals to support and grow the middle class during his next term, saying,

*I'll lay out my ideas for how we build on the cornerstones of what it means to be middle class in America, and what it takes to work your way into the middle class in America: Job security, with good wages and durable industries. A good education. A home to call your own. Affordable health care when you get sick. A secure retirement even if you're not rich. Reducing poverty. Reducing inequality. Growing opportunity. That's what we need. That's what we need. That's what we need right now. That's what we need to be focused on.*⁹³

At another campaign stop to discuss student loan interest rates in at the University of North Carolina, President Obama more concretely described what he, and many Americans believe the American dream equation is, saying,

*So we've still got a lot of work to do to rebuild this economy so that it lasts, so that it's solid, so that it's firm. But what I want you to know is that the degree you earn from UNC will be the best tool you have to achieve that basic American promise -- the idea that if you work hard, you can do well enough to raise a family and own a home, send your own kids to college, put a little away for retirement. That American Dream is within your reach.*⁹⁴

Owning a home, sending children to college and saving for retirement are the three most common and referenced pieces of the American dream puzzle, as quoted by President Obama. Additionally, these pieces show that the American dream is not just about an individual's achievement, but also setting your children up for the same successful path so they can achieve their American dream, if not more. President Obama touches upon this point too in his speech to students at the University of North Carolina, saying,

⁹³ Barack Obama, "Remarks by the President On the Economy-- Knox College, Galesburg, IL," The White House, July 24, 2013, accessed November 10, 2013, <http://www.whitehouse.gov/the-press-office/2013/07/24/remarks-president-economy-knox-college-galesburg-il>.

⁹⁴ Barack Obama, "President Obama Speaks On Student Loan Interest Rates in North Carolina," The White House, April 24, 2012, accessed November 10, 2013, <http://www.whitehouse.gov/photos-and-video/video/2012/04/24/president-obama-speaks-student-loan-interest-rates-north-carolina#transcript>.

And there's another part of this dream, which is the idea that each generation is going to know a little bit more opportunity than the last generation. That our kids -- I can tell you now as a parent -- and I guarantee you, your parents feel this about you -- nothing is more important than your kid's success. You want them to do better than you did. You want them to shoot higher, strive more, and succeed beyond your imagination.⁹⁵

President Obama's words are similar to those of Senators Martinez and Paul; the American dream attracts people to America and challenges people to achieve success for themselves and their children. America represents hope, the hope for a better life for all who cross the border. The American dream, middle class, and income disparity consume our politics, policies and debates with politicians giving their prescriptions to aid individuals in climbing the middle class ladder.

WHY IS THE MIDDLE CLASS IMPORTANT?

Why is the middle class so essential to the income disparity debate? A strong and thriving middle class is essential to economic growth. If the middle class is faring poorly in society, typically other sectors of the economy are slowing down, including job growth, consumer confidence, stock gains and home ownership and prices. This is due to the fact that the middle class drives growth and investment in society, as David Madland writes in his journal article, *Growth and the Middle Class*, saying:

Politicians typically see the middle class as something to create with the gains of economic growth. But in fact, the opposite is the case: The middle class is the source of economic growth. A strong middle class provides a stable consumer base that drives productive investment. Beyond that, a strong middle class is a key factor in encouraging other national and societal conditions that lead to growth. It is a prerequisite for robust entrepreneurship and innovation, a source of trust that greases social interactions and reduces transaction costs, a bastion of civic

⁹⁵ Barack Obama, "President Obama Speaks On Student Loan Interest Rates in North Carolina," The White House, April 24, 2012, accessed November 10, 2013, <http://www.whitehouse.gov/photos-and-video/video/2012/04/24/president-obama-speaks-student-loan-interest-rates-north-carolina#transcript>.

*engagement that produces better governance, and a promoter of education and other long-term investments.*⁹⁶

Our country rewards and encourages hard work and entrepreneurship. When people take risks, and open a new business, or innovate a new product, this very act gives consumers more choices, drives competition in the market and lowers prices of goods and services because it makes businesses compete for our dollar. If the middle class is squeezed, and uncertain about their future and the future of the economy, as a whole they will be less likely to open a business or take a purchase a home. A stable, robust and growing middle class is necessary to a strong economy. When the middle class shrinks, the economy shrinks. As President Obama said,

*When middle-class families can no longer afford to buy the goods and services that businesses are selling, it drags down the entire economy from top to bottom. ... that's why a CEO like Henry Ford made it his mission to pay his workers enough so they could buy the cars they made.*⁹⁷

The economic benefits of achieving the American dream cannot be denied, as data shows that those who achieve this dream fare better economically during their lifetime. Of course many factors contribute to the final outcome, such as college attendance, whether one's parents went to college and the like but the idea of achievement, hard work and perseverance drives people to own a home, send children to college and retire. The American dream is achieving middle class status, a life that is not full of strife, as in poverty, or full of opulence, like the wealthy. The beauty of the

⁹⁶ David Madland, "Growth and the Middle Class," Democracy: A Journal of Ideas, March 30, 2014, accessed March 30, 2014, <http://www.democracyjournal.org/20/growth-and-the-middle-class.php?page=all>.

⁹⁷ David Madland, "President's Speech Hints at Alternative Model of Growth," Center for American Progress, December 7, 2011, accessed March 30, 2014, <http://www.americanprogress.org/issues/economy/news/2011/12/07/10773/the-middle-class-grows-the-economy-not-the-rich-2/>.

American dream is that older generations want to preserve it for future generations, because they know its value and what good things America offered them, and still has to offer for their children, and children's children.

There is an undeniable parallel between the middle class American dream and the income inequality debate occurring today in America. The health and vibrancy of the middle class is a key code in assessing the health of the economy. The jobs report, consumer confidence, homeownership rate and retirement timeline are all factors in assessing whether the middle class is thriving. Roughly 70 percent of all U.S. economic activity is driven by consumer spending⁹⁸, so if the middle class is shrinking, they will be spending less. Chances are, if the economy is unable to create the necessary jobs to lower the unemployment rate, if consumers are afraid to spend and homes are sitting the market for longer than anticipated, the middle class is bearing the brunt of the pain in the wallet. The Pew Research Center found that the middle class was hit the hardest during the recession and its aftermath and has still not recovered.⁹⁹

The middle class experienced the most pain this recession because this recession stemmed from a housing crisis and a collapse of the housing market, the cornerstone of the American dream and where a lot of people held their savings, in home equity. Homes were the biggest asset for the middle class, which today still makes up 66.6 percent of middle class assets-- higher than in the late 1990s.¹⁰⁰ The Furman Center found, since the

⁹⁸ Chris Stiffler, "Income Inequality Worst Since Eve of Great Recession," Colorado Fiscal Institute, February 19, 2014, accessed March 30, 2014, <http://www.coloradofiscal.org/income-inequality-worst-since-eve-of-great-depression/>.

⁹⁹ "The Lost Decade of the Middle Class," Pew Research Social & Demographic Trends, August 22, 2012, accessed November 10, 2013, <http://www.pewsocialtrends.org/2012/08/22/the-lost-decade-of-the-middle-class/>.

¹⁰⁰ Jordan Weissmann "The Recession's Toll: How Middle Class Wealth Collapsed to a 40-Year Low," The Atlantic, December 4, 2012, accessed November 10, 2013,

first quarter of 2006, U.S. households have lost over \$7 trillion of housing equity.¹⁰¹ The loss of equity, rise of foreclosure and increase in overall debt has resulted in the bottoming out of this cornerstone class. Additionally, the financial crisis resulted in thousands of job losses, and not the equivalent in the number of jobs created during the recovery. The national Employment Law Project analysis of Department of Labor data found that mid-wage occupations accounted for 60 percent of the job losses during the recession, but only 22 percent of the gains during the recovery.¹⁰² The result of the housing market crash has resulted in some of the middle class falling out of this class, some barely hanging on, and others who are attempting to enter the middle class and are unable to.

The housing crisis, and subsequent national economic recession, has resurrected a timeless debate in America, the income inequality debate. Does income inequality exist in America? Examining income inequality in America is essential to evaluating how best to give people economic opportunity so they can achieve the American dream.

INCOME DISPARITY BY THE NUMBERS

It is an undisputed fact that the wealthy population in society has seen their real incomes grow in the aftermath of the Great recession while the middle class and the poor have seen little growth, and are still having difficulty finding work which paid similar to their income pre-recession. According to analysis of tax data by Emmanuel Saez, a professor of economics at University of California at Berkley, the wealthiest 1 percent of

<http://www.theatlantic.com/business/archive/2012/12/the-recessions-toll-how-middle-class-wealth-collapsed-to-a-40-year-low/265743/>.

¹⁰¹ Ingrid Gould Ellen and Samuel Dastrup, "Housing and the Great Recession," The Furman Center, November 10, 2013, accessed November 10, 2013,

<http://furmancenter.org/files/publications/HousingandtheGreatRecession.pdf>.

¹⁰² Tami Luhby, "Why America's Middle Class Is Losing Ground," CNN Money, March 5, 2013, accessed March 30, 2014, <http://money.cnn.com/2013/03/05/news/economy/middle-class-wages/>.

