



POLICY OPTIONS FOR IMPROVING ECONOMIC OPPORTUNITY AND MOBILITY

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CONTENTS

PREFACE	3
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OUTCOMES AND OPPORTUNITY: HOW INEQUALITY AND INCOME STAGNATION ARE LIMITING OPPORTUNITY IN AMERICA <i>Jared Bernstein and Ben Spielberg, Center on Budget and Policy Priorities</i>	4
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UP: EXPANDING OPPORTUNITY IN AMERICA <i>Scott Winship, Manhattan Institute</i>	31
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PREFACE

America's economic recovery is finally taking hold and current deficits are down from the record highs during the recession. At the same time, far too many American families are being left out of the recovery, and our nation still faces an unsustainable long-term fiscal outlook. Lower unemployment and improvements in growth are fueling renewed optimism, yet the nature of the recovery is uneven and the longer term trends of income stagnation are of great concern. On everyone's minds is the questionable state of opportunity in America.

The current economic environment allows more room to maneuver and provides a window to plan for success—making smart, reasoned decisions that will benefit America over the long term. Seizing the opportunity to build a solid fiscal foundation will help enable the economic opportunity that is the basis of the American dream. With a fiscal outlook that is stable and sustainable, we can better ensure that we have sufficient resources to invest in our future, which can lead to greater economic growth and more widely shared prosperity for future generations.

In the interest of enriching the discussion on the state of economic opportunity in America today, the Peter G. Peterson Foundation asked two experts, representing different viewpoints, to recommend policy options to foster greater economic opportunity and mobility. Their papers are presented in this volume.

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OUTCOMES AND OPPORTUNITY: HOW INEQUALITY AND INCOME STAGNATION ARE LIMITING OPPORTUNITY IN AMERICA

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EXECUTIVE SUMMARY

While we would like to believe that America is a meritocracy wherein anyone who works hard enough can realize their economic potential, this ideal is unfortunately far from today's reality. An extensive body of research documents that poor children, for example, have substantially reduced opportunity for economic success in adulthood than their higher-income peers.

Though social science has long documented such associations—the negative relationship between children's economic status, their educational opportunity, and their economic outcomes is well-established—the growth of income, wage, and wealth inequality has led to new concerns in this critical area of inquiry. We begin by documenting this greater inequality of outcomes across many different variables associated with living standards.

We then argue that this growth in inequality of outcomes, which we distinguish from inequality of opportunities, is constraining opportunity in ways that are inconsistent with the meritocratic ideal. We identify three channels through which this process is occurring: residential segregation, unequal access to quality education, and direct effects of inequality.

First, inequality in outcomes drives increasing residential segregation by income. The environmental hazards and lower-quality public goods common in high-poverty neighborhoods have negative impacts on children's cognition, academics, and later life outcomes.

Second, inequality in outcomes leads to unequal access to quality educational experiences throughout a child's lifetime. Because low-income parents lack the resources of higher-income parents, including both money and time, children who grow up in low-income households have less access to enrichment opportunities from an early age. Insufficient and inequitable investments in public education have disadvantaged low-income students in primary and secondary schools as districts have had to cut staff, expand class sizes, and forego research-based reforms. The prospect of substantial college debt also presents a major obstacle for low-income students who overcome challenges and seek a postsecondary degree.

Third, the direct effects of inequality—lower incomes and wealth levels themselves—may be the most significant obstacle to equality of opportunity. Research shows that poverty in childhood is associated with suboptimal cognitive development, poor health, difficulties in school, and lower employment and earnings in adulthood.

Note that as the inequality of outcomes increase over time, these channels of diminished opportunity are strengthened.

The good news is that specific, evidence-based policy solutions can begin to counter these effects and improve economic opportunities for millions of Americans. For example, federal, state, and local agencies can combat residential segregation by making improvements to federal rental assistance programs. While the best methods to reduce neighborhood inequality require more substantive interventions, the Department of Housing and Urban Development (HUD) can help hundreds of thousands of low-income children now through straightforward modifications of the Housing Choice Vouchers (HCV) program.

There are also a number of ways to reduce educational barriers to mobility. Universal, publicly-funded pre-kindergarten is a great place to start; early childhood education has well-documented positive effects on future life outcomes. At the primary and secondary school level, delivering funding and

services according to student need should be the top priority. And we can also promote college access and completion by substantially reducing the costs required for low- and moderate-income students to attend.

Most importantly, to establish a more equal starting gate and provide a more robust set of opportunities for people to realize the benefits of their education, we must confront inequality and poverty head on. We suggest policy ideas to improve “market outcomes” for low-income families, including higher minimum wages, direct job creation and apprenticeship programs for the hard-to-employ, and fair chance hiring for job seekers with criminal records. We also underscore the importance of strengthening the social safety net, which means both protecting effective programs that currently exist, like nutrition assistance programs and wage subsidies like the Earned Income Tax Credit, and expanding key aspects of these programs, including Medicaid (i.e., we advocate that states adopt the Medicaid expansion in the Affordable Care Act) and tax credit provisions scheduled to expire in 2017.

Most of these policy ideas invoke public costs, though they also yield public benefits, such as less need for government services later in life. Where possible, we will cite costs as well as “payfors.” However, our goal here is not write detailed legislation, but to present our diagnosis of America’s inequality and mobility challenges and our prescriptions to help meet them.

INTRODUCTION

This essay examines the relationship between economic outcomes and economic opportunity in America. Thus, a good place to start is to define those concepts.

By **opportunity**, we mean the ability of people to achieve their economic potential. Opportunity implies access to educational experiences that enable children to realize their intellectual potential. It implies freedom of movement across geographic boundaries, so families can live in places with quality public goods that broadly meet their preferences. It implies the ability to live a healthy life in which basic needs are met in an environment free from avoidable illnesses. Opportunity also implies the absence of unjust barriers to success based on race, gender, religion, sexual orientation, or other personal characteristics. Of course, equal opportunities don’t necessarily imply equal outcomes. Different endowments and efforts can also influence economic outcomes. But striving to enhance equality of opportunities in the face of the barriers we document throughout this paper is, in our view, an important role for public policy.

In the economic literature, opportunity is often discussed in terms of mobility, which in turn has two distinct but related types. The first, often called **relative mobility**, tracks a family or individual’s outcomes relative to peers. Relative mobility doesn’t just describe how much an individual’s income or educational attainment rose over time. It describes how she did on such variables compared to her cohort. For example, consider the relative mobility of a child born to a family at the 20th percentile of the income scale. If, when she grows up, say at age 30, that former child’s income still places her adult self at the 20th income percentile, then we’d say she’s experienced no relative mobility, even if that new 20th percentile income level is higher than the one that prevailed during her childhood.

Suppose, however, that even while this person remains at the same income percentile as when she was a child, her real income is up 40 percent compared to that of her family 30 years ago. That income growth also represents a form of upward mobility, which is typically called **absolute mobility**. We would generally expect to see more of this second type of mobility. After all, the economy grows most years—

recessions wherein GDP contracts are thankfully rare—and so we’d generally expect each birth cohort to do better than those that came before. That is, as per-capita income broadly rises most years, we would a-priori expect higher incomes to reach subsequent cohorts.

Of course, the issue of income inequality—one that looms large in much of what follows—must be considered. As rising inequality channeled more growth to the wealthy and away from the middle class over the past thirty-five years, we might expect to find that the income of later cohorts grew more slowly. We examine such a trend below and find that increasing inequality has in fact coincided with reduced absolute mobility.

In terms of opportunity, both relative and absolute mobility are important, but relative mobility is arguably more so. If I can tell, based on a child’s zip code, her parents’ education, and/or where she started out on the income scale, roughly where she will end up in terms of her relative income class (as is too often the case today), most people would agree that opportunity is inadequate. On the other hand, if children born into the bottom fifth, middle fifth, and top fifth of the income distribution all have the same probability of ending up in the top fifth as adults, most of us would believe there to be some degree of equal opportunity.

Belle Sawhill and Richard Reeves, two scholars who have written extensively on these issues, agree: “Even if everyone is richer than their parents, we would be a deeply unfair society if everyone was also stuck on exactly the same point on the income ladder. We want growth and more prosperity, but we also want fluidity and more fairness.”¹

As we show, these two types of mobility are related in important ways, namely through inequality of outcomes. We document various channels through which this correlation appears to be activated, such as the diminished ability of poor families to invest in enrichment goods for their children, the environmental hazards in neighborhoods of concentrated poverty, and the “toxic stress” often associated with prolonged financial hardship.

This paper thus proceeds by describing key trends in unequal outcomes, noting their implications for levels of absolute mobility in the United States. After reviewing the state of relative mobility as well, we show how an analysis of the inequality-induced trends in the three areas mentioned above—residential segregation, educational investment barriers, and the direct effects of poverty and inequality—yields policy prescriptions that improve economic outcomes and, in doing so, reduce opportunity barriers.

THE STATE OF ECONOMIC OPPORTUNITY

I. ABSOLUTE MOBILITY

As we document in the pages that follow, the increasing inequality of outcomes has a serious impact on relative mobility. It also indicates diminished levels of absolute mobility, as described below.

Using a wide variety of data sources and income definitions, Bernstein and Spielberg find that wage, income, and wealth inequality have significantly increased, and real wage and income growth has slowed or stagnated for significant groups of workers and families.² In this regard, we argue that inequality has had created a “wedge” between overall growth and the earnings, incomes, and wealth of most Americans over the past three or four decades.

This wedge manifests in a number of ways, one of which is a gap between productivity and median wage growth. Between 1973 and 2011, labor productivity, defined as economic output (GDP) divided by total hours worked, grew 80.4 percent. During that same period, the real median hourly wage rose by only 4.0 percent.³

Another manifestation of the wedge is differential rates of income growth and wealth accumulation for different groups of people—average rates fail to account for the distribution of absolute mobility. Between 1986 and 2012, as Saez and Zucman recently documented, “the average [annual] real growth rate of wealth per family has been 1.9%, but this average masks considerable heterogeneity: for the bottom 90%, wealth has not grown at all, while it has risen 5.3% per year for the top 0.1%, so that almost half of aggregate wealth accumulation has been due to the top 0.1% alone.”⁴

Finally, and most relevant to a discussion of the distribution of opportunity, the wedge has led to “stickier” poverty rates over time, which means that poverty has been less responsive to growth than in years past. Danziger has explained that the relationship between per capita GDP growth and declining poverty rates between 1959 and 1973 would have predicted the eradication of poverty in the mid-1980s, even after accounting for declining GDP growth.⁵ Of course, the eradication of poverty did not happen, and a decomposition of the factors responsible suggests that income inequality has played a much larger role than any other factor in dampening growth’s impact on absolute mobility.⁶

To be clear, the empirical trends do reveal many examples of absolute mobility, as the real wages and incomes of various cohorts rise as they age. The Pew Economic Mobility Project, for example, notes that around ninety percent of children who grow up in low- and moderate-income households have higher incomes as adults, in absolute terms, than their parents had.⁷ But as noted above, simply based on overall economic growth, we’d expect each generation to have at least somewhat higher income levels than earlier generations. To cite the existence of absolute mobility reveals little about our key question about access to opportunity.