Americans saw 93 percent of per-capita real income gains in 2010.¹⁰³ Additionally, he also found that in 2010 the average real income for family gain grew by 2.3 percent but the top 1 percent of individuals saw their income grow by 11.6 percent while the bottom 99 percent of individuals only saw their income increase by .2 percent.¹⁰⁴ In other words, the top 1 percent of individuals saw their income increase over the year, which is the year the recession ended, by \$105,637 while the middle 60 percent of households in the middle class earned between \$20,000 and \$100,000, according to the US. Census, Bloomberg reports.¹⁰⁵

Since the 2009 financial crisis, it seems as if the division of income classes in America has become more apparent and can be seen by the increase in corporate profits, decrease in tax liability of some of the richest individuals, increase in food stamp usage and a dramatic rise in the number of people seeking unemployment benefits.

In the aftermath of the recession, many American suffered hard times due to job losses, and it seemed that income inequality did increase after the financial crisis. Banking and twin crises result in an increase in income inequality, as do currency crises.¹⁰⁶ Former Chief Economist to the International Monetary Fund, Raghuram Rajan said that, “the political response to rising inequality--whether carefully planned or the path of least resistance-- was to expand lending to households, especially low-income

¹⁰³ Emmanuel Saez, “Striking It Richer: The Evolution of Top Incomes in the United States,” University of Berkeley, March 2, 2012, accessed March 30, 2014, <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2010.pdf>.

¹⁰⁴ Emmanuel Saez, “Striking It Richer: The Evolution of Top Incomes in the United States,” University of Berkeley, March 2, 2012, accessed March 30, 2014, <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2010.pdf>.

¹⁰⁵ Mike Dorning, “Obama Fails to Stem Middle-Class Slide He Blamed On Bush,” Bloomberg Businessweek, April 30, 2012, accessed March 30, 2014, <http://www.bloomberg.com/news/2012-05-01/obama-fails-to-stem-middle-class-slide-he-blamed-on-bush.html>.

¹⁰⁶ Michael Bordo and Christopher Meissner, “Do Financial Crises Always Raise Inequality? Some Evidence from History,” University of California, September 13, 2011, accessed November 10, 2013, http://sciie.ucsc.edu/JIMF4/Revised_Bordo_Meissner.pdf.

households.”¹⁰⁷ This is the epitome of what occurred in America’s 2009 crisis. In the aftermath, as the crisis sets in and the economy lags, people struggle to climb out of the economic wreckage, as do corporations and financial institutions who often tighten lending requirements and restrict credit after a crisis. Although in June 2011 the recession was officially “over”, the economy still has a long way to go in order to make a full recovery, which is extremely frustrating to people who have lost so much, especially their retirement wealth, home equity and personal savings. This frustration with the handling of the financial crisis and the subsequent recovery spurred the renewal of the conversation which began in the Progressive movement about income disparity in America.

CONCERN OVER INCOME INEQUALITY

The Occupy Wall Street movement had the potential to be one of the first successful movements in recent American history to attract attention to the issue of income inequality and the disparity between the extremely wealthy and the average person. Although this movement’s supporters were dedicated, it was unorganized and lacked clear goals and particular policy prescriptions. This made the occupy movement a successful protest, but not a successful social movement. Although, in the end, Occupy Wall Street faded out of the news, it did for a time spark a conversation in America about disparity of wealth and what, if anything, was to be done about it. That conversation is still ongoing today, as President Obama has at times referenced the 99 percent slogan from the movement, and focuses many of his legislative initiatives now focuses on two

¹⁰⁷ Raghuram Rajan, “How Inequality Fueled the Crisis,” Project Syndicate, July 9, 2010, accessed November 10, 2013, <http://www.project-syndicate.org/commentary/how-inequality-fueled-the-crisis>.

different political parties announcing innovative, but different, policy approaches to get America working again, and assist those still struggling from the recession.

America is not the only country dealing with the issue of income disparity. For years people have discussed how income inequality is a serious issue that should be dealt with by world governments. According to an OECD poll, in 31 of the 39 countries surveyed, more than half of the population in each country said that the gap between the rich and the poor in their society was very concerning and a problem.¹⁰⁸ In developing economies, the percentage of people concerned about income inequality was much higher than 50 percent, including: 86 percent of Lebanese, 85 percent of Pakistanis and 82 percent of Tunisians.¹⁰⁹

According to the OECD in advanced economies people are still concerned about income inequality and the gap between the rich and the poor but the percentage is much lower. When surveyed, 47 percent of Americans were concerned about the wealth gap, followed by 45 percent of Canadians.¹¹⁰ While some of this concern can be attributed to the economic crisis and recovering recession globally, the OECD also notes in their study that in advanced economies over the past 5 years people believe that the wealth gap has gotten worse.

Germany is the only country, according to the OECD, where a plurality believes that it should be a major governmental policy objective to reduce the wealth gap.¹¹¹ The

¹⁰⁸ “Inequality and Economic Mobility,” Pew Research Global Attitudes Project, May 23, 2013, accessed November 10, 2013, <http://www.pewglobal.org/2013/05/23/chapter-3-inequality-and-economic-mobility/>.

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ Ibid.

other countries instead focus on creating economic opportunities, especially in advanced economies and developing countries.¹¹²

As the OECD outlines based on the survey results in 2013, a majority of people in many countries, including advanced, emerging and developing economies, believe that income inequality is a problem, but only a plurality in one country, Germany, believes it should be a major governmental initiative to fix. It seems, in America, that the topic of income disparity is tied to many policy debates and elections, probably for years to come.

INCOME INEQUALITY IN AMERICA

Income inequality has been increasing over the past two decades in other OECD countries. The OECD finds that prior to the global economic crisis, over the past two decades household incomes only increased by an average of 1.7 percent a year in these select countries.¹¹³ However, in a large majority of these countries the household income of the richest 10 percent of households grew faster than the household income of the poorest 10 percent of households, which the OECD argues, widens income inequality.¹¹⁴ Today, in OECD countries, the average income of the richest 10 percent of population is roughly nine times that of the poorest 10 percent of households--a ratio of nine to one.¹¹⁵ The United States' ratio is much larger and is currently around 14 to 1.¹¹⁶

To measure income inequality in a country and compare income inequality in different countries, economists examine the Lorenz curves and Gini indexes. The Lorenz curve plots the cumulative percentages of total income received against the cumulative

¹¹² Ibid.

¹¹³ "An Overview of Growing Income Inequalities in Oecd Countries: Main Findings," OECD, November 10, 2013, accessed November 10, 2013, <http://www.oecd.org/els/soc/49499779.pdf>.

¹¹⁴ Ibid.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

percentage of individuals and households that received the income.¹¹⁷ The steeper and deeper the Lorenz curve is when looking at a country, it shows economists that the particular country's income distribution is less equal. The Gini Index is scored on a scale of 0 percent to 100 percent, with 0 percent representing perfect equality and 100 percent representing perfect inequality. In reality, however, perfect equality and perfect inequality is not mathematically possible.¹¹⁸

The United States since the 1980s has seen the Gini Index increase and at times increase a greater percentage than other developed countries. From the mid 1980s to the late 2000s the Gini Index in OECD countries increased by almost 10 percent to .316. In the United States, however, it rose by more than 4 percentage points whereas in other developed countries like Greece, France and Belgium their Gini coefficients fell.¹¹⁹

Additionally, the growth in income has been growing faster for wealthier households than poorer households, according to the Federal Reserve Bank of Saint Louis. The Federal Reserve Bank of Saint Louis finds that, "the real income of the wealthiest 5 percent of households rose by 14 percent between 1996 and 2006, while the income of the poorest 20 percent of households rose by just 6 percent. As a result of these differences in income growth, the income of the wealthiest 5 percent of households grew from 8.1 times that of the income of the poorest 20 percent of households in 1996 to 8.7 times as great by 2006."¹²⁰ These findings, the Federal Reserve finds, can be misleading,

¹¹⁷ "Beyond Economic Growth: Income Inequality," The World Bank, November 10, 2013, accessed November 10, 2013, http://www.worldbank.org/depweb/beyond/beyondco/beg_05.pdf.

¹¹⁸ Ibid.

¹¹⁹ "An Overview of Growing Income Inequalities in Oecd Countries: Main Findings," OECD, November 10, 2013, accessed November 10, 2013, <http://www.oecd.org/els/soc/49499779.pdf>.

¹²⁰ Thomas Garrett, "U.S. Income Inequality: It's Not so Bad," Federal Reserve Bank of Saint Louis, November 10, 2013, accessed November 10, 2013, <http://www.stlouisfed.org/publications/itv/articles/?id=1920>.

they conclude given that Census Bureau statistics can be misleading because people's income are mobile and the people that may be working a lower paying job one year can either increase their income the next year, or vice versa. They write, "Comparing different income quintiles over time is like comparing apples to orange because it means comparing incomes or different people at different stages in their earning profile."¹²¹

When talking about income inequality in America many studies often focus on Census data statistics, which clump individuals in household income quintiles and examine the data as a whole but are unable to isolate and examine mobility of households as individuals. The U.S. Treasury Department in a 2007 study, however, was able to do just this by examining individual tax returns to give us a better picture of income inequality as it relates to income mobility. Income inequality and income mobility are two different things, but if income inequality exists alongside income mobility, that would imply that households are able to increase their earnings over time because income is mobile. However, if income inequality exists alongside a slug in income mobility, that would be a problem because it would imply that households are unable to increase their wealth and remain stagnant on the income ladder. The Treasury Department study writes,

While many studies have documented the long-term trend of increasing income inequality in the U.S. economy, these has been less focus on the dynamism of the U.S. economy and the opportunity for upward mobility. Comparisons of snapshots of the income distribution at points in time miss this importance dimension and can sometimes be misleading. Economist Joseph Schumpeter compared the income distribution to a hotel where some rooms are luxurious, but others are small and shabby. Important aspects of fairness are that those in small rooms have an opportunity to move to a better one, and that the luxurious rooms are not always occupied by the same people. The frequency with which people move

¹²¹ Ibid.