However, at least by one metric—Census Bureau median family income data—absolute, real income growth has slowed or even declined for subsequent birth cohorts of families headed by 35-44 year olds, especially since 2000. Despite significant gains in GDP and productivity since then, their 2013 income is only slightly above the level in 1979.⁸ So even what we consider a low bar—the growth of family income across birth cohorts—has not always been met in recent years.

Year	Median Income, 35-44 Year-Olds	Percent Change
1949	28,471	
1959	42,962	51%
1969	61,578	43%
1979	68,522	11%
1989	72,922	6%
2000	78,575	8%
2007	76,227	-3%
2013	70,239	-8%

With wage and income stagnation inhibiting the opportunity component of absolute mobility in this sense, relative mobility is a particularly germane metric in getting to the heart of the equality of opportunity question.

II. RELATIVE MOBILITY

Both Sawhill and Reeves and the Pew Economic Mobility Project underscore the following as one of the most salient points about relative mobility in the US: “Americans raised at the bottom and top of the family income ladder are likely to remain there as adults.” 70 percent of children born into the bottom quintile of the income distribution (at or below the 20th percentile) remain below the middle quintile (40th to 60th percentiles) as adults, and 63 percent of children born into the top quintile (at or above the 80th percentile) remain above the middle quintile as adults. Only 4 percent of people are able to make it all the way from the bottom to the top, and only 8 percent drop all the way from the top to the bottom.⁹ The literature labels this phenomenon “stickiness at the ends,” and such numbers represent a substantial disconnect between the ideal of equality of opportunity and the current state of relative mobility in the United States.

Relative mobility in the U.S. lags relative mobility in other countries. Although international comparisons can be difficult, Reeves and Sawhill note that “the broad picture that emerges from these comparisons is fairly clear and consistent: within economically-developed countries, mobility rates are highest in Scandinavia and lowest in the U.S., U.K., and Italy—with Australia, Western Europe, and Canada lying somewhere in between.” Reeves and Sawhill also point out that careful comparisons of the U.S. and Canada find that “Canadian rates of mobility appear to be higher.”¹⁰

It is important to remember that the level of relative mobility in the United States, while lower than that of other countries, does not appear to have decreased over the past thirty-five years. As Chetty, Hendren, Kline, Saez, and Turner note, a child born into the 20th income percentile today has about the same opportunity to rise up the income scale relative to his or her peers as did a child born into the 20th income percentile in the 1970s. However, Chetty et al also highlight the connection between absolute mobility and relative mobility referenced above—“because inequality has risen, the consequences of the ‘birth lottery’—the parents to whom a child is born—are larger today than in the past.”¹¹

PATHWAYS TO ENHANCED ECONOMIC OPPORTUNITY

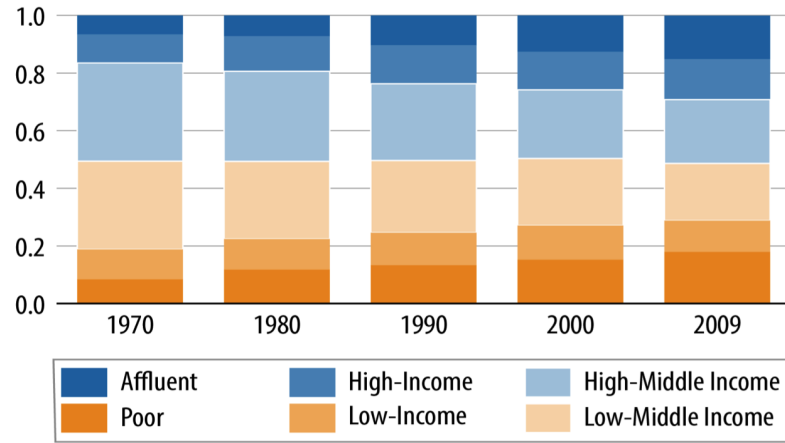
While many mobility barriers surely exist, we believe research suggests three major obstacles to equality of opportunity: residential segregation, educational investment barriers, and the direct effects of low income levels themselves. The following subsections explore each of these barriers and suggest pathways around them that can promote more equal access to opportunity.

I. REDUCE RESIDENTIAL SEGREGATION

The Problems

Residential segregation by income has increased over the past forty-five years. Bischoff and Reardon divide neighborhoods into six categories based on the relationship between their median family income and the median family income in the larger metropolitan area to which they belong. They find that, while 65 percent of families lived in middle-income neighborhoods in 1970, only 42 percent of families lived in middle-income neighborhoods in 2009 (see Figure 1).¹² The number of families living in either poor or affluent neighborhoods, the two most extreme categories of neighborhood income, increased from 15 percent in 1970 to 33 percent in 2009.¹³

Figure 1
Proportion of Families Living in Different Neighborhood Types, Metropolitan Areas with Population > 500,000



Source: Bischoff and Reardon

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Residential contexts can affect economic opportunity through several channels. More integrated neighborhoods bring more diverse peer groups and role models and less exposure to violence and other environmental hazards “such as lead-based paint, vermin, and pollution.”¹⁴ Neighborhoods with more high-income members may also attract and sustain greater investments in public goods than neighborhoods with concentrated poverty. Each of these factors influences the life of children from an early age and has mobility implications.

Sharkey has conducted one of the most comprehensive reviews on how neighborhoods affect mobility. As he notes, only a few studies have examined the link between “measures of neighborhood economic status during childhood and adult economic status,” but most studies that do have established a correlation.¹⁵ Many observational studies instead explore the relationship between neighborhoods and intermediate predictors of adult outcomes, like school success and cognitive development. These studies also find clear links between neighborhood characteristics—such as the presence of affluent neighbors, the concentration of neighborhood poverty, and rates of residential mobility—and childhood outcomes like high school dropout rates and scores on assessments of cognitive skills.¹⁶

Sharkey’s own research implies a causal relationship between exposure to neighborhood violence and worse childhood outcomes. In one study, he found that preschool children had more difficulty controlling their impulses, paying attention, and scoring well on vocabulary and math tests when homicides had recently occurred near their homes. A more recent study found similar results for English test scores in New York City, particularly for black students who had been exposed to recent neighborhood violence.¹⁷ While Sharkey’s recent research deals with short-term neighborhood effects, he notes that studies typically conclude that “the effect of neighborhood disadvantage on cognitive and academic outcomes is more severe if disadvantage is persistent, experienced over long periods of a family’s history.”¹⁸

Proposed Solutions

Sharkey identifies three sets of strategies that can promote economic opportunity by combating residential segregation—reducing economic disadvantage directly, encouraging residential mobility, and investing in communities. Policies that address the most important and sustainable strategy—reducing inequality and poverty—are discussed in detail in a later section of this paper, as the impact of these policies on both relative and absolute mobility is most apparent when considering the direct effects that inequality and poverty have on families.

Housing mobility programs represent a second approach to combating residential segregation and promoting economic opportunity. These programs represent an immediate opportunity for both relative and absolute mobility enhancement for millions of low-income children. Implementation of improvements to the Housing Choice Vouchers (HCV) program, one of three of the Department of Housing and Urban Development's (HUD) major rental assistance programs, do not necessarily require new funding and can be undertaken without congressional action (we provide details on these policies below).

Several programs have offered a window into the potential effectiveness of housing vouchers and public housing options. The Gautreaux program, which began in the 1970s in Chicago, is an early example. Under the program, about 7,000 participants were offered the chance to move to new neighborhoods.¹⁹ About half of these participants moved to middle-income suburbs that were an average of 25 miles from their original homes, and the results for children were striking: they "attended better schools, were less likely to drop out before completing high school, received higher grades, and were more likely to attend college than those who remained in Chicago city neighborhoods. They also were more likely to be employed full time as adults, and to earn better wages, than those moving to locations within the city."²⁰

A more recent study from RAND also suggests that obtaining housing in low-poverty neighborhoods can have a substantial impact on economic opportunity. Schwartz exploited a natural experiment in Maryland's Montgomery County that randomly assigned families to public housing developments and tracked students for seven years. She found that students whose families were assigned to the lowest-poverty neighborhoods had test scores substantially higher than students who lived in higher-poverty neighborhoods.²¹

Researchers have been hesitant to draw causal conclusions from the Gautreaux program because it lacked the features of a true experimental design,²² however, and evidence from Moving To Opportunity (MTO), a 1994-initiated random assignment study, paints a more complicated picture. MTO divided volunteer low-income families living in assisted housing into three groups: a group that received housing vouchers that were conditional upon moving to a low-poverty neighborhood and remaining there for at least one year, a group that received housing vouchers with no strings attached, and a group that received no housing support through MTO (though some people in this group were still eligible for housing vouchers under other circumstances). While receiving vouchers and living in low-poverty neighborhoods seemed, on average, to yield positive mental and physical health benefits for women and girls, boys who moved into these neighborhoods experienced negative mental health outcomes. Additionally, families in low-poverty neighborhoods "generally did not experience economic gains for adults or educational gains for children."²³

At the same time, families in MTO did not necessarily stay in low-income neighborhoods very long, and the RAND study found that the positive effects for children of living in low-income neighborhoods "began to appear only in the students' fifth year."²⁴ In addition, control group families in MTO also saw declines in neighborhood poverty and violent crime during the period studied, and students in experimental group families attended schools that, like control group schools, were segregated by income and race. Chetty finds in an alternative MTO analysis that "moving to [a] low-poverty census tract at [a] young age (<13) increases earnings in adulthood by 30%."²⁵

The Chetty, Gautreaux, and RAND findings illustrate the potential benefit from an improved housing voucher program. Four low-cost changes to the HCV program recommended by Sard and Rice provide a promising framework. First, HUD should incentivize local and state housing agencies to increase the share of HCV recipients who live in low-poverty areas through evaluations, rules, and/or monetary rewards. Second, HUD should modify existing policies that discourage families from living in lower-poverty areas; for example, HUD can “set its caps on rental subsidy amounts for smaller geographic areas than it now does [and] require agencies to identify available units in these lower-poverty communities and extend the search period for families seeking to make such moves.” Third, HUD should encourage unified program operations in metropolitan areas and eliminate other jurisdictional barriers that make it harder to help HCV recipients live in low-poverty neighborhoods. Fourth, state and local governments and housing agencies should assist families in the HCV program who wish to move to low-poverty areas, in part by prohibiting discrimination against voucher holders and by expanding access to transportation to and from low-poverty neighborhoods. At the very least, these changes should benefit the “quarter of a million children in the HCV program [who] live in...troubled neighborhoods despite the better options that a voucher should make available to them.”²⁶

Again, housing voucher improvements are more a low-cost, immediate strategy to improve economic opportunity for some children than a longer-term fix of the core problem. Even if HUD adopts these recommendations, significant numbers of children will remain stuck in neighborhoods with severely constrained access to opportunity. In fact, it’s not hard to imagine an adverse selection problem arising with these changes—that is, if more motivated households took advantage of the types of relocation policies suggested above, the families left behind could potentially be in even worse shape.

Thus, Sharkey’s third set of strategies to combat residential segregation are centered around place-based investment, and like inequality and poverty reduction, we believe they have more long-term potential. Place-based investment strategies often overlap with inequality and poverty reduction strategies; for example, the New Hope program, a jobs program in Milwaukee that reduced family poverty and was associated with academic gains for children, also countered neighborhood poverty concentration by specifically targeting families in low-income neighborhoods.²⁷ These sorts of anti-poverty and anti-inequality efforts, discussed in more detail later in the paper, have the most long-term potential to reduce the effects of residential segregation.

II. INCREASE ACCESS TO QUALITY EDUCATION

The Problems

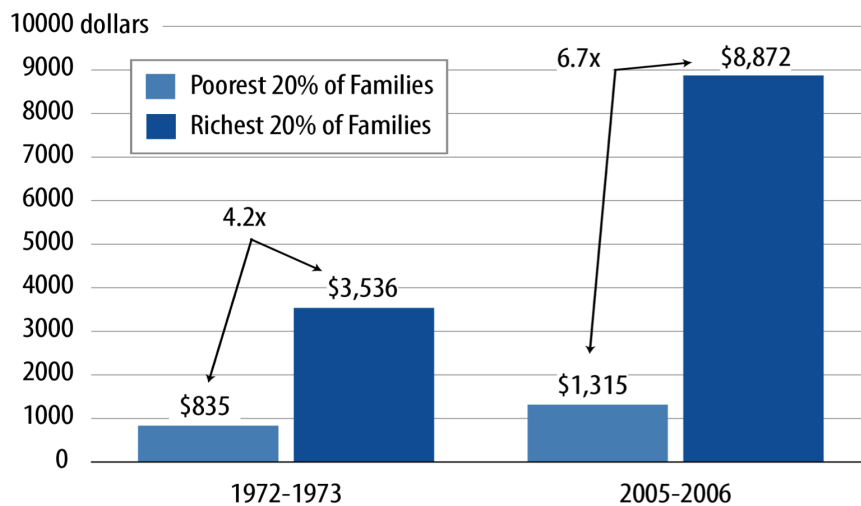
The discrepancies in academic achievement between high-income and low-income children, and between White students and Black and Latino students, are well-documented. The phrase “opportunity gap”²⁸ describes how these discrepancies—in test score performance, high school dropout rates, and college completion rates, for example—are the product of a vastly different set of pathways available to students from different backgrounds. Reardon has documented that the gap in test score results between children at the 90th percentile of the income distribution and those at the 10th percentile of the income distribution has grown over time; the gap increased by roughly 40 to 50 percent between 1974 and 2001, for example.²⁹

Both in-school and out-of-school educational investment barriers present obstacles to mobility throughout students’ lifetimes. Because low-income parents don’t have as much time or money as wealthier parents, students from lower-income households rarely have equivalent access to enrichment opportunities from books, tutoring, computers, sports, and art lessons, for example. Between 2005 and 2006, the wealthiest 20 percent of families spent about \$8,900 per child on such opportunities; the poorest 20 percent of families were able to commit only \$1,300 per student during the same year.

This 7-to-1 ratio was a substantial increase since the early 1970s (see Figure 2), when high-income parents spent about four times as much as low-income parents on enrichment activities, and is a likely product of increasing income inequality. Students from low-income backgrounds are also estimated to have spent 1,300 fewer hours in “novel contexts”—places different from home, school, or in the care of a daycare provider—by the time they reach age six.³⁰ They hear fewer words than children in higher-income families, likely in part because of the stressors faced by parents in poverty or near-poverty conditions, and typically have detectably slower-growing vocabularies by age three.³¹

Figure 2

Spending on Enrichment Opportunities for Children



Source: Duncan and Murnane

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Insufficient investment in publicly-funded pre-school is another issue for low-income students. As the Council of Economic Advisers (CEA) recently noted, “[i]nequality in early child development is reflected in, and exacerbated by, differences in access to and utilization of early care and education programs by income and educational attainment.”³² While 68 percent of 3- and 4-year-old children from families with reported incomes of at least \$75,000 a year were enrolled in pre-school or kindergarten in 2013, only 49 percent of same-age children from families making less than \$40,000 were enrolled.³³

Underfunding is also a persistent feature of K-12 education, particularly in low-income neighborhoods. Overall, 35 states are providing less total state and local per pupil funding in the 2014-2015 school year than they did before the most recent recession, and fourteen of these states have cut per pupil funding by 10 percent or more. Federal aid to states is also down since 2010; real Title I funding, which is dedicated to low-income schools, has declined by 10 percent during that time, and real special education funding is down 8 percent.³⁴ These cuts are felt most harshly in schools that serve low-income students, which typically operate with far fewer resources than schools that serve wealthier student bodies.³⁵ Inadequate funding restricts the ability of school districts to implement reforms that increase the likelihood of student success and mobility.

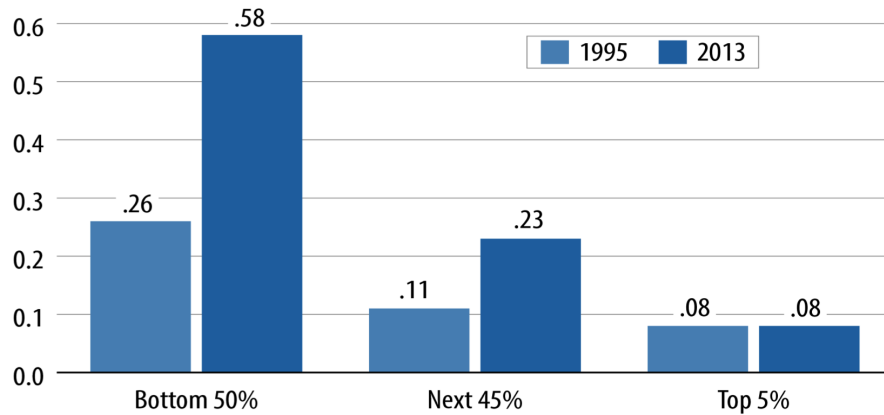
Finally, money issues also restrict college attendance and completion, which are both significantly more accessible to students from higher-income backgrounds. 80 percent of students born into the top income quartile (75th percentile and above) between 1979 and 1982 went on to enroll in

college, and 54 percent of these students completed college within six years of matriculation. For students in the bottom income quartile (25th percentile and below), on the other hand, only 29 percent enrolled in college, and only 9 percent earned their degrees within six years.³⁶

These differences partially represent the accumulation of unequal opportunities over students' lifetimes, but they are also influenced by rising college costs and the potential debt burden faced by low-income, college-going youth. In 2013, the mean debt-to-income ratio for the poorest 50 percent of households was 58 percent, a 32 percentage point increase since 1995; the same ratio for the wealthiest five percent of households was 8 percent in 1995 and remained 8 percent in 2013 (see Figure 3).³⁷ Evidence suggests that debt deters low-income students from college attendance more than it discourages high-income students,³⁸ and as Oliff, Palacios, Johnson, and Leachman summarize, the high levels of debt faced by low-income students "are associated with lower rates of homeownership among young adults; can create stresses that reduce the probability of graduation...; and reduce the likelihood that graduates with majors in science, technology, engineering, and mathematics will go on to graduate school."³⁹

Figure 3

**Ratio of Mean Education Debt to Mean Income
(for Families with Education Debt) by Net Worth Group**



Source: Janet Yellen's analysis of Survey of Consumer Finances data

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Proposed Solutions

Contrary to popular belief, studies generally find that schools contribute no more than about 33 percent to the gaps in academic achievement between high- and low-income children, and that they may contribute substantially less to the gap.⁴⁰ The primary drivers of the opportunity gap include some of the outside-of-school effects discussed elsewhere in this paper, including the early-life parental investment barriers covered in the preceding section. But while it isn't a primary cause of increasing income inequality or poverty, there is a demonstrable wage premium for college-educated workers,⁴¹ and school-based approaches that improve academic outcomes and the likelihood of college completion are an important step on the pathway to increased relative and absolute mobility. For example, children born into the bottom income quintile who obtain a college degree are 7 percentage points more likely to become top quintile earners than children born into the same quintile who do not earn a college degree.⁴² While a college degree may in part be, like earnings, a byproduct of other factors that predispose certain children to a greater likelihood of success, education is also mobility-enhancing in and of itself.

Publicly-funded, universal preschool is one intervention for which the supporting evidence is extremely clear. A 2013 meta-analysis of studies that analyzed the effects of 84 early childhood education (ECE) programs, including Head Start, found that ECE programs improved student test scores by an average of 0.35 standard deviations. As CEA explains, studies typically reveal significant long-term gains from ECE programs; Deming's 2009 study of Head Start, for example, found that the program "increased high school graduation rates by 8.6 percentage points, increased college attendance rates by 6 percentage points, and reduced non-participation (in either education or employment) rates by 7 percentage points, with African-American participants experiencing the largest gains."⁴³

In 2013, the Center for American Progress (CAP) released a proposal that "would make pre-school free for children in families that make up to 200 percent of the poverty line while providing grants to families above that threshold based on a sliding scale that would cover between 30 and 95 percent of the cost." The costs of such a program, or a more ambitious program to make pre-school free for everyone, would be non-negligible; CAP estimated that their proposal would cost \$98 billion over 10 years.⁴⁴ However, research suggests that the children who benefit from these investments "pay" for them later in life by generating both more tax revenues and lower public costs. CEA describes how "[r]esearchers estimate that the skills gains demonstrated in [high-quality pre-school programs] will lead to income gains of 1.3 to 3.5 percent each year when children are adults...In the long run, these earnings gains translate into an increase in GDP of 0.16 to 0.44 percent."⁴⁵ Universal, publicly-funded pre-K is both a good investment and a tool to enhance and promote both relative and absolute mobility.

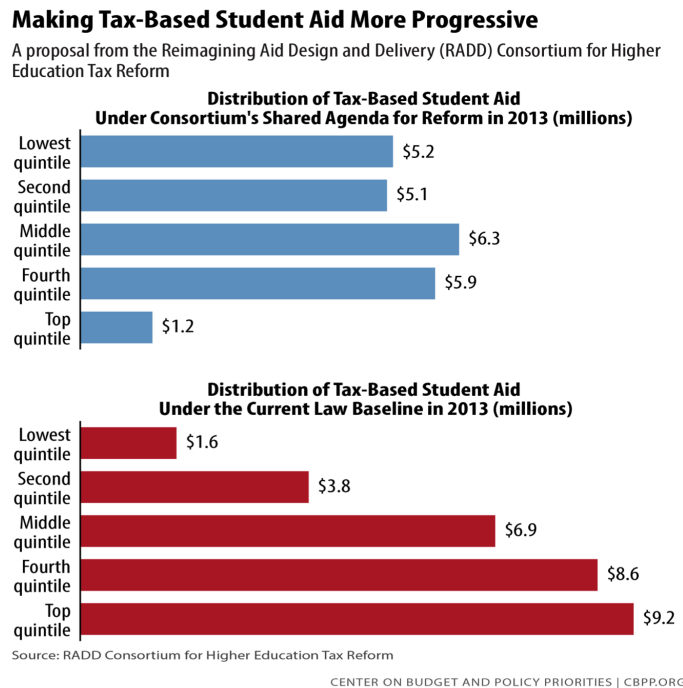
At the primary and secondary school levels, research suggests that adequate funding makes a difference for student outcomes; in fact, a new study by Jackson, Johnson, and Persico suggests that "a 10 percent increase in per-pupil spending each year for all twelve years of public school leads to 0.27 more completed years of education, 7.25 percent higher wages, and a 3.67 percentage-point reduction in the annual incidence of adult poverty; effects are much more pronounced for children from low-income families."⁴⁶ There are a few channels through which more funding might boost student achievement, including but not limited to extended learning time, better facilities, more competitive teacher pay that facilitates recruitment and retention, reduced class sizes,⁴⁷ greater investments in extracurricular activities, and expanded instructional coaching opportunities. More research is needed into these mechanisms and funding is not in and of itself a panacea, as the way funding is spent matters a great deal. Still, the evidence suggests that plugging school funding shortfalls and ensuring funding equity for low-income communities should be a top K-12 policy priority.⁴⁸