*between rooms is a crucial aspect of the trends in income inequality in the United States.*¹²²

By examining income tax returns from 1996-2005, the Treasury Department found that over half of taxpayers moved to a different income quintile over this time period and that half of taxpayers who began in the bottom quintile in 1996 moved up to a higher quintile by 2005. Additionally, taxpayers who fell in the top 1/100 of the 1 percent of earners declined an income quintile by 2005, except 25 percent of those earners.¹²³ A similar report was conducted examining income tax returns from 1999-2007 and the results were similar, nearly 60 percent of earners in the bottom quintile had moved up to a higher quintile by 2007 and roughly 40 percent of earners in the uppermost quintile in 1999 had moved down to a lower quintile by 2007.¹²⁴ While Treasury data is limited in scope, mostly due to the sample size, it does provide valuable insight into the movement of individuals over the decade and an opportunity to expand future analysis of individual's future income and movement of children.

Examining whether children fare better than their parents, a study conducted by Ron Haskins based on Pew Foundation data found that people working today generally fare better in their current stage of life than their parents did during the same stage. Looking at the numbers further, the study found that 66 percent of Americans have

¹²² "Income Mobility in the U.S. from 1996 to 2005," United States Treasury Department, November 13, 2007, accessed November 10, 2013, <http://www.treasury.gov/resource-center/tax-policy/Documents/incomemobilitystudy03-08revise.pdf>.

¹²³ Ibid.

¹²⁴ Robert Carroll, "Income Mobility and the Persistence of Millionaires, 1999 to 2007," The Tax Foundation, November 10, 2013, accessed November 10, 2013, <http://taxfoundation.org/sites/taxfoundation.org/files/docs/sr180.pdf>.

higher incomes than their parents did at the same age and when adjusting for family size, about 81 percent have a higher income than their parents did.¹²⁵

Although there is naturally a gap in people's yearly earnings, people in every tax quintile are constantly fluctuating up and down the tax quintile ladder, showing that Americans are increasingly mobile when it comes to yearly income.

RELATIONSHIP BETWEEN INEQUALITY AND OPPORTUNITY

Income inequality is not just a concern for today's generation, the OECD points out, but it is a concern for future generations. OECD research finds that countries with high levels of income inequality also have low levels of economic mobility between generations.¹²⁶ This is in direct correlation with the American Dream, as it relates to opportunity, specifically for one's children. Mobility between generations can be defined as the ability of children to rise to different income levels than those they were born into by their parents. In countries with high income inequality, a child's future is largely determined by the income level of the parents, however, the OECD admits that whether income inequality is high or low, "an individual's skills and abilities are a key factor in determine whether they can get a good job and move up the income ladder."¹²⁷ Scott Winship, an economist at the Brookings Institute, examined economic mobility of people with lower income and found that of children born between 1962 and 1964 and children born between 1980 and 1982, when comparing these children when they are between 26 to 28 compared with their parent's income, they found that there was upward mobility

¹²⁵ Stephen Moore, "The U.S. Tax System: Who Really Pays?," Manhattan Institute for Policy Research, March 30, 2014, accessed March 30, 2014, https://www.manhattan-institute.org/html/ir_22.htm.

¹²⁶ "How Pronounced Is Income Inequality Around the World- and How Can Education Help Reduce It?," OECD, November 10, 2013, accessed November 10, 2013, <http://www.oecd.org/edu/50204168.pdf>.

¹²⁷ Ibid.

between poverty and the middle class, which rose from 51 percent to 57 percent over these years.¹²⁸ Although Winship did conclude that there was economic mobility into the middle class compared to one's parents, he also wrote, "In particular, it's American men who fare worse than their counterparts in other countries."¹²⁹

Economists do not deny that there is a relationship between inequality and opportunity; this relationship is not up for debate. The disagreement lies, however, in whether the relationship is favorable or unfavorable. How much inequality is extreme on both sides of the spectrum or how much inequality is normal and healthy in a growing economy? University of Ottawa economist Miles Corak writes, "In many ways inequality signals opportunity, both opportunities taken and opportunities that could be taken. But in many other way inequality can also erode opportunity."¹³⁰ Similarly translated, too much equality or too much inequality is disruptive for a society as well. The World Bank points out that excessive equal income distribution can be bad for economic efficiency, as has been the experience of some socialist countries.¹³¹ The experience of socialist countries, the World Bank further points out, showed that too much equality can reduce incentives among workers, slow technological progress and eventually result in slower economic growth, which results in more poverty.¹³²

¹²⁸ Stephen Moore, "The U.S. Tax System: Who Really Pays?," Manhattan Institute for Policy Research, March 30, 2014, accessed March 30, 2014, https://www.manhattan-institute.org/html/ir_22.htm.

¹²⁹ Scott Winship, "Mobility Impaired" *Brookings Institution*, November 9, 2011, <http://www.brookings.edu/research/articles/2011/11/09-economic-mobility-winship>

¹³⁰ Katie Peters, "Rising Income Inequality Reduces Economic Mobility, Increases Pessimism Among Americans," Center for American Progress, December 5, 2012, accessed November 10, 2013, <http://www.americanprogress.org/press/release/2012/12/05/47090/release-rising-income-inequality-reduces-economic-mobility-increases-pessimism-among-americans/>.

¹³¹ "Beyond Economic Growth: Income Inequality," The World Bank, November 10, 2013, accessed November 10, 2013, http://www.worldbank.org/depweb/beyond/beyondco/beg_05.pdf.

¹³² "Beyond Economic Growth: Income Inequality," The World Bank, November 10, 2013, accessed November 10, 2013, http://www.worldbank.org/depweb/beyond/beyondco/beg_05.pdf.

Countries that experience high levels of income inequality also experience severe ramifications like increased crime, political instability and less technological advancement, which can lead to lower economic growth. If more people are frustrated with their economic state in life and do not see any way forward, this is disruptive to political stability.

To reiterate, income disparity can be detrimental to an economy. Too little inequality, where people's income distribution is more or less equal is detrimental to economic growth because incentives are lacking for individuals to innovate and grow entrepreneurial ventures. On the other hand, excessive inequality in society where people see little hope of advancing along the economic social ladder is detrimental to economic growth because if individuals don't take risks in the market, future production remains stagnant. The World Bank Governors recently released a statement after the Development Association meeting in Washington, urging governments to narrow the income gap worldwide, "Shared prosperity also means focusing on those who, although not currently poor, are vulnerable to falling into poverty."¹³³ While this quote was spoken in the context of alleviating extreme global poverty, which roughly 1.7 billion people live in today, it is applicable to our studies on this topic of income inequality, the American dream, and the financial crisis. Too much or too little income inequality is detrimental to a society and government policies should not focus on "fixing" income inequality because it only hurts the same people the policy attempted to help, as well as more people, in the process.

¹³³ Julius Businge, "World Bank Tells Governments to Fight Income Inequality," The Independent, April 22, 2013, accessed November 10, 2013, <http://www.independent.co.ug/business/business-news/7703-world-bank-tells-governments-to-fight-income-inequality>.

CONCLUSION

The financial crisis hurt many Americans, specifically the middle class. Many Americans saw a sharp decline in the value of their home, lost their jobs, suffered a loss in their retirement accounts and saw their personal wealth decline. The American dream has been achieved by many Americans and dreamed about by many more, and owning one's home is a central component. A strong middle class in America is essential to a health economy and democracy. Income disparity should be examined in the context of examining policies and proposals, which assist people in achieving economic mobility, especially in housing. There is income disparity in America, and much of the wealth gain in America since the Great Recession has gone to the wealthy, not the middle or lower income classes. In order to assist all Americans in achieving the American dream, policymakers must examine housing policy and how this can be a tool to assist individuals in moving up the income ladder and into locations which can offer them services and amenities which might not be available to them in their current location. An optimal federal housing policy to assist said individuals is mixed neighborhoods, which can move individuals out of high concentrated areas of poverty and into neighborhoods and locations where opportunities are present and mobility is possible.

Chapter 3: Housing Mobility for Low-Income Individuals

Owning a home is part of the American dream but the location of that home is extremely important to achieving the American dream. People choose to live where their family is located, job, children's school and recreational activities. However, low-income individuals who need assistance getting up on their feet often times do not have the luxury of choosing where they live, rather, they have to settle on a location where housing vouchers are accepted which at times might not be in the most ideal of locations. While there is nothing wrong with living in the city, policies should be examined to assist low-income individuals in having a choice about where to live, whether in the city or the country. In order to achieve economic mobility, various sectors of the economy must work together to ensure that low-income individuals using housing vouchers have opportunity, residential mobility and most of all a reasonable number of choices. Mixed neighborhoods are an optimal governmental policy to examine for housing and one that has strong results, but still challenges as well. Mixed neighborhoods are not successful in moving people out of poverty immediately, as that takes time, but this policy is successful in giving low-income individuals a chance at mobility to build a better future for their families. This chapter will explore mixed neighborhoods as an optimal federal government housing policy that the private sector can participate in promoting and ultimately provide low-income individuals with income mobility.