While the policy pathway at the federal level includes increased funding for programs like Title I, Mitchell and Leachman offer a promising area for savings at the state level: criminal justice reforms. As discussed in the final section of this paper, policies that remedy criminal justice issues are an important part of the equality of opportunity toolbox in their own right. Yet these reforms, by reducing incarceration rates, can also help address cuts to education funding. "If states were still spending on corrections what they spent in the mid-1980s, adjusted for inflation," write Mitchell and Leachman, "they would have about \$28 billion more each year that they could choose to spend on more productive investments or a mix of investments and tax reductions."⁴⁹ Research indicates that increased state funding for education and a move away from funding schools through local property taxes can also improve funding equity between schools, which leads to better outcomes for students.⁵⁰

Policies that make college more affordable for students from low- and middle-income families are also important tools for promoting relative mobility, as studies have found "that need-based grant aid increases college enrollment among low- and moderate-income students and reduces their likelihood of dropping out."⁵¹ In 2013, the Institute for College Access and Success issued a white paper detailing research-based policy recommendations that begin to accomplish this goal within the constraints of

the current system. For example, they suggest doubling the maximum Pell Grant, which despite recent increases “covers the lowest share of college costs since the start of the program.”⁵² Another proposal, from the Reimagining Aid Design and Delivery (RADD) Consortium for Higher Education Tax Reform, would simplify and better target tax-based aid, which is currently skewed towards well-off families, to reach students who need it most (see Figure 4 below).⁵³

Figure 4



The recent proposal to make two years of college free at all public institutions from Senator Bernie Sanders has even more potential. While Sanders’s proposal would cost \$18 billion a year,⁵⁴ this investment in educational opportunity, like the investment in early childhood education, would likely be well worth the cost.

III. STRENGTHEN THE SAFETY NET AND RAISE MARKET INCOMES TO PUT CHILDREN ON A MORE LEVEL PLAYING FIELD

The Problems

While increased access to quality education and reduced residential segregation by income can clearly reduce inequality of opportunity, the biggest obstacle to inequality of opportunity is most likely low incomes and wealth levels themselves. Not only are low levels of economic resources one reason why these other barriers exist, but there are also unique opportunity constraints imposed by poverty, wage stagnation, and low net worth.

The implication of this assertion is that all else equal, simply having more wealth affords one more opportunities of remaining in a privileged position. Findings from the Pew Economic Mobility Project that control for educational attainment underscore this point; children born into the top quintile of the income distribution who *do not* graduate from college are 2.5 times more likely to end up in the top quintile as adults as children born into the bottom quintile who *do* graduate college.⁵⁵

The correlation between household income as a child and eventual income as an adult is well-established in the research. Chetty, Hendren, Kline, and Saez, for example, in a careful examination of federal income tax data, examine the link between a family’s percentile rank in income level and the eventual percentile rank in income level for the family’s children when they reach adulthood. Chetty et al. find that a 10 percentile point increase in family income rank as a child is, on average, associated with a 3.4 percentile point increase in income rank as an adult.⁵⁶ Reeves and Howard also find evidence of a “glass floor” for children born into wealthy families, a level of income below which it is unlikely that such children will ever fall. Their work indicates that 43 percent “of children who remain in a higher-income household are of modest skill, and would be expected on the basis of skill to fall.”⁵⁷

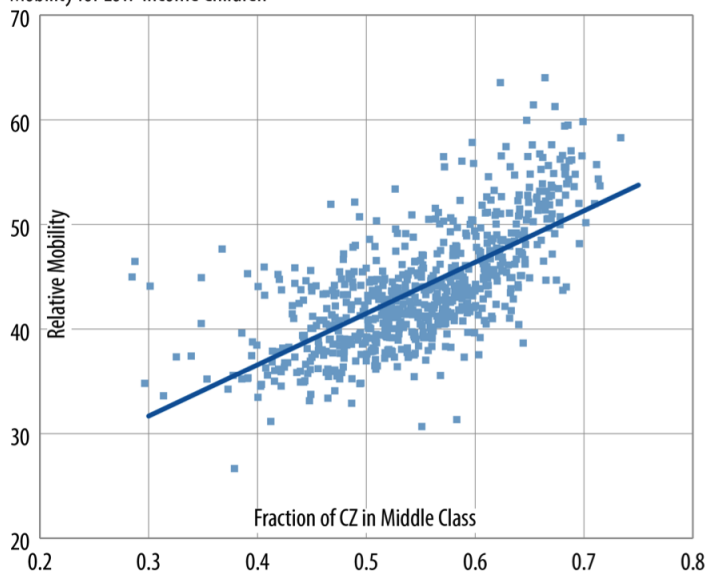
A growing literature also finds correlations between inequality of outcomes and inequality of opportunity, as Bradbury and Triest discuss in a careful review of the research. They describe how Corak’s work suggests that wealthier parents pass on advantages to their children both through monetary channels, like increased investment in enrichment opportunities, and nonmonetary channels, like social connections. Corak also submits that public policy plays a role in establishing the causal relationship between inequality of outcomes and inequality of opportunity; the lack of public, universal health coverage in the United States, for example, may lead to reduced opportunity by subjecting low-income children to more severe health shocks. The work of Brunori, Ferreira, and Peragine and Mitnick, Cumberworth, and Grusky similarly indicate a strong relationship between inequality of outcomes and inequality of opportunity.

Bradbury and Triest themselves find that higher levels of income inequality are associated with less relative mobility. They also note that the percentage of parents in the middle class in a given “commuting zone” is “strongly positively associated” with the degree of relative mobility, as shown in Figure 5 below.⁵⁸

Figure 5

Relative Mobility and Size of the Middle Class

Commuting Zones in Which the Middle Class is Larger Have Greater Expected Upward Mobility for Low-Income Children



Source: Bradbury and Triest

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Contrary to Bradbury, Triest, Chetty, and others, Bloome finds no correlation between inequality of outcomes and inequality of opportunity across states.⁵⁹ She does, however, acknowledge that increasing inequality has negative implications, regardless of its causal connection with relative mobility, because “the economic consequences of growing up rich or poor have risen.” Bradbury and Triest agree, noting that a “reason [that inequality of outcomes likely causes an increase in inequality of opportunity] is simply that the parents’ generation’s outcomes are very closely related to the children’s generation’s circumstances.”⁶⁰

Our knowledge about precisely *why* growing up relatively poor reduces opportunity is still incomplete, but reasons likely vary from child to child and may range from less adequate nutrition to overcrowded and chaotic housing conditions, less medical attention, greater environmental hazards (such as lead poisoning from neglected paint or pipes), and (as previously noted) reduced access to extracurricular activities, adequately-funded schooling, and the kinds of neighborhoods associated with later success. One explanation in particular has been highlighted by recent research: poverty and near-poverty conditions likely expose low-income children to much higher levels of sustained, “toxic” stress than their higher income peers. The Center on the Developing Child at Harvard distinguishes toxic stress from “positive” stress and from “tolerable” stress, which everyone at some point experiences. Whereas positive stress describes a short-term elevation in heart rate and moderate increase in stress hormone levels in response to a brief stressor, tolerable stress and toxic stress arise in response to “more severe, longer-lasting difficulties.” The stress is tolerable if the exposure is time-limited and the person experiencing it has favorable life circumstances, as the brain and other organs can recover from exposure to extreme cortisol levels under these conditions. However, the stress becomes toxic “when a child experiences strong, frequent, and/or prolonged adversity—such as physical or emotional abuse, chronic neglect, caregiver substance abuse or mental illness, exposure to violence, and/or the accumulated burdens of family economic hardship.”⁶¹

A substantial body of evidence suggests that toxic stress negatively impacts the brain and long-term health outcomes of children in utero, during the earliest years of childhood, and into their teenage years. A study by Aizer, Stroud, and Buka, for example, found that children born during times of high maternal stress ended up with “a year less schooling, a verbal IQ score that [was] five points lower and a 48 percent increase in the number of chronic [health] conditions” when compared to siblings who were born during less stressful times. These maternal stress level differences were typically related to family income.⁶²

Similarly, Ziol-Guest, Duncan, Kalil, and Boyce found “that low income, particularly in very early childhood (between the prenatal and second year of life), is associated with increases in early-adult hypertension, arthritis, and limitations on activities of daily living. Moreover, these relationships and particularly arthritis partially account for the associations between early childhood poverty and adult productivity as measured by adult work hours and earnings.”⁶³ Research by Hanson et al. indicates that, over time, poverty likely leads to a reduction in gray matter—“tissue critical for processing of information and execution of actions”—in the brains of children who experience it.⁶⁴ Toxic stress continues to reduce opportunities as children get older; for example, research by Evans and colleagues found that “working memory in early adulthood (i.e., age 17) deteriorated in direct relation to the number of years...children lived in poverty (from birth through age 13).” As the researchers noted, this result was not observed for all children in poverty, but only for those children who experienced the “chronically elevated physiological stress (as measured between ages 9 and 13)” that “usually accompanies poverty,” suggesting that toxic stress was the causal mechanism for their results.⁶⁵ In response to the overwhelming research that links toxic stress to childhood and later-life outcomes, the American Academy of Pediatrics began to urge policymakers to begin to address this issue head-on in a formal 2012 statement.⁶⁶

Sherman, Parrott, and Trisi have documented a high incidence of conditions that may add to toxic stress in poor and near-poor households; for households with cash incomes between 100 percent and 200 percent of the poverty line, for example, 45 percent experienced at least one of the following stressors during 2011: difficulty affording adequate food, overcrowded housing, late rent or mortgage, and/or having utilities cut off. An even larger percentage of households below the poverty line, 58 percent, experienced at least one of these conditions, while the percentage dropped to 17 percent for households above 200 percent of the poverty line.⁶⁷ Brooks-Gunn et al.'s research, which found that "infants born into low-income families experienced nearly three times more risk factors than their middle-income counterparts by the time they were toddlers," highlights the grossly unequal exposure to early life stressors affecting low-income children (low-income children experienced seven times as many risk factors as affluent children). As Evans, Brooks-Gunn, and Klebanov note, "[b]eing born into early poverty often means exposure to many more physical and psychosocial risk factors."⁶⁸

Proposed Solutions

The research on toxic stress and the relationships between poverty, inequality, and relative mobility suggests that policies that reduce poverty, wage and income stagnation, and inequality directly hold considerable promise for promoting equality of opportunity. First, these policies help improve absolute living standards, and thus have the potential to offset the spate of negative "direct effects" discussed above. Policies that reduce poverty and inequality also have the potential to improve neighborhood quality, another way in which they can enhance relative mobility.

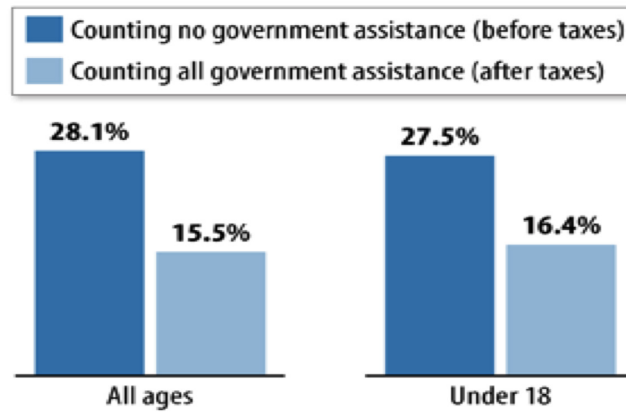
There are two approaches to raising the incomes and thus the opportunities of those currently facing steep mobility barriers. First, the government provides resources to low-income families through safety net programs that boost both the consumption of and the investments in low-income families. As we show, there is good evidence of the extent to which these programs help boost opportunity, and thus ensuring their fiscal health must be a key goal of the opportunity agenda.

Second, interventions in the primary distribution of wages and incomes, otherwise known as "market outcomes," are also essential for ensuring that working families have a better chance to claim a larger share of the growth they're helping to produce. This strategy is an essential complement to the safety net strategy noted above.

Safety net programs: These programs, which fit in the first category of solutions outlined above, already play an important role in inequality- and poverty-reduction. Trisi has shown that safety net programs, in sum, lifted 39 million people out of poverty in 2013. As he notes, Census Supplemental Poverty Measure "data highlight the effectiveness of cash assistance such as Social Security, non-cash benefits such as rent subsidies and SNAP (formerly food stamps), and tax credits for working families like the Earned Income Tax Credit (EITC)." Without government assistance, 28.1 percent of all Americans and 27.5 percent of Americans under age 18 would be in poverty, but after taking into account the effects of taxes and transfers, the percentages drop to 15.5 percent and 16.4 percent, respectively (see Figure 6).⁶⁹ Similarly, analysis of CBO data shows that federal taxes and transfers reduced inequality by 26 percent in 2011.⁷⁰ While absolute levels of poverty and inequality remain high, they are much lower than they would be in the absence of the safety net.

Figure 6

Safety Net Cut Poverty Rate Nearly in Half in 2013



Note: Figures use the federal government's Supplemental Poverty Measure (SPM).

Source: CBPP analysis of Census Bureau data from the March 2014 Current Population Survey and 2013 SPM public use file.

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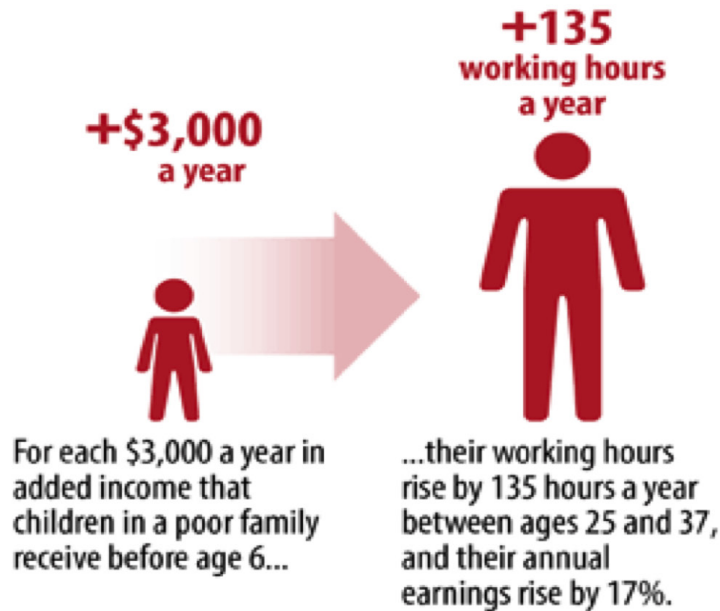
High quality research into these interventions, much of which is longitudinal and quasi-experimental, comparing outcomes of adults who participated in the programs as kids to adults who did not, documents their long-run positive impact.⁷¹ Research on the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), food assistance programs like SNAP, and Medicaid provides particularly compelling evidence for this point.

As Marr, Huang, Sherman, and DeBot note in a comprehensive look at the research on the EITC and CTC, working family tax credits appear to improve outcomes at virtually every stage of life. For example, some research has suggested that mothers who receive greater benefits from the EITC are more likely to receive prenatal care and less likely to drink or smoke during pregnancy than mothers who receive a smaller EITC benefit. Marr et al. explain that infants born to mothers who were likely eligible for the largest increases in EITC benefits during the 1990s “had the greatest improvements in a number of birth indicators, such as fewer incidences of low weight births and premature births,” factors likely to enhance future mobility prospects. The EITC has been linked to higher test scores for children in the year of a family’s receipt, and the added income from both the EITC and the CTC has been tied to lasting test score increases for students. Receiving a larger EITC during childhood has also been associated with an increased likelihood of attending and graduating from college (both skills gains and greater affordability⁷² seem to drive this effect). Perhaps most strikingly, Duncan, Ziol-Guest, and Kalil have found, as Marr et al summarize, that “[f]or children in low-income families, a \$3,000 increase in family income (in 2005 dollars) between a child’s prenatal year and fifth birthday is associated with an average 17 percent increase in annual earnings and an additional 135 hours of work when the children become adults, compared to similar children whose families do not receive the added income.”⁷³

Figure 7

Higher Earned Income Tax Credit or Other Income for Poor Children Expected to Boost Work and Earnings Later in Life

\$3,000 annual increase in income to poor children before age 6 associated with increase in work hours when they become adults.



Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325

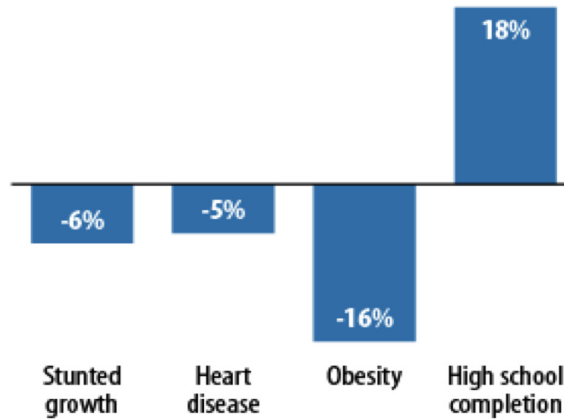
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A study by Hoynes, Schanzenbach, and Almond found similar results for food stamps (SNAP). The authors studied the program in its nascent years, beginning in the 1960s, and compared the outcomes of disadvantaged children born into families with food stamp access to disadvantaged children whose families were unable to benefit from food stamps. When poor, pregnant mothers and their children had access to food stamp benefits, children were 6 percent less likely to experience stunted growth, 5 percent less likely to experience heart disease, 16 percent less likely to experience obesity, and 18 percent more likely to graduate high school (see Figure 8 below). Women were also more likely to find work and avoid poverty once they reached adulthood.⁷⁴

Figure 8

Children With Access to Food Stamps Fare Better Years Later

Percentage-point change for disadvantaged children
by age 19 when food stamps became available



Source: Hoynes, Schanzenbach, and Almond, "Long Run Impacts of Childhood Access to the Safety Net," National Bureau of Economic Research, November 2012.

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As Broaddus argues, the first study “to examine the long-term economic impacts of additional years of Medicaid eligibility” also suggests that the story is the same with Medicaid. The study found an association between more years of Medicaid eligibility and lower mortality, higher wages (among women), increased likelihood of college attendance, and a greater tax contribution. These results are consistent with other research that has found that “enrolling in Medicaid improves access to health care and reduces medically related financial hardships[, and] that people more likely to be eligible for prenatal and infant care through Medicaid were healthier in young adulthood.”⁷⁵ Direct aid to the poor appears to be a “trampoline” when it comes to later life outcomes, significantly boosting relative mobility.⁷⁶

Maintaining these programs and strengthening them where appropriate, thus sustaining and enhancing their impact on relative mobility, is in many cases straightforward. In terms of Medicaid, the solution is simple: states should adopt the Affordable Care Act’s Medicaid expansion. The federal government pays the full cost of the expansion for the first three years and at least 90 percent of the cost on a permanent basis thereafter. In fact, states that have adopted the expansion expect their Medicaid spending to grow more slowly than states that have not yet adopted it.⁷⁷

In the case of the EITC and CTC, the path forward is also clear. Key provisions of these working family tax credits, introduced in 2009, are set to expire at the end of 2017; this expiration would push “16 million people—including 8 million children—into or deeper into poverty.”⁷⁸ Congress should make these provisions permanent. Additionally, strengthening the EITC for childless workers who currently benefit very little from the credit would not only raise their incomes, but would also have the potential to facilitate their employment and reduce their incarceration rates, the benefits of which are discussed in more detail below. Both President Obama and Representative Paul Ryan have adopted a similar proposal that would raise the EITC benefit \$670 for a childless worker at the poverty line, and \$520 for a full-time, minimum wage childless worker.⁷⁹

A recent report from the Children’s Defense Fund (CDF)⁸⁰ provides a useful simulation of how much amped up versions of these sorts of ideas can diminish poverty. The Urban Institute estimated for CDF the impact on child poverty of nine proposals, including a higher EITC for low-income families with children, making the CTC fully refundable,⁸¹ and a 30 percent increase in SNAP benefits. It found that these three proposals combined would have cost \$43.8 billion and lifted 4.1 million children out of poverty in 2010.⁸² Taken together, the full spate of CDF proposals⁸³ are estimated to reduce child poverty by 60 percent.

Brookings researchers Sawhill and Karpilow also report on their “Social Genome Project,” an evaluation of the impact of home instruction for new parents, highly quality preschool, and a variety of education initiatives.⁸⁴ They develop “elasticities” from these programs—the quantitative extent to which child outcomes are affected by application of the interventions—and apply them to a representative data set of children using “a life cycle model to track their progress from the earliest years through school and beyond.”

Sawhill and Karpilow argue that these “interventions can close over 70 percent of the gap between more and less advantaged children in the proportion who end up middle class by middle age.” While such a quantitatively large impact is likely harder to achieve than their simulations suggest (e.g., their summative approach may overstate combined gains from the different interventions), the idea that multiple interventions throughout the life cycle can “improve social mobility and enhance the lifetime incomes of less advantaged children” is an important one.

Resources to support safety net expansion: Many of the ideas suggested above involve significant resources beyond those of the current system (for example, President Obama’s plan to expand the EITC to childless adults would cost \$60 billion over 10 years). While it is beyond our scope to elaborate a granular budget, we do believe it is necessary to briefly address this issue, especially since we can do so in a way that is consistent with the theme of increasing opportunity.