This chapter of the thesis will begin by examining how contemporary housing policy is related to the beginning of the federal government's involvement in housing policy stemming from the Progressive movement. Next, this chapter will examine the housing boom prior to the Great Recession and the repercussions of the housing bust on

people's net wealth. Following, this chapter will analyze the direct correlation between the health of the housing sector and the health of the overall economy. Owning one's home is a central component of the American dream, but housing, whether rental or owned, is essential for people to build their lives. Low-income individuals have limited options when it comes to housing. Housing policy should focus on promoting economic mobility for low-income individuals, and mixed neighborhoods is a policy that has roots in the Progressive movement (government housing vouchers) but is a policy that the private market can be involved in as well as local communities to assist in ensuring low-income individuals succeed in their new home. Housing policy with government housing vouchers is a government program that has extreme worth and merit, but needs to be expanded and reformed to promote mobility. Finally, this chapter will examine some of the challenges that may arise with this policy, and how to best addresses these challenges.

HOUSING AND THE PROGRESSIVE MOVEMENT

As was thoroughly explored and expounded in chapter one of the thesis, the Progressive movement was a major catalyst in forming a federal government policy related to promoting affordable housing for low-income individuals. Following the World War II, there began to be a call for a federal housing policy, as there was a housing shortage. Organized labor was a strong voice of support for this initiative.¹³⁴ Those who espoused to this movement correctly understood that housing was related to other public social policies and could not be isolated from other influences which affected personal behavior, family and neighborhood life.¹³⁵ The Progressive movement set the stage for

¹³⁴ Eric Fure-Slocum, *Contesting the Postwar City: Working Class and Growth Politics in the 1940s* (Cambridge: Cambridge University Press, 2013), 88.

¹³⁵ Roy Lubove, *The Progressives and the Slums* (Pittsburgh: University of Pittsburgh Press, 1963), 251.

the federal government to become more involved in federal housing policy. Mixed neighborhoods are a way that the federal government can continue this decades long role of participating in housing, but also an avenue by which the private sector can participate and assist in making this policy successful for low-income individuals.

THE REAL ESTATE BOOM

Governments and politicians frequently take steps to make housing affordable with the intention of expanding homeownership to those individuals who might not be able to purchase a home at a current point in time due to economic reasons. According to the OECD,

*Governments intervene in housing markets to enhance people's housing opportunities and to ensure equitable access to housing. These interventions include fiscal measures, such as taxes and subsidies,; the direct provision of social housing or rent allowances; and various regulations influencing the quantity, quality and price of housing.*¹³⁶

During the housing boom and real estate bubble, housing prices increased dramatically. It seemed as if everything was going well in America, the stock market was rising, unemployment was low, and many Americans saw their net worth increase by their stock holdings, 401k retirement accounts and the value of their home.

The recession began in December 2007, according to the National Bureau of Economic Research announcement in December 2008.¹³⁷ The unemployment rate increased from 4.9 percent in December 2007 but increased to 9.5 percent in June of 2009, and would climb even higher later in the year. Looking back to analyze what happened to housing pre-recession, in 1990, the median price of a new home sold was

¹³⁶ "Housing and the Economy: Policies for Renovation," OECD, March 29, 2014, accessed March 29, 2014, <http://www.oecd.org/eco/growth/46901936.pdf>.

¹³⁷ Jeff Holt, "A Summary of the Primary Causes of the Housing Bubble and the Resulting Credit Crisis: A Nontechnical Paper", *The Journal of Business Inquiry* 8, no. 1 (2009): 120-29.

\$122,900, according to the U.S. Census data.¹³⁸ In the year 2000, the median price of a new home sold was \$169,000 and in 2006 that price increased to \$246,500.¹³⁹ Before the crash, the states which saw the greatest increase in home prices saw the biggest decrease in housing prices during the recession. For instance in California from 2000-2006, housing prices increased 120-160 percent, but from 2006-2010 prices fell 40-60 percent.¹⁴⁰

As housing prices increased before the state of the recession, household net wealth did increase, but for most Americans the increase in wealth was due, in part, to the increase in the value of their home. According to analysis calculated by the Urban Institute, “before the recession, working-age families in the bottom-quintile had median net worth of \$4,300 and held the majority of their wealth in housing. Top-quintile families had median net worth of over \$500,000 and held less than one-quarter of their wealth in housing.”¹⁴¹ Looking at the net worth of bottom quintile families, the 2007 Survey of Consumer Finances shows that 60 percent of their wealth was in housing while middle quintile families held 47 percent of their wealth in the value of their home.¹⁴² The rate of home ownership increased in every income quintile. For instance, families in the bottom quintile had a home ownership rate of 27 percent, the middle 68% and the top 92 percent.¹⁴³

¹³⁸ “Median and Average Sales Prices of New Homes Sold in the United States,” U.S. Census, March 29, 2014, accessed March 29, 2014, <http://www.census.gov/const/uspriceann.pdf>.

¹³⁹ Ibid.

¹⁴⁰ Catherine Mubrandon and Matthew Mulbrandon, “Mapping Change in the U.S. Housing Bubble 2000-2010,” Huffington Post, April 27, 2011, accessed March 29, 2014, http://www.huffingtonpost.com/2011/04/27/housing-market-prices-chart-recession_n_854388.html.

¹⁴¹ Mauricio Soto, “Family Net Worth Before the Recession,” Urban Institute, April 22, 2010, accessed March 29, 2014, <http://www.urban.org/publications/412078.html>.

¹⁴² Ibid.

¹⁴³ Ibid.

All in all during the great recession U.S. households lost almost \$16 trillion in wealth.¹⁴⁴ According to a recent report from the University of Michigan, between the years 2007-2011, one fourth of all families lost at least 75 percent of their wealth and more than half of all families lost at least 25 percent of their wealth.¹⁴⁵ Yet, although a majority of this wealth was regained during the years after the recession in aggregate, the wealth of individual households has not been as fortunate. A new study by the Federal Reserve Bank of St. Louis conducted in March 2013 found that home prices are still down 28 percent from the housing peak in 2006 and the average U.S. household has regained only about 45 percent of the wealth they lost during the recession.¹⁴⁶ On the flip side, the study finds that almost two-thirds of the household wealth that has been regained since 2009 is due to the stock market.¹⁴⁷

Economic disparity increased during the real estate boom, even though home ownership did increase and home values increased. According to the University of Michigan,

Wealth inequality increased between 1984 and 2001, with the net worth at the 95th percentile increasing by about two thirds and that at the 25th percentile declining slightly. The most pronounced increase in inequality occurred between 2001 and 2007, prior to the Great Recession (Gouskova and Stafford 2009). For example, in 2007, net worth at the 95th percentile was more than double that of 1984, whereas net worth at the 25th percentile declined to 70 percent of its 1984 level.¹⁴⁸

¹⁴⁴ “U.S. Housing Wealth Gains Pre-Recession Peak,” Associated Press, March 7, 2013, accessed March 29, 2014, <http://www.cnbc.com/id/100533986>.

¹⁴⁵ Fabian Pfeffer, Sheldon Danziger, and Robert Schoeni, “Wealth Disparities Before and After the Great Recession,” National Poverty Center, March 29, 2014, accessed March 29, 2014, <http://npc.umich.edu/publications/u/2013-05-npc-working-paper.pdf>.

¹⁴⁶ “After the Fall: Rebuilding the Family Balance Sheets, Rebuilding the Economy,” St. Louis Federal Reserve, March 29, 2014, accessed March 29, 2014, http://www.stlouisfed.org/publications/ar/2012/pages/ar12_1.cfm.

¹⁴⁷ Ibid.

¹⁴⁸ Fabian Pfeffer, Sheldon Danziger, and Robert Schoeni, “Wealth Disparities Before and After the Great Recession,” National Poverty Center, March 29, 2014, accessed March 29, 2014, <http://npc.umich.edu/publications/u/2013-05-npc-working-paper.pdf>.

Debt as a share of an individual's income also increased leading up to the recession, according to the same study, "15.5 percent had zero or negative net worth in 1983 compared to 18.6 percent in 2007. The amount of debt held by households as a share of their income also rose dramatically in the years leading up to the recession – from 68.4 percent in 1983 to 81.1 percent in 2001 to 118.7 percent in 2007. That is, by 2007 households held on average 19 percent more debt than their annual income."¹⁴⁹ These divisions and gaps in household wealth were only widened during the recession, as many households suffered job losses.

HOUSING'S IMPACT ON THE ECONOMY AT LARGE

The housing market has a spill over effect in other sectors of the economy. If the housing market is doing well, people feel wealthier, they spend more, businesses hire and investments increase. On the other hand, with the housing sector of the economy is struggling, this results in less job created, reduced educational attainment and an increase in economic disparity.

Michael Lovenheim, assistant professor at Cornell University, studied the relationship between higher education and housing wealth. In his study examining data from 2001-2005 (which was during the housing boom) he found that low and middle income students whose families experienced an increase in their housing wealth as a result of the boom were more likely to attend college, better universities and more likely to graduate.¹⁵⁰ Housing Policy and Economic Mobility

¹⁴⁹ Fabian Pfeffer, Sheldon Danziger, and Robert Schoeni, "Wealth Disparities Before and After the Great Recession," National Poverty Center, March 29, 2014, accessed March 29, 2014, <http://npc.umich.edu/publications/u/2013-05-npc-working-paper.pdf>.

¹⁵⁰ "Housing Wealth and Higher Education," The Pew Charitable Trusts, December 1, 2011, accessed March 29, 2014, <http://www.pewstates.org/research/reports/housing-wealth-and-higher-education-85899380316>.

Negative equity in a house is when the owner owes more on their house than the house is currently valued on the market. Negative equity in one's home reduces the ability of that household to be mobile in the economy and climb the income ladder. A study from the National Bureau of Economic Research found that negative equity reduces household mobility by 30 percent, and some say by up to 35 percent,¹⁵¹ and \$1,000 of additional mortgage or property tax costs reduces household mobility by 10%-16 percent.¹⁵²

An unstable housing sector, one with booms and then subsequently busts, has the power to adversely impact the jobs market and an individual's economic mobility. A steep decline in the housing market, resulting in lower sale home prices, can result in a "lock-in" effect in the market.¹⁵³ This "lock-in" effect is essentially when someone's home is worth less than they owe on the home's mortgage, and thus subsequently cannot afford to sell. This will either result in foreclosure, or the homeowner being forced to stay and reside in the home, unable to move for a new job or other opportunities. This phenomenon results in a reduction in economic mobility and an increase in economic disparity. Lower economic mobility,

Results in a more inefficient matching in the labor market, as some households will not be able to move to access better jobs in alternative labor markets. Utility will also be lower to the extent households are not able to move as readily as they would like in order to access different amenities or public services (e.g. good schools), or just a differently- sized home if family size changes Recent research

¹⁵¹ Fernando Ferreira, Joseph Gyourko, and Joseph Tracey, "Housing Busts and Household Mobility", *Journal of Urban Economics* 68 (2010): 34-45, accessed March 29, 2014, http://real.wharton.upenn.edu/~fferreir/documents/ferreira_gyourko_tracy.pdf.

¹⁵² Ibid.

¹⁵³ Ibid.

*also suggests that owners with negative equity behave more like renters and reinvest less in their residences.*¹⁵⁴

If individuals with negative equity in their home do not reinvest money to improve their house to increase the value, newer homes will continue to be built around them, which will make it more difficult to sell older homes not renovated.

HOW TO ASSIST LOW-INCOME INDIVIDUALS THROUGH HOUSING POLICY

The federal government, according to the Center for Budget and Policy Priorities, spent \$270 billion in 2012 to help Americans buy or rent homes.¹⁵⁵ Examining the breakdown of the aggregate amount spent by the federal government, analysts found that federal housing expenditures per household for households making between \$0-20,000 per year equaled \$1,471 compared to \$7,014 for households earning \$200,000 and over.¹⁵⁶ This disparity can be attributed to many factors, but largely due to federal tax policy regarding home interest deduction and the way the tax code is designed for itemization. However, the Income Housing Tax Credit Program (LIHYC) is the largest tax credit to assist individuals in affording housing. According to the Furman Center, over the past 25 years this tax credit has financed the construction and occupancy of 2.2 million affordable units of housing and in 2010 it also accounted for half of all multifamily housing production.¹⁵⁷ Congress instated this tax credit in 1986 in an effort to

¹⁵⁴ Fernando Ferreira, Joseph Gyourko, and Joseph Tracey, “Housing Busts and Household Mobility”, *Journal of Urban Economics* 68 (2010): 34-45, accessed March 29, 2014, http://real.wharton.upenn.edu/~fferreir/documents/ferreira_gyourko_tracy.pdf.

¹⁵⁵ “Housing,” Center on Budget and Policy Priorities, March 29, 2014, accessed March 29, 2014, <http://www.cbpp.org/research/?fa=topic&id=33>.

¹⁵⁶ Ibid.

¹⁵⁷ “What Can We Learn About the Low-Income Housing Tax Credit Program by Looking at the Tenants?,” The Furman Center, March 29, 2014, accessed March 29, 2014, http://furmancenter.org/files/publications/LIHTC_Final_Policy_Brief_v2.pdf.

“provide the private market with an incentive to invest in affordable rental housing.”¹⁵⁸

This tax credit is unique in that the income requirements to qualify to live in this low-income housing are not a national standard, rather the area one lives in taken into account. The LIHTC looks at the median income for the area the housing is located and adjusts the credit for family size.¹⁵⁹

For years leading up to the recession and real estate bubble bust, the federal government focused housing policy on expanding homeownership, especially to individuals who may have difficulty qualifying without assistance to purchase a home. In the 1990s and early 2000s lending and credit standards were relaxed for low income and middle income Americans, and down payment requirement barriers were also relaxed. According to the Brookings Institute, the federal government used pressure “on lenders and secondary market institutions to meet the financing needs of historically underserved groups.”¹⁶⁰

The lack of affordable housing for low-income individuals is a problem that has been well documented for many years. Affordable housing, according to HUD, is defined, as housing that does not cost more than thirty percent of a household’s gross monthly income. According to Housing and Urban Development’s most recent Worst Case Housing Needs report, between 2007 and 2009, the number of extremely low income renters who paid more than half of their income to housing or who live in

¹⁵⁸ “How Do Housing Tax Credits Work?,” U.S. Department of Housing and Urban Development, March 29, 2014, accessed March 29, 2014, http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/lihtc/basics/work.

¹⁵⁹ Ibid.

¹⁶⁰ Bruce Katz et al., “Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice,” The Brookings Institute, March 29, 2014, accessed March 29, 2014, <http://www.brookings.edu/es/urban/knight/housingreview.pdf>.

severely inadequate housing increased from 4.33 million to 5.07 million.¹⁶¹ Broken down, this means that across America there are only 32 units of “adequate, affordable rental housing are available for every 100 extremely low-income renters.”¹⁶²

While there are tax credits, rental assistance, utility assistance, welfare programs and work programs, to assist low-income individuals, the United States has invested over \$800 billion in an attempt to eradicate poverty, yet poverty is still extremely high. Perhaps the answer lies in socio-economic factors to increase mobility, rather than just economic factors.

Zoning and land laws have a direct impact on affordable housing. These laws govern what types of houses can be built, where they can be built and when they can be built.¹⁶³ It is estimated that 9,000 municipalities, large and small, in every region of the country and representing at least 90 percent of the nation's population, have zoning schemes in place.¹⁶⁴ This impacts the price of housing, especially affordable housing. It is estimated that “regulations related to development costs amounted to 20 percent of the 1992 median new home sales price in Sacramento, California and 13 percent in Orlando, Florida in 1992.”¹⁶⁵ These outside factors are major contributors to the problem of a lack of housing that assists individuals in achieving economic mobility, and is something the

¹⁶¹ U.S. Department of Housing and Urban Development. (2011, February). Worst Case Housing Needs 2009: Report to Congress, http://www.huduser.org/Publications/pdf/worstcase_HsgNeeds09.pdf.

¹⁶² “What Can We Learn About the Low-Income Housing Tax Credit Program by Looking at the Tenants?,” The Furman Center, March 29, 2014, accessed March 29, 2014, http://furmancenter.org/files/publications/LIHTC_Final_Policy_Brief_v2.pdf.

¹⁶³ “Erie County Community Development Block Grant Consortium,” Erie County Department of Development and Planning, October, 2012, accessed May 4, 2014, http://www2.erie.gov/environment/sites/www2.erie.gov.environment/files/uploads/AFFORDABLE_HOUSING_ZONING_SM.pdf.

¹⁶⁴ Bradley Karkkainen, “Zoning: A Reply to the Critics,” *Journal of Land Use and Environmental Law*, 1994, accessed May 4, 2014, <http://www.law.fsu.edu/journals/landuse/vol101/karkkain.html#FNT6>.

¹⁶⁵ Melissa Morrow, “Affordable Housing Policy: Integration of Land Use Tools and the Role of State Growth Management,” Virginia Polytech University, June, 2001, accessed May 4, 2014, <http://scholar.lib.vt.edu/theses/available/etd-06262001-204144/unrestricted/morrow2.pdf>.

United States must tackle because this regulatory problem also prevents neighborhoods from becoming more integrated.

A mixed neighborhood is defined as, “a deliberate effort to construct and/or own a multifamily development that has the mixing of income groups as a fundamental part of its financial and operational plans.”¹⁶⁶ Location is extremely important when it comes to housing, employment and education, “neighborhoods may be an important ingredient in reducing dependence on welfare and improving families’ futures.”¹⁶⁷ Resident mobility projects have launched in cities across America, like Chicago, in an attempt to test the theory that good environments help people move off welfare programs and into jobs and educational opportunities for their children.

MIXED NEIGHBORHOOD CASE STUDIES

The earliest housing mobility experiment was developed in Chicago, Illinois called the Gautreaux demonstration and was actually started as part of a settlement in a desegregation lawsuit, according to the Urban Institute.¹⁶⁸ In *Gautreaux et al. v. CHA*, the federal court ruling prohibited Chicago from building future housing projects in predominately African American neighborhoods unless the same amount of housing units were built in other areas.¹⁶⁹ This new housing program gave eligible families housing vouchers which they could use to rent apartments in other private neighborhoods that

¹⁶⁶ Diane Levy, Zach McDade, and Kassie Dumlao, “Effects from Living in Mixed-Income Communities for Low-Income Families,” The Urban Institute, November, 2010, accessed May 4, 2014, <http://www.urban.org/uploadedpdf/412292-effects-from-living.pdf>.