For example, President Obama’s most recent budget proposes to end “step-up basis” for wealthy taxpayers.⁸⁵ Step-up basis is a tax subsidy through which individuals can eliminate their entire capital gains tax liability by holding assets until death. Not only is this subsidy economically inefficient, as Marr and Huang explain, but since “about three-quarters of the benefit of the preferential rates for capital gains and dividends (which also are taxed at a lower top rate than ordinary income) flowed to the top 1 percent of households” in 2013, step-up basis also likely entrenches immobility at the top of the income scale.⁸⁶ The White House proposal for ending step-up basis and raising the capital gains rate to 28 percent, the same rate enacted under the Tax Reform Act of 1986 with President Reagan’s support, would raise \$232 billion over 10 years.⁸⁷

A second and related approach would be to strengthen the estate tax, which only applies to assets exceeding \$5.43 million for individual estates and twice that for couples. While the top marginal tax rate on estates is 40 percent, the high exemption threshold, various deductions, and loopholes mean that the very few estates that were taxable at all owed only 16.6 percent of their assets in tax in 2013. Changes such as reducing the individual exemption threshold to \$3.5 million and increasing the top rate to 45 percent would raise \$138 billion⁸⁸ over ten years to fund other mobility-enhancing efforts. Like ending step-up basis, they would also reduce some of the immobility that results from the preferential tax treatment of large inheritances. In fact, NYU Law Professor Lily Batchelder believes that “[t]he current estate tax system is the most important mechanism by which the fiscal system mitigates the effects of inheritances on economic disparities and intergenerational mobility.”⁸⁹

Strategies to improve market outcomes for low- and moderate-income households: The safety net and limitations on the transfer of exorbitant wealth only go so far. Some of the most important tools to combat poverty and inequality thus target the pre-tax and -transfer earnings of low- and moderate income families. These tools are essential in the fight for equality of opportunity for two reasons. First, as noted, stagnant wages for parents translate into an unequal starting gate for children, with lasting impacts on opportunity. Second, both relative and absolute mobility depend on the availability of good job opportunities when children grow up and eventually enter the labor market.

Raising the federal minimum wage, which is not currently adjusted for inflation and has declined significantly in real terms since the 1960s, is one proven way to improve outcomes for low-wage workers, many of whom are parents (about 27 percent of those affected by the proposed federal increase noted below).⁹⁰ As Bernstein and Parrott have documented, while opponents of the policy typically stress its unintended consequences of pricing low-wage workers out of the labor market, most of the research finds that increases in the minimum wage achieve their “goal of boosting the earnings of low-wage workers, most of whom really need the extra resources, with virtually no budgetary costs and few unintended consequences.”⁹¹

The Urban Institute’s analysis of the CDF proposal discussed above suggests that a small minimum wage increase to \$9.30 an hour in 2010, and an increase in the tipped minimum wage to 70 percent of that amount (\$6.51), would have lifted 400,000 children out of poverty and increased earnings for 11.4 million workers in families with children by an average of around \$1,500. In addition, the Urban Institute estimates that, because affected families would owe more in taxes and qualify for fewer benefits, this proposal would have resulted in \$15.2 billion combined in savings and additional revenues from these workers.⁹²

In 2013, congressional Democrats introduced a proposal to phase in a national minimum of \$10.10 an hour over three years, afterwards indexing it to inflation. But as that proposal failed to pass and inflation has further eroded the real value of the minimum wage, Senate Democrats have offered a new proposal to lift the national wage floor to \$12 by 2020 and subsequently index its value to the median wage. Several cities, including Seattle, Oakland, and Chicago, have also raised their minimums, often to higher levels than in both federal proposals. We consider both the new federal proposal and ambitious local increases to be positive developments, as they provide researchers with opportunities to continue to study the effects of minimum wage increases, account for price and wage variation across the country, and simultaneously set an important baseline labor standard that keeps low-wage workers above the poverty line.

Relatedly, strengthening collective bargaining rights could also reduce inequality, thus promoting relative and absolute mobility, by helping workers to negotiate higher wages and reclaim a fairer share of productivity gains.⁹³

The full employment agenda is another important way to promote equality of opportunity. As Baker and Bernstein have shown, full employment labor markets, which are characterized by a tight match between the number of job seekers and the number of available jobs, are one of the surest ways to give families the opportunity to raise their living standards; in turn, full employment labor markets are one of the surest ways to work towards a more level playing field for children.⁹⁴ As a forthcoming paper from Wilson suggests, the benefits of full employment labor markets are particularly important for black families.⁹⁵

The full employment agenda has many components, including stimulative fiscal policy, growth-oriented monetary policy, public investment, attention to the trade deficit and manufacturing jobs, a subsidized and targeted job creation program, worksharing, apprenticeships and on-the-job training, and improved labor standards. The Center on Budget and Policy Priorities Full Employment Project has partnered with leading scholars to develop proposals in several of these areas.⁹⁶

For example, the Temporary Assistance for Needy Families Emergency Fund (TANF EF) provides a model for a scaled-up subsidized jobs program. Subsidized jobs programs can provide immediate income assistance to people who need it, especially during difficult economic times; as noted above, increased incomes for families with children have been linked to better long-term outcomes for kids. These programs may also increase “employment and earnings after the subsidized placement ends;” while the evidence is less conclusive that subsidized jobs programs accomplish this goal, the most recent study of TANF EF suggests that programs targeted to the long-term unemployed can.⁹⁷ As Pavetti notes, Elizabeth Lower-Basch from CLASP “has recommended⁹⁸ offsetting the costs of a new subsidized employment program by eliminating the Work Opportunity Tax Credit [WOTC].” The WOTC “provides more than a billion dollars per year in tax breaks to businesses that hire members of certain disadvantaged groups,” despite the fact that research suggests it is ineffective; redirecting the funds towards a subsidized jobs program would likely do more to promote equality of opportunity.

Last⁹⁹ but certainly not least, policies that address criminal justice issues are another essential part of the opportunity toolbox, in no small part because criminal justice issues adversely affect not just the incarcerated population, but over 70 million Americans who have a “conviction or arrest history that can show up on a routine background check for employment.”¹⁰⁰ The portion of these people who spend time behind bars are at a particular disadvantage; as Mitchell and Leachman note: “A Pew study found that men with a previous criminal conviction worked roughly nine fewer weeks, and earned 40 percent less, each year than otherwise similar non-offenders...The study also found that men’s total earnings by age 48 are less than half among men who have been incarcerated than among comparable men who have not been incarcerated.” In addition, prison policies have a substantial negative impact on the families of incarcerated people, increasing poverty for other household members, including children, as well for people who have spent time behind bars. There is even evidence that prison policies destabilize neighborhoods and reduce economic outcomes for *non-incarcerated adults* in counties with rising incarceration rates.¹⁰¹ These policies are a clear drag on both relative and absolute mobility.

Mitchell and Leachman recommend four policies that can reduce the negative effects of incarceration rates. First, states can “[d]ecriminalize certain activities and reclassify certain low-level felonies” for offenses like marijuana possession. Second, states should “[e]xpand the use of alternatives to prison for non-violent crimes and divert people with mental health or substance abuse issues away from the criminal justice system altogether.” Third, states should “[r]educe the length of prison terms and parole/probation periods.” This reform includes re-examining sentencing laws. Finally, states should “restrict the use of prison for technical violations of parole/probation.”¹⁰² Research also suggests that programs aimed at educating people while they are in prison have considerable value.¹⁰³

Reforms to both FBI and private background checks¹⁰⁴ and fair-chance hiring practices are also necessary to reduce the negative effects of criminal records on individuals and their families’ future outcomes. “Ban the box” is one such reform that is currently gaining momentum. The “box” in “ban the box” refers to a checkbox on many job applications that asks about an applicant’s criminal record. This fair chance hiring practice is about excluding this question from the initial application, and only allowing employers to conduct such background checks after they have

developed impressions of candidates based on their qualifications, skills, and interviews. By moving this background check to the end of the process, “ban the box” policies prevent employers from consciously or subconsciously discriminating against applicants with a criminal record.

Early evidence on “ban the box” is encouraging. Minneapolis found that postponing the background check until after a conditional offer of employment “resulted in more than half of applicants with a conviction being hired.” In Durham, the employment rate for the affected population quadrupled, and in Atlanta, affected individuals made up “10 percent of city hires between March and October of 2013.”¹⁰⁵

Initiatives like “ban the box” are important on the one hand because of their direct effects on relative mobility; for example, men with criminal records in the lowest quintile of the income distribution are about twice as likely to stay there as men without criminal records, in part because of the employment discrimination they face.¹⁰⁶ But these initiatives are also important for reducing inequality of opportunity, like other policies that reduce inequality of outcomes and poverty, because they improve the lives of children in affected families. Without policies that strengthen the safety net, improve labor market prospects, and reduce the damaging effects of the criminal justice system, the meritocratic ideal will continue to be a pipe dream.

CONCLUSION

Evidence indicates that poverty and inequality—in neighborhoods, educational access, and the labor market—limit opportunities for far too many Americans. While access to high levels of both relative and absolute mobility is currently elusive, however, a set of policy solutions that address poverty, inequality, and their consequences can remedy this issue.

Changes to housing voucher policy and increases in the number of vouchers would lean against the trend towards more residential segregation and reduce the environmental hazards that low-income children often encounter. Access to pre-K and kindergarten, equitably-funded and supported primary and secondary schools, and low-cost postsecondary educational experiences can help narrow the gap in college completion between low-income and high-income children. Most importantly, policies that directly address the effects of inequality and poverty by strengthening the safety net and promoting full employment, for example, are likely to have the largest impact. Policies that improve the living conditions and job prospects of people in lower-income communities promote absolute mobility by definition and enhance relative mobility by putting children from different communities on a less uneven playing field.

Our biggest barrier to economic opportunity for all Americans is neither structural, budgetary, nor evidentiary—it is political. Research suggests several clear ways to begin to combat this problem, and it is incumbent upon us to muster the political willpower to do so.

ENDNOTES

¹ <http://www.bostonfed.org/inequality2014/papers/reeves-sawhill.pdf>

² Bernstein and Spielberg use data from the Social Security Administration, Census Bureau, Congressional Budget Office, Internal Revenue Service, and Federal Reserve Board to illustrate this point in this presentation: http://jaredbernsteinblog.com/wp-content/uploads/2015/02/Inequality-Presentation_1_6_15-Final.pptx. The trend is apparent in earnings, before-tax income, income after accounting for taxes and transfers, and wealth.

³ Mishel and Gee (2012). <http://www.csls.ca/ipm/23/IPM-23-Mishel-Gee.pdf>

⁴ Saez and Zucman (2014). <http://gabriel-zucman.eu/files/SaezZucman2014.pdf>

⁵ Danziger (2007). <http://irp.wisc.edu/publications/focus/pdfs/foc251a.pdf>

⁶ The Economic Policy Institute, building on earlier work by Danziger and Gottschalk, estimated that income inequality added 5.5 percentage points to the poverty rate between 1979 and 2007. This factor wiped out most of the poverty-reduction effects of income growth and changing educational composition, which were estimated to have subtracted a combined 6.5 percentage points from the poverty rate. For more information, see <http://economix.blogs.nytimes.com/2014/01/13/poverty-and-inequality-in-charts/>.

⁷ The percentages are not quite as high for wealth—seventy-two percent of bottom quintile children and fifty-five percent of middle quintile children end up with more wealth as adults than their parents had. http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/PursuingAmericanDream.pdf

⁸ Census income data from Table F-1: <http://www.census.gov/hhes/www/income/data/historical/families/>. Years displayed above mostly correspond to business cycle peaks.