¹⁶⁷ James Rosenbaum and Stefanie DeLuca, “Is Housing Mobility the Key to Welfare Reform? Lessons from Chicago’s Gautreaux Program,” Center on Urban and Metropolitan Policy, March 29, 2014, accessed March 29, 2014, <http://krieger.jhu.edu/sociology/wp-content/uploads/sites/28/2012/02/rosenbaum.pdf>.

¹⁶⁸ Margery Austin Turner and Lynette Rawlings, “Promoting Neighborhood Diversity: Benefits, Barriers and Strategies,” The Urban Institute, August, 2009, accessed May 4, 2014, <http://www.urban.org/UploadedPDF/411955promotingneighborhooddiversity.pdf>.

¹⁶⁹ “The Gautreaux Legacy,” Stanford University, accessed May 4, 2014, http://www.stanford.edu/~mrosenfe/urb_std_Gautreaux.htm.

were less than 30% African American.¹⁷⁰ However, this program did not allow individuals who were eligible for the vouchers to pick the location where they wanted to live, on the contrary, they were assigned specific areas. From 1976-1988 nearly 25,000 Chicago residents participated in the program and moved to more than 100 communities surrounding Chicago with their vouchers.¹⁷¹ A new study by Johns Hopkins University found that this program from 1976-1998 might have reduced welfare dependence.¹⁷² Studies of the results of the program found that nearly 22 years later residents that were part of the original program are still living in the suburbs and their children were more likely to attend a four-year college.

The Gautreaux program was deemed to be so successful and it inspired the Moving to Opportunity housing experiment run by the U.S. Housing and Urban Development in five cities across the country. There was a significant difference between these two programs,

*Gautreaux was part of a legal settlement involving racial discrimination and was designed to provide families living in highly segregated neighborhoods of concentrated poverty in Chicago the opportunity to move to more racially integrated neighborhoods. In contrast, Moving to Opportunity focused exclusively on a neighborhood's economic status. It provided families with opportunities to move to more affluent neighborhoods, defined as those with poverty rates under 10 percent, but attached no racial criteria whatsoever to the destination neighborhoods. In fact, most MTO families moved to highly segregated, if more affluent, neighborhoods.*¹⁷³

¹⁷⁰ Ibid.

¹⁷¹ Ibid.

¹⁷² James Rosenbaum and Stefanie DeLuca, "Is Housing Mobility the Key to Welfare Reform? Lessons from Chicago's Gautreaux Program," Center on Urban and Metropolitan Policy, March 29, 2014, accessed March 29, 2014, <http://krieger.jhu.edu/sociology/wp-content/uploads/sites/28/2012/02/rosenbaum.pdf>.

¹⁷³ Greg Duncan, "New Lessons from the Gautreaux and Moving to Opportunity Residential Mobility Programs," University of California, Irving, accessed May 4, 2014, <http://merage.uci.edu/ResearchAndCenters/CRE/Resources/Documents/Duncan.pdf>.

While the Gautreaux program has many successes, the MTO program was not deemed as successful, the mothers in the program were not likely to gain employment or get off welfare programs, however, the results were studied during the 1990s, which was the time of welfare reform.¹⁷⁴ The MTO program did result in an improved mental and physical health of the mothers who took advantage of the program. Additionally, families that did move in the MTO program were more likely to attend their previous school, not the one in their new neighborhood.

Additionally, the Housing Opportunities for People Everywhere Program (HOPE VI) supported redeveloping public housing into mixed neighborhoods and using housing vouchers, which helps improve mobility.¹⁷⁵ This program has been the primary housing reform policy since 1992, which calls for replacing the most distressed housing units with mixed neighborhoods.¹⁷⁶ Another study conducted by the American Enterprise Institute (AEI) found something similar, that neighborhoods matter for economic mobility.¹⁷⁷ Examining and promoting mix-income housing and neighborhoods has been attempted since the 1960s. Success in determining whether this government policy is effective would need to be tracked for many years, but benchmarks would include reduced time on welfare programs (compared to those that do not take advantage of mixed neighborhoods), children attending college, and length of employment.

¹⁷⁴ Ibid.

¹⁷⁵ Diane Levy, Zach McDade, and Kassie Bertumen, "Mixed-Income Living: Anticipated and Realized Benefits for Low-Income Households", *Cityscape: A Journal of Policy Development and Research* 15, no. 2 (2013): 15-28, accessed March 29, 2014, <http://www.huduser.org/portal/periodicals/cityscape/vol15num2/ch1.pdf>

¹⁷⁶ Dennis Keating, "Lessons from a Chicago Saga," National Housing Institute, 2007, accessed May 4, 2014, <http://www.nhi.org/online/issues/149/keatingreview.html>.

¹⁷⁷ Aparna Mathur and Abby McCloskey, "Fostering Upward Mobility in the United States," American Enterprise Institute, March 29, 2014, accessed March 29, 2014, http://www.aei.org/files/2014/03/19/-fostering-upward-economic-mobility-in-the-united-states_165153222749.pdf.

There was some hostility to programs like the Gautreaux program. For example, the Gautreaux program was faced with difficulty in finding landlords that were willing to accept these vouchers in the potential mixed neighborhoods. Also, residents at first were skeptical of the new program and were hesitant to leave their current neighborhood for the mixed neighborhood. In order to move, potential tenants had to pass credit checks and had to prove they had the available security deposit. Critics of housing vouchers in general argue that with the increase in supply of housing, there are only limit housing choices that are severely inadequate and housing vouchers should be eliminated and merged with other social programs the federal government runs.¹⁷⁸

Neighborhoods and one's surroundings are extremely important factors in determining economic mobility. Another important factor, in line with good neighbors, is segregation issues. Low-income families that do not live in neighbors with families from the middle or upper classes experience negative effects from living in isolation.¹⁷⁹ Living a middle class neighborhood does not de-facto push an individual into the middle class, but the surroundings and the neighborhood promote social peer pressure to examine middle class attributes like work ethic, saving, education and others. Mixed neighborhoods inadvertently use social pressure to change people into citizens with middle-class traits.

¹⁷⁸ William Clark Estes, "Reexamining the Moving to Opportunity Study and Its Contribution to Changing the Distribution of Poverty and Ethnic Concentration," National Institute of Health, August, 2008, accessed May 4, 2014, <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2831389/>.

¹⁷⁹ Aparna Mathur and Abby McCloskey, "Fostering Upward Mobility in the United States," American Enterprise Institute, March 29, 2014, accessed March 29, 2014, http://www.aei.org/files/2014/03/19/-fostering-upward-economic-mobility-in-the-united-states_165153222749.pdf.

Children growing up in poor neighborhoods are more likely to grow up and be poor, compared to their other counterparts.¹⁸⁰ In order to promote economic mobility, neighborhoods must not be segregated, rather, individuals receiving housing assistance or rental assistance should be able to use these different forms of assistance in neighborhoods that have middle class and higher income individuals. This will result in children having the ability to receive a better education and eventually a better job. The federal government has recognized that neighborhoods matter and in 1977 enacted the Community Reinvestment Act, which essentially said that if a mortgage company was lending to a lower income individual, the location of the future home could not be taken into account.¹⁸¹

There are numerous benefits for low-income individuals living in mixed communities that are not segregated by income. Even in Europe, policymakers recognize social diversity as an important housing goal.¹⁸² According to the Urban Institute, residents who live in mixed-income neighborhoods are able to access better community services and amenities, which might not have been available to them in a strictly low-income neighborhood.¹⁸³ Additionally, public schools do receive federal funding, but a majority of funding for public schools and programs in those schools is financed through

¹⁸⁰ The Pew Charitable Trusts, *Mobility and Metropolis: How Communities Factor into Economic Mobility* (Washington, DC, 2013), www.pewstates.org/uploadedFiles/PCS_Assets/2013/Mobility-and-the-Metropolis.pdf.

¹⁸¹ Aparna Mathur and Abby McCloskey, "Fostering Upward Mobility in the United States," *American Enterprise Institute*, March 29, 2014, accessed March 29, 2014, http://www.aei.org/files/2014/03/19/-fostering-upward-economic-mobility-in-the-united-states_165153222749.pdf.

¹⁸² George Galster, "Neighbourhood Social Mix as a Goal of Housing Policy: A Theoretical Analysis", *European Journal of Housing Policy* 7, no. 1 (March 2007): 19-43, accessed March 29, 2014, <http://clasweb.clas.wayne.edu/Multimedia/DUSP/files/G.Galster/Galster%20European%20J%20Housing%20Policy%207%5B1%5D-07.pdf>.

¹⁸³ Diane Levy, Zach McDade, and Kassie Dumalo, "Effects from Living in Mixed-Income Communities for Low-Income Families," *Urban Institute*, March 29, 2014, accessed March 29, 2014, <http://www.urban.org/uploadedpdf/412292-effects-from-living.pdf>.

property tax, especially low property taxes. Another advantage of mixed housing neighborhoods is it prevents the concentration of low-income people in one area and the subsequent pathologies that may follow as a result. Neighborhoods with higher incomes typically collect more money in property taxes, and the public schools in the area have more money to spend on programs, supplies and activities.

Of course, there has been and will continue to be opposition to these initiatives. Mixed neighborhoods may lead to increased subsidization by the federal government in housing policy, however, as was illustrated in the second chapter of this thesis, the federal government has been involved in housing policy since the Progressive era, and will continue to be involved in this economic sector for the foreseeable future. With mixed neighborhoods, as outlined by the success of these programs in cities like Chicago, real results and assistance to individuals is achievable, and a more productive use of federal dollars than the current housing voucher program. Studies have shown that even in neighborhoods where there is no effort to integrate people of different economic standing, many people do not even know the name of their own neighbors, and people are more apt to associate and develop relationships with people who are similar to them. A recent study found that in mixed neighborhoods low-income residents kept a low profile because they did not want to attract undue scrutiny from neighbors and risk losing their housing vouchers.¹⁸⁴ However, this same study found that the biggest inhibitor to different people interacting was not an economic one, but just the perception that their

¹⁸⁴ Diane Levy, Zach McDade, and Kassie Bertumen, "Mixed-Income Living: Anticipated and Realized Benefits for Low-Income Households", *Cityscape: A Journal of Policy Development and Research* 15, no. 2 (2013): 15-28, accessed March 29, 2014, <http://www.huduser.org/portal/periodicals/citysepe/vol15num2/ch1.pdf>.

neighbors are different from them, and vice versa.¹⁸⁵ In New Orleans a program to mix neighborhood was instituted, and according to the Urban Institute a staff member said the following about the project;

*There's just a different style of living that very low-income people have in terms of the way they see things, the way they do things, the way they interact with each other, and the way that a middle-class more affluent group of people generally behave, and they run into conflict with each other.*¹⁸⁶

These are significant challenges that need to be overcome in order to assist low-income households in moving up the income ladder, and housing policy is an integral part in that strategy. Cities across America are taking their own initiatives in their states to incorporate this type of housing program. Specifically, since 2003 Baltimore began their Baltimore Housing Mobility Program and since over 1500 families have voluntarily, “moved to quality housing in mixed-income neighborhoods with low poverty rates, quality school and access to employment and increased quality of life throughout the region.”¹⁸⁷ After this program was found that moving to a low-poverty neighborhood cut violent crime juvenile arrests roughly in half.¹⁸⁸ Additionally, there were other programs implemented in Chicago, including Gautreaux, MTO and Hope VI.

MIXED NEIGHBORHOODS

Mobility takes time and does not come overnight. The United States has been fighting the war on poverty for over 50 years, started by the Johnson Administration and

¹⁸⁵ Diane Levy, Zach McDade, and Kassie Bertumen, “Mixed-Income Living: Anticipated and Realized Benefits for Low-Income Households”, *Cityscape: A Journal of Policy Development and Research* 15, no. 2 (2013): 15-28, accessed March 29, 2014, <http://www.huduser.org/portal/periodicals/cityscape/vol15num2/ch1.pdf>

¹⁸⁶ Ibid.

¹⁸⁷ “Baltimore Housing Mobility Program,” Baltimore Regional Housing Campaign, March 29, 2014, accessed March 29, 2014, <http://www.baltimoreregionalhousing.org/bhmp/>.

¹⁸⁸ Xavier de Souza Briggs and Margery Austin Turner, Assisted Housing Mobility and the Success of Low-Income Minority Families: Lessons for Policy, Practice, and Future Research, 1 Nw. J. L. & Soc. Pol'y. 25 (2006). <http://scholarlycommons.law.northwestern.edu/njls/vol1/iss1/2>

the “War on Poverty” he said that America was engaged in. However, there are steps that the government can take now to assist individuals, and their children, in making their future brighter and to help them achieve the American Dream, starting with housing.

Examining mixed-neighborhoods and the results if they actually alleviated poverty yielded mixed results. Promoting mixed neighborhoods to alleviate poverty became extremely popular in the 1990s, according to Vanderbilt, “It derived from idea that the problems of poverty became exacerbated when poverty affects the whole neighborhoods, depriving entire communities of meaningful connections to employers and social institutions.”¹⁸⁹ The Urban Institute found,

*There is near consensus in the research since the 1990s that mixed-income strategies have not led to significant changes in the economic well-being of low-income households. Research on outcomes for lower income residents living in mixed-income developments and income-diverse neighborhoods has found some improvement in employment but little or no improvement in income.*¹⁹⁰

Yet, the study did find that low-income households did have higher employment rates and increased job aspirations and readiness than those individuals living in poorer urban areas, compared to mixed neighborhoods, but the wages for these individuals did not increase.¹⁹¹ However, we must look at these results as a step in the right direction, even though people’s wages did not increase because poverty will not be eliminated in one generation. Our policies have to focus on helping the children of poorer individuals, as well as the parents themselves. Examining the results of the Gautreaux project, residents who took advanced of mixed neighborhoods and moved out of the city neighborhoods

¹⁸⁹ Liz Entman, “Mixed-Income Housing Work for the Poor,” September 17, 2013, Vanderbilt University.

¹⁹⁰ Diane Levy, Zach McDade, and Kassie Bertumen, “Mixed-Income Living: Anticipated and Realized Benefits for Low-Income Households”, *Cityscape: A Journal of Policy Development and Research* 15, no. 2 (2013): 15-28, accessed March 29, 2014,

<http://www.huduser.org/portal/periodicals/cityscpe/vol15num2/ch1.pdf>.

¹⁹¹ Ibid.

found more employment success than the other individuals who stayed in the current neighborhood.¹⁹² Additionally, of the women who moved out of the low income neighborhoods into mixed neighborhoods with higher incomes these women were more likely to stay employed and spend less time on welfare.¹⁹³ By promoting mixed neighborhoods these policies will assist children in better school choice than would have been available to them if they remained in a lower income neighborhood.

Politicians can agree on one thing, that education is extremely important in alleviating poverty and a quality education should be available to all children, regardless of income. Promoting mixed neighborhoods and assisting low-income individuals in moving to these neighborhoods did assist individuals in moving them off public assistance, according to the Center on Urban & Metropolitan Policy at Johns Hopkins University who found that families that were assigned to move to neighborhoods with more educated individuals were less likely to be on Aid to Families with Dependent Children (AFDC).¹⁹⁴ This outcome confirms JHU's beginning hypothesis that neighborhoods do matter when it comes to alleviating poverty and in essence, promoting economic mobility. The study continues,

While this study took place before recent efforts to reform the welfare system, it indicates that neighborhoods can affect the success of welfare reform. These findings suggest that welfare reform-related efforts to provide job training or work incentives may be frustrated by negative neighborhood influences if families remain in areas with high concentrations of poorly educated residents. Welfare

¹⁹² Xavier de Souza Briggs and Margery Austin Turner, Assisted Housing Mobility and the Success of Low-Income Minority Families: Lessons for Policy, Practice, and Future Research, 1 Nw. J. L. & Soc. Pol'y. 25 (2006). <http://scholarlycommons.law.northwestern.edu/njlsp/vol1/iss1/2>

¹⁹³ Ruby Mendenhall, Stefanie DeLuca & Greg J. Duncan, Neighborhood Resources and Economic Mobility: Results from the Gautreaux Program (forthcoming).

¹⁹⁴ James Rosenbaum and Stefanie DeLuca, "Is Housing Mobility the Key to Welfare Reform? Lessons from Chicago's Gautreaux Program," Center on Urban and Metropolitan Policy, March 29, 2014, accessed March 29, 2014, <http://krieger.jhu.edu/sociology/wp-content/uploads/sites/28/2012/02/rosenbaum.pdf>.

*reform could be far more effective if combined with new initiatives for residential mobility.*¹⁹⁵

Additional services are needed if mixed neighborhood policies prevail, but they are effective. Looking at other benefits besides the mobility side, mixed neighborhoods improve the safety of residents and reduce crime.¹⁹⁶

OPPOSITION TO MIXED NEIGHBORHOODS

There is no doubt that making mixed neighborhoods a priority for housing policy will attract criticism. New policy initiatives always have opponents who are skeptical about the process and the proposed results. Middle class residents who have voluntarily settled in their own neighborhood have sacrificed to provide their families with a better neighborhood and better school to escape pathologies of bad neighborhoods, may feel nervous and unhappy about the change that may be coming to their neighborhood. This nervousness most likely stems from the fear that the problems in the city might now find a way into their neighborhood. Additionally, in America today we tend not to get to know our neighbors and rather keep to ourselves. While this may not always be the case, neighbors as a whole are civil toward each other, but are not best friends. Thus, mixed neighborhoods may make individuals nervous, but ultimately neighbors will be civil with each other, even if their neighbors have moved to the neighborhood as part of the mixed neighborhood initiative.

Middle class residents already living in a neighborhood that is scheduled to be a mixed neighborhood will be concerned that the value of their home will suffer as a result

¹⁹⁵ James Rosenbaum and Stefanie DeLuca, "Is Housing Mobility the Key to Welfare Reform? Lessons from Chicago's Gautreaux Program," Center on Urban and Metropolitan Policy, March 29, 2014, accessed March 29, 2014, <http://krieger.jhu.edu/sociology/wp-content/uploads/sites/28/2012/02/rosenbaum.pdf>.

¹⁹⁶ Liz Entman, "Mixed-Income Housing Work for the Poor," September 17, 2013, Vanderbilt University.

of this policy. As outlined in chapter two of this thesis, many middle class residents hold a large portion of their net wealth in their home, and the fear that their home value could decrease because of government intervention is something that will have to be addressed. However, the Joseph Rowntree Foundation studied the impact of mixed neighborhoods on individuals, poverty and the middle class and found that there was no evidence that mixed neighborhoods lowered the prices of house in the neighborhood that were for sale, or discouraged individuals from purchasing homes in the neighborhood.¹⁹⁷

Residents living in the neighborhood that is zoned to be mixed might be unsure about the policy. However, many people in all neighborhoods do not know the names of their neighbors currently. While there may be some push back in the beginning, a slow and gradual integration into a mixed neighborhood will make the process better.