⁹ http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/PursuingAmericanDream.pdf

¹⁰ Reeves and Sawhill (2014). <http://www.bostonfed.org/inequality2014/papers/reeves-sawhill.pdf>

¹¹ Chetty, Hendren, Kline, Saez, and Turner (2014). http://obs.rc.fas.harvard.edu/chetty/mobility_trends.pdf

¹² Middle-income neighborhoods are defined as neighborhoods in which the median neighborhood income is between 80 percent and 125 percent of the median income in the entire metropolitan area. Poor neighborhoods have median incomes below 67 percent of the metropolitan median, while affluent neighborhoods have median incomes above 150 percent of the metropolitan median. Bischoff and Reardon (2013). <http://www.s4.brown.edu/us2010/Data/Report/report10162013.pdf>

¹³ Since increasing inequality naturally drives incomes away from the middle and towards the extremes, the observed segregation could plausibly be a function of increasing income inequality alone, as opposed to increasing inequality driving changing neighborhood composition. Bischoff and Reardon also study a measure of residential segregation which controls for this possibility. This measure still shows about a 29 percent increase in overall income segregation between 1970 and 2009, which suggests that inequality contributes both to income convergence for existing residents and changes in neighborhood demographics.

¹⁴ Sard and Rice (2014) note that environmental hazards are discussed in more detail in Berube (2008), Cohen (2011), and Kawachi and Berkman (2003). <http://www.cbpp.org/cms/?fa=view&id=4211>

¹⁵ While Sharkey (2014) acknowledges that “the strength of the association varies widely depending on the methods used, the specific neighborhood measures considered in the analysis, the outcome under study, and the sub-populations examined,” he explains that Aaronson (1997), Corcoran and Adams (1999), Corcoran et al. (1992), Datcher (1982), Holloway and Mulherin (2004), Vartanian (1999), and Vartanian and Buck (2005) have all found a relationship between childhood neighborhoods and later economic outcomes. <http://www.bostonfed.org/inequality2014/papers/sharkey.pdf>

¹⁶ Sharkey (2014). <http://www.bostonfed.org/inequality2014/papers/sharkey.pdf>

¹⁷ Summarized in Sard and Rice (2014). <http://www.cbpp.org/cms/?fa=view&id=4211>

¹⁸ As Sharkey (2014) notes, research by Briggs and Keys (2009), Harding (2003), Quillian (2003), Sampson (2008), Sharkey (2008), Sharkey and Elwert (2011), South et al. (2005), Timberlake (2007), and Wodtke (2011) all reach this conclusion. <http://www.bostonfed.org/inequality2014/papers/sharkey.pdf>

¹⁹ Eligible participants were people who were either living in or on the waitlist for public housing. Gautreaux program staff identified available housing in neighborhoods in which less than 30 percent of the residents were Black. See Sard and Rice (2014): <http://www.cbpp.org/cms/?fa=view&id=4211>.

²⁰ Sard and Rice (2014). <http://www.cbpp.org/cms/?fa=view&id=4211>

²¹ Summarized by Sard and Rice (2014). <http://www.cbpp.org/cms/?fa=view&id=4211>

²² Gautreaux was designed as a legal remedy to segregation, not as a controlled experiment.

²³ Sard and Rice (2014). <http://www.cbpp.org/cms/?fa=view&id=4211>

²⁴ Sard and Rice (2014). <http://www.cbpp.org/cms/?fa=view&id=4211>

²⁵ http://obs.rc.fas.harvard.edu/chetty/ely_slides.pdf

²⁶ See section 3 of Sard and Rice (2014) for a more granular description of these ideas. http://www.cbpp.org/cms/?fa=view&id=4211#_3

²⁷ Sharkey (2014). <http://www.bostonfed.org/inequality2014/papers/sharkey.pdf>

²⁸ The observed differences in student achievement levels are often described as the “achievement gap,” but the term “opportunity gap” is more appropriate because it describes the underlying nature of the problem.

²⁹ Reardon (2011) in Whither Opportunity? <http://cepa.stanford.edu/sites/default/files/reardon%20whither%20opportunity%20-%20chapter%205.pdf>

³⁰ Duncan and Murnane (2011) in Whither Opportunity. http://www.russellsage.org/sites/all/files/Duncan_Murnane_Chap1.pdf

- ³¹ <http://www.newyorker.com/magazine/2015/01/12/talking-cure>
- ³² The Economics of Early Childhood Investments (2014). http://www.whitehouse.gov/sites/default/files/docs/the_economics_of_early_childhood_investments.pdf
- ³³ Author's analysis of Census data (table 3 from <http://www.census.gov/hhes/school/data/cps/2013/tables.html>).
- ³⁴ Leachman and Mai. <http://www.cbpp.org/cms/index.cfm?fa=view&id=4213>
- ³⁵ In California, for example, "basic aid" school districts like Palo Alto Unified (PAUSD), which serve more affluent populations, receive considerably more money than districts like San Jose Unified (SJUSD), where property tax revenues are significantly lower. During the 2012-2013 school year, PAUSD received approximately 60 percent more money per pupil (\$14,506; see http://www.ed-data.k12.ca.us/_layouts/EdDataClassic/finance/GeneralFund.asp?reportNumber=4&level=06&county=43&district=69641&fyr=1213&tab=2#Revenues) than SJUSD (\$9,038; see http://www.ed-data.k12.ca.us/_layouts/EdDataClassic/finance/GeneralFund.asp?reportNumber=4&level=06&county=43&district=69666&fyr=1213&tab=2#Revenues).
- ³⁶ Smeeding (2014): <http://www.bostonfed.org/inequality2014/papers/smeeding.pdf>. A more recent analysis found a 37 percentage point gap in the 8-year college graduation rate between bottom and top income quartile individuals from the high school class of 2004. http://www.brookings.edu/research/papers/2015/03/12-chalkboard-income-education-attainment-chingos#_end1
- ³⁷ Janet Yellen's analysis of data from the Survey of Consumer Finances (2014). <http://www.federalreserve.gov/newsevents/speech/yellen20141017a.pdf>
- ³⁸ <http://core.kmi.open.ac.uk/download/pdf/94754.pdf>
- ³⁹ Oliff, Palacios, Johnson, and Leachman (2013). <http://www.cbpp.org/cms/?fa=view&id=3927>
- ⁴⁰ Rothstein (2010): <http://www.epi.org/publication/ib286/>. In fact, 33 percent is probably an upper bound, as studies that find school effects that large typically count peer effects—the influence of other students at the school—as in-school factors, despite the fact that the makeup of school student bodies has more to do with neighborhood composition than school practices. Many estimates of the school contribution to the variation in student outcomes come in closer to 20 percent (see <http://shankerblog.org/?p=74>).
- ⁴¹ See <http://prospect.org/article/it%E2%80%99s-not-skills-gap-that%E2%80%99s-holding-wages-down-its-weak-economy-among-other-things> and <http://www.epi.org/publication/wp295-assessing-job-polarization-explanation-wage-inequality/>.
- ⁴² The degree of relative mobility in both cases, however, is low, as only 3 percent of non-graduates and only 10 percent of graduates born into the bottom quintile are able to make it all the way to the top quintile as adults. Pew Economic Mobility Project (2012). http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/PursuingAmericanDreampdf.pdf
- ⁴³ The Economics of Early Childhood Investments (2014). http://www.whitehouse.gov/sites/default/files/docs/the_economics_of_early_childhood_investments.pdf
- ⁴⁴ <http://thinkprogress.org/economy/2013/02/07/1555401/universal-pre-k-plan/>
- ⁴⁵ The Economics of Early Childhood Investments (2014). http://www.whitehouse.gov/sites/default/files/docs/the_economics_of_early_childhood_investments.pdf
- ⁴⁶ Jackson, Johnson, and Persico (2015): <http://www.nber.org/papers/w20847>. See http://www.shankerinstitute.org/images/doesmoneymatter_final.pdf for another review of the benefits of more equitable school funding.
- ⁴⁷ While researchers still disagree about whether they are the most cost-effective strategy for promoting student achievement (see <http://www.brookings.edu/research/papers/2011/05/11-class-size-whitehurst-chingos>), most believe that smaller class sizes have positive effects (see <http://nepc.colorado.edu/publication/does-class-size-matter>, for example). It's also important to note that the success of class size reduction efforts, which often increase staffing needs, may rely on an adequate supply of qualified teachers.
- ⁴⁸ Other proposals to improve K-12 education outcomes include increasing the number of charter schools, making student growth on standardized test scores a defined percentage of teacher evaluations, and reforming aspects of teacher employment law. The motivation behind these proposals is in many cases understandable. For example, while the differences on average between student performance at charter schools and traditional public schools remains minimal in practical terms (see <http://www.brookings.edu/research/papers/2013/07/03-charter-schools-loveless>), some studies indicate that the average student at certain charter school networks outperforms the average student at traditional public schools on math and reading tests (see <http://economics.mit.edu/files/6335>), and there is evidence that results at urban charter schools are improving (<http://urbancharters.stanford.edu/overview.php>). However, it is often difficult to interpret these findings; even the best charter school studies typically don't distinguish school effects from the effects of student demographics, which include the likely benefit to students of attending small schools with a concentrated group of higher performing peers. Many educators have also raised concerns about potential negative externalities at certain charter schools, like an overemphasis on tested subjects to the exclusion of other types of learning experiences to which higher income children have access (like physical education and art classes). Finally, and most relevant to our recommendations for K-12 education policy, better performance in selected charters may be driven in part by better funding. To the extent that student test score results at these charters reflect best practices such as, say, extended learning time (see <http://shankerblog.org/?p=9918>), and that these practices are enabled by high levels of per pupil spending in successful charter schools (see <http://nepc.colorado.edu/publication/spending-major-charter>), the appropriate lesson may not be to expand charter schools but to apply these practices in traditional public schools while providing increased financial support (see scholar.harvard.edu/files/fryer/files/2014_injecting_charter_school_best_practices_into_traditional_public_schools.pdf). Charter schools may have utility as the research and development arm of the traditional public schools system, and, similarly, conversations about appropriate approaches to teacher evaluation and teacher employment law are worth having. But we believe K-12 improvement efforts are best focused on the pursuit of funding equity and reform ideas, like enhanced instructional training and support, higher teacher pay, and high-dosage tutoring, that can come with it.
- ⁴⁹ Mitchell and Leachman (2014). <http://www.cbpp.org/cms/index.cfm?fa=view&id=4220>
- ⁵⁰ Baker notes, however, that whether or not states use additional money to allocate funding more equitably varies state by state (see <http://epaa.asu.edu/ojs/article/view/1721/1357>). And even states that have made attempts to begin to target funds based on need, like California, will remain far from funding equity until they more completely overhaul their school finance systems (for a discussion of funding inequity in California, see <http://34justice.com/2014/06/11/informed-student-advocates-pursue-reforms-that-unlike-vergara-v-california-actually-address-inequity/>).
- ⁵¹ http://www.ticas.org/files/pub/Overall_Pell_one-pager.pdf
- ⁵² http://www.ticas.org/files/pub/TICAS_RADD_White_Paper.pdf
- ⁵³ This proposal includes improvements to the American Opportunity Tax Credit and the Student Loan Interest Deduction, as well as the elimination of the Lifetime Learning

Credit, the Tuition and Fees Deduction, and Coverdell Education Savings Accounts (see <http://www.clasp.org/resources-and-publications/publication-1/2014.06.20-Consortium-for-Higher-Ed-Tax-Reform-FINAL.pdf>).