STARTING MIXED NEIGHBORHOODS AS A MATTER OF POLICY

The Department of Housing and Urban Development (HUD) is tasked with issuing housing vouchers to people who qualify. HUD found that of the fifty largest metropolitan areas, housing vouchers only accounted for 2 percent of all occupied housing units and 6 percent of rental units available below the fair market rent value.¹⁹⁸ Additionally, the areas where there are the largest number of housing voucher recipients are in the cities.

Mixed neighborhoods can occur through a variety of ways, and not just through the government promoting this housing policy. First, affordable housing is necessary in order for low-income residents to move to mixed neighborhoods. The government, in order to

¹⁹⁷ Paul Chesire, "Segregated Neighborhoods and Mixed Communities," The London School of Economics, 2007, accessed May 4, 2014, <http://www.lse.ac.uk/geographyAndEnvironment/pdf/segregated%20Neighborhoods%20and%20mixed%20communities.pdf>.

¹⁹⁸ John Goering and Judith Feins, "Choosing a Better Life? Evaluating the Moving Opportunity Social Experiment," Urban Institute, June 15, 2003, accessed March 29, 2014, <http://www.urban.org/publications/210783.html>.

promote mixed neighborhoods, which will promote economic mobility, could allow housing vouchers to be used outside of traditional areas where they are currently used. If this were allowed, residents could bring these vouchers to other neighborhoods with better public amenities and services, like education, and provide support to people moving to assist in finding employment. Residential mobility is so important, “Residential mobility can reflect improvements in a family’s circumstances, such as buying a home for the first time, moving to be close to a new job or trading up to a better quality housing unit or neighborhood.”¹⁹⁹

Community assistance is necessary to ensure that low-income residents moving out of low-income neighborhoods into mixed neighborhoods have help to ensure they can succeed in their new town and residence. If people do not know the new services available to them, or where to look for jobs, it will be difficult for them to settle into their new residence. This assistance can come from philanthropy and community leaders who have decided themselves to assisting others rebuild their lives. If assistance is not available, there is cause for concern, “Although residential mobility can be a path to greater opportunity and satisfaction, concern exists that many low-income families move not to better their circumstances but due to unstable housing arrangements, and that such moves may have negative consequences.”²⁰⁰ The community leaders and other social groups need to be recruited to assist in order for this transformation in housing policy for low-income individuals to become a successful reality.

¹⁹⁹ Claudia Coulton, Brett Theodos, and Margery Turner, “Residential Mobility and Neighborhood Change: Real Neighborhoods under the Microscope,” U.S. Department of Housing and Urban Development, March 29, 2014, accessed March 29, 2014, http://www.huduser.org/portal/periodicals/cityscape/vol14num3/Cityscape_Nov2012_res_mobility_neigh.pdf

²⁰⁰ Ibid.

Different households fare differently when the impact and results of mixed neighborhoods were studied along with their success. For movers with young children with low incomes, they were the least involved in the communities they moved into and only moved a short distance, roughly 1.7 miles, and the study found they did not take advantage of new services and opportunities. The study found that this type of household only moved to the mixed neighborhood because their old neighborhood was unsafe.²⁰¹ The most successful in the new mixed neighborhood was the group the study classified as “Up and out movers” who were young families, but likely to gain another adult in the household, and they moved the furthest of all the groups studied, about 5.8 miles.²⁰² They were the most satisfied with their new neighborhood. In summary, the most successful of households in this study were households that moved a greater distance, had a little bit of a higher income (roughly \$28,000/year) and did not move because they felt their previous neighborhood was unsafe for themselves and their children.

A SUCCESSFUL HOUSING POLICY

In order for a housing policy like mixed neighborhoods to be effective, cooperation is needed in local communities as well as with government agencies distributing the vouchers for housing. Right now, many clusters of vouchers are used in inner cities, partly due to the fact that people do not know what options are available to them. When people know what options are available to them, and there are support initiatives set up in the mixed neighborhoods, people have an improved chance of succeeding and mobilizing. Additionally, real estate developers should be included in the conversation and overall goal of the program, as to illustrate to them the benefits on their community

²⁰¹ Ibid.

²⁰² Ibid.

of mixed neighborhoods and the need for affordable housing that accept these housing vouchers. People are constantly moving in America, some for better jobs, more space, better facilities, education or retirement, with half of the population moving over a five year period.²⁰³ Low-income households are more likely to move than higher income households more frequently, but they may not be moving for the reasons listed above. As was illustrated above, the most successful people who moved to mixed neighborhoods did not just move a short distance because their old neighborhood was unsafe, they moved further away for other reasons and were more successful.

Housing is part of the American dream, and can open the door to other opportunities. Location means everything, because people look to live in an area with employment, recreation, education and other services that will enhance their life. Low-income individuals, using the assistance of vouchers, should be able to experience this same kind of benefit from the location of their home. Mixed neighborhoods present opportunities for individuals to move out of inner cities into areas with more services and education opportunities for their children as well as employment. These individuals have a better chance of succeeding and achieving economic mobility, with longer employment and less time on welfare, than others who stayed in their current neighborhood. People need to be given a chance to succeed, and mixed neighborhoods are a way the government, developers, local communities and organizations can work together to assist low income individuals in moving, better opportunities and a future that allows for economic mobility.

²⁰³ Robin Phinney, "Exploring Residential Mobility Among Low-Income Families", *Social Service Review* (December 2013): 1, accessed March 29, 2014, <http://robinphinney.com/wp-content/uploads/2013/09/Phinney-Residential-Mobility-Paper-1.pdf>.

Conclusion: The Federal Government and Private Sector Working Toward Economic Mobility

America has been engaged in an over 50 year war against poverty, yet more individuals each year fall into poverty and face severe obstacles in moving up the income ladder into the middle class income quintiles. America must re-evaluate policies regarding poverty and identify ways the government can work with the private sector to promote proven results in assisting individuals.

If the housing sector of the economy is suffering, most likely other sectors of the economy are not doing well. The housing sector is directly tied to the health of consumer confidence and consumer spending and if individuals are not spending, and don't feel confident in their economic situation, economic growth may stall. Housing is a means to employment, education, recreation and retirement. If people are unable to relocate due to negative equity in one's home, or if housing prices rise too rapidly to the point where they are unaffordable, this will limit people's ability to build a better life for themselves and their family.

The Progressive movement is influential in the wealth debate. Progressives undertook the noble task of assisting individuals better their economic circumstances, but they chose to set about achieving this task through an expanded role of the federal government, specifically the executive branch. The expanded role of the federal government began to develop in the housing sector, specifically with housing vouchers, during the New Deal. There are numerous factors that contribute to a lack of affordable housing, some of which are regulatory and zoning land requirements. America's policies today, specifically with housing policy, can borrow some of the ideas of the Progressive

movement and develop a relationship between the federal government and the private sector to promote mixed neighborhoods in income and diversity.

Housing policy is a policy where the government and the private sector can work together to better the lives of individuals with the goal of promoting affordable housing. Regarding low-income individuals, this sector is in need of affordable housing options that are safe but also offer a chance to improve their quality life. Promoting mixed neighborhoods is a admirable policy where community leaders, social workers, the government, and private real estate developers can work in harmony together toward the goal of promoting mobility for low-income individuals. Housing vouchers are a government program designed by the government and run by the government. It is a policy the Progressives would be in favor of, but it is also an area where politicians of different political philosophies can come together to promote a goal that utilizes the government as well as the private sector. The results of mixed neighborhoods have been mixed. While studies analyzing data from mixed neighborhoods found that this policies was not successful in promoting economic mobility rapidly, individuals were able to escape poverty, find better schools for their children, and at times get off welfare. On the other hand, some mixed neighborhood programs, like MTO, were ineffective and barely produced any positive economic results. America's housing policy today should focus on combining the success of the previous mixed neighborhood experience and promote income integration but also diversity integration in neighborhoods, rather than focusing on one and not the other.

Income inequality is a major focus of President Obama's second term agenda. Republicans and Democrats agree that there many Americans are still attempting to

recover from the recession, but differ on what the appropriate governmental policies are to assist in this rebuilding. Income disparity will always exist in an economy, but we should not simply focus on income disparity, we should focus on how often people are able to climb the income ladder into a new income quintile. If individuals are unable to climb into the middle class, there is a problem in a country and steps should be taken to make this more attainable, with the government and private sector working together toward the same goal. Low-income individuals have the least amount of opportunities available to them, most likely because they feel isolated and without opportunities and hope. A country that values economic mobility should not allow this to remain the status quo.

The American dream is for all Americans, but each dream is different. Immigrants, young people, retirees and hard working families are working toward their own version of the American dream. In housing, we must work together to ensure the dream is attainable. If housing policy is properly designed to promote economic mobility, the other components of the American dream, like retiring and sending children to college, will be more attainable and sustainable. Politicians should focus on closing the opportunity gap that exists today, and realize while there will always be individuals who earn less than others, our country's goal should be to assist individuals in escaping poverty, through mixed neighborhoods in housing, which will be beneficial for generations.

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Curriculum Vitae

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