⁵⁴ <https://www.insidehighered.com/news/2015/02/20/bernie-sanders-calls-two-tuition-free-years-all-public-colleges-and-universities>

⁵⁵ Pew Economic Mobility Project (2012): http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/PursuingAmericanDream.pdf. The full distribution of outcomes for students in these two groups can also be seen at <http://34justice.com/2015/01/07/everything-you-need-to-know-about-inequality/>.

⁵⁶ Chetty, Hendren, Kline, and Saez (2014). http://obs.rc.fas.harvard.edu/chetty/mobility_geo.pdf

⁵⁷ Reeves and Howard (2013). <http://www.brookings.edu/research/papers/2013/11/glass-floor-downward-mobility-equality-opportunity-hoarding-reeves-howard>

⁵⁸ In the scatter plot in Figure 5, each dot represents a different set of grouped counties, each of which is called a commuting zone (CZ). Building on the work of Chetty et al., Bradbury and Triest define the middle class in a given commuting zone to be the fraction of the population that has incomes between the 25th and 75th percentile of the national income distribution. Though the researchers call their mobility measure “Absolute Upward Mobility,” it is actually a relative mobility measure for the purposes of this paper. The number represents the expected national income rank in adulthood of a child who grows up in a family with income at the 25th percentile of the distribution. Bradbury and Triest (2014). <http://www.bostonfed.org/inequality2014/papers/bradbury-triest.pdf>

⁵⁹ Bloome (2014) notes, however, that the correlation can easily be observed across countries. <http://sf.oxfordjournals.org/content/early/2014/11/15/sf.sou092.abstract>

⁶⁰ Bradbury and Triest (2014). <http://www.bostonfed.org/inequality2014/papers/bradbury-triest.pdf>

⁶¹ http://developingchild.harvard.edu/key_concepts/toxic_stress_response/

⁶² Aizer, Stroud, and Buka (2012). <https://ideas.repec.org/p/nbr/nberwo/18422.html>

⁶³ Zioli-Guest, Duncan, Kalil, and Boyce (2012). <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3477379/pdf/pnas.201203167.pdf>

⁶⁴ Hanson, Hair, Shen, Shi, Gilmore, Wolfe, and Pollak (2013). <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3859472/>

⁶⁵ Summarized by Evans, Brooks-Gunn, and Klebanov (2011). http://web.stanford.edu/group/scspi/_media/pdf/pathways/winter_2011/PathwaysWinter11.pdf

⁶⁶ <http://pediatrics.aappublications.org/content/129/1/e224.full.pdf>

⁶⁷ Sherman, Parrott, and Trisi (2014). <http://www.cbpp.org/cms/index.cfm?fa=view&id=4073>

⁶⁸ Evans, Brooks-Gunn, and Klebanov (2011). http://web.stanford.edu/group/scspi/_media/pdf/pathways/winter_2011/PathwaysWinter11.pdf

⁶⁹ Trisi (2014). <http://www.offthechartsblog.org/safety-net-cut-poverty-nearly-in-half-last-year-new-census-data-show/>

⁷⁰ Authors’ analysis of CBO data. https://www.cbo.gov/sites/default/files/cbofiles/attachments/49440-Distribution-of-Income-Taxes_Supplemental_0.xlsx

⁷¹ A recent study by Aizer, Eli, Ferrie, and Lleras-Muney (2014), for example, studied “the Mothers’ Pension program—the first government-sponsored welfare program in the US (1911-1935)—and matched [records of applicants] to census, WWII and death records. Male children of accepted applicants lived one year longer than those of rejected mothers. Male children of accepted mothers received one-third more years of schooling, were less likely to be underweight, and had higher income in adulthood than children of rejected mothers.” <http://www.nber.org/papers/w20103.pdf>

⁷² For example, a study by Manoli and Turner (2014) finds a link between the size of a family’s EITC benefit during a child’s senior year of high school and the likelihood that the child will enroll in college in the fall. <http://www.nber.org/papers/w19836>

⁷³ Marr, Huang, Sherman, and DeBot (2015). <http://www.cbpp.org/cms/?fa=view&id=3793>

⁷⁴ Hoynes, Schanzenbach, and Almond (2012). <http://www.nber.org/papers/w18535>

⁷⁵ Broadus (2015). <http://www.offthechartsblog.org/medicaid-eligible-children-grow-up-to-earn-more-and-pay-more-in-taxes/>

⁷⁶ For more detail on the research explaining how safety net programs improve long-term outcomes, see <http://www.cbpp.org/cms/?fa=view&id=3997> from Sherman, Trisi, and Parrott (2013).

⁷⁷ <http://www.offthechartsblog.org/state-medicaid-spending-growing-slower-in-expansion-states-than-others/>

⁷⁸ If the key provisions expire, there will be a higher “marriage penalty” associated with the EITC, meaning many married couples will see their benefits cut. Additionally, “[n]ot one penny of the earnings of a full-time, minimum-wage worker would count toward the CTC, because the credit’s earnings exclusion (the amount of earnings ignored in determining a family’s eligibility for the CTC) would nearly quintuple from \$3,000 to \$14,700.” Families with more than two children would also face a \$700 cut in their maximum potential EITC benefit. Citizens for Tax Justice has estimated that the average family that would be affected by the expiration of these provisions would lose about \$840 per year of critical income. Marr, DaSilva, and Sherman (2015). <http://www.cbpp.org/cms/?fa=view&id=4228>

⁷⁹ Marr and Huang (2015). <http://www.cbpp.org/cms/?fa=view&id=3991>

⁸⁰ Ending Child Poverty Now (2015). <http://www.childrensdefense.org/library/PovertyReport/EndingChildPovertyNow.html>

⁸¹ Tax credits reduce a family’s tax liability by a given amount but cannot typically be used when a family has no federal income tax liability. As a result, poor families do not benefit from most tax credits. Making tax credits refundable can address this problem by giving families without tax liability access to a tax refund equivalent to part or all of the credit in question. The CTC is currently partially refundable, which means that, as a result of income excluded from the benefit calculation and a phase-in rate, many qualifying families receive only part of the benefit of the credit.

⁸² The proposals would also benefit millions of other children near the poverty line.

⁸³ Some of these proposals, like a subsidized jobs program and increased minimum wage, are discussed in more detail below. Each proposal, including those not discussed in more detail, provides specific cost and poverty-reduction estimates and is worthy of consideration.

⁸⁴ Sawhill and Karpilow (2015). http://www.brookings.edu/~media/research/files/papers/2014/07/improve_child_life_chances_interventions_sawhill/improve_child_life_chances_interventions_sawhill.pdf

⁸⁵ Though less wealthy individuals also benefit from step-up basis, Marr and Huang (2015) explain that the President's proposal contains "robust protections for most families as well as small businesses. The first \$100,000 of capital gains per individual—\$200,000 per couple—would be exempt, as would \$500,000 in capital gains on personal residences (which could cover more than one home)." <http://www.cbpp.org/cms/?fa=view&id=5260>

⁸⁶ Reeves and Howard (2013) note inherited wealth as a probable contributor to the "glass floor" mentioned earlier. <http://www.brookings.edu/research/papers/2013/11/glass-floor-downward-mobility-equality-opportunity-hoarding-reeves-howard>

⁸⁷ See JCT's Estimated Budget Effects Of The Revenue Provisions Contained In The President's FY 2016 Budget Proposal: <https://www.jct.gov/publications.html?func=start-down&id=4739>.

⁸⁸ <https://www.jct.gov/publications.html?func=startdown&id=4739>

⁸⁹ Batchelder, "Reform Options for the Estate Tax System: Targeting Unearned Income," Testimony before the U.S. Senate Committee on Finance, March 12, 2008.

⁹⁰ <http://www.nytimes.com/2014/06/10/upshot/minimum-wage.html?abt=0002&abg=1>

⁹¹ Bernstein and Parrott (2014): <http://www.cbpp.org/cms/index.cfm?fa=view&id=4075>. Two careful meta-analyses of minimum wage research come to the same conclusion. Belman and Wolfson (2014; see <http://www.upjohn.org/Publications/Titles/WhatDoesTheMinimumWageDo>) write: "Bearing in mind that the estimates for the United States reflect a historic experience of moderate increases in the minimum wage, it appears that if negative effects on employment are present, they are too small to be statistically detectable." Stanley and Doucouliagos (2009; see <https://www.hendrix.edu/news/news.aspx?id=64671>) note that, "with 64 studies containing approximately 1,500 estimates, we have reason to believe that if there is some adverse employment effect from minimum-wage raises, it must be of a small and policy irrelevant magnitude."

⁹² Note that the poverty reductions cited are net calculations—potential benefit losses have been taken into account. All numbers are in 2010 dollars. <http://www.childrens-defense.org/library/PovertyReport/EndingChildPovertyNow.html>

⁹³ Mishel (2012). <http://www.epi.org/publication/ib342-unions-inequality-faltering-middle-class/>

⁹⁴ In fact, because full employment labor markets bring more benefits for people lower on the income scale, the evidence suggests that they are particularly powerful tools both for absolute mobility and for enhancing relative mobility towards the bottom of the income scale. Baker and Bernstein (2013). http://www.cepr.net/documents/Getting-Back-to-Full-Employment_20131118.pdf.

⁹⁵ Forthcoming paper from Valerie Wilson (2015).

⁹⁶ Papers commissioned for the Full Employment Project that deal with many of these ideas in greater detail can be found at <http://www.pathtofullemployment.org/full-employment-policy-proposals/>.

⁹⁷ Pavetti (2014). <http://www.pathtofullemployment.org/wp-content/uploads/2014/04/pavetti.pdf>

⁹⁸ Lower-Basch (2011). <http://www.clasp.org/resources-and-publications/publication-1/Big-Ideas-for-Job-Creation-Rethinking-Work-Opportunity.pdf>

⁹⁹ Some proposals in this space also seek to address family instability. But while studies typically find a strong relationship between family instability and negative outcomes for children, research often fails to address the issue of alternate or reverse causality. In other words, family instability may be a product or just a correlate of the conditions that contribute to reduced economic opportunity. Programs aimed at inducing changes in family structure have also been largely ineffective (see <http://economix.blogs.nytimes.com/2014/01/20/the-limits-of-marriage-as-a-path-out-of-poverty/>). Our focus should therefore remain on areas where robust evidence suggests we can successfully lower barriers of opportunity for families of all types: residential segregation, educational access, inequality of outcomes, and poverty.

¹⁰⁰ <http://www.nelp.org/page/-/SCLP/2014/Wild-West-Employment-Background-Checks-Reform-Agenda.pdf?nocdn=1>. As Emsellem and Ziedenberg (2015) note in a forthcoming paper, the number of individual records in the National Employment Law Project's survey of state criminal record repositories is actually much higher than this number, but NELP conservatively reduced it by 30 percent to account for potential duplication caused by people with criminal records in multiple states or deceased individuals whose records have not been removed.

¹⁰¹ Mitchell and Leachman (2014). <http://www.cbpp.org/cms/index.cfm?fa=view&id=4220>

¹⁰² Mitchell and Leachman (2014). <http://www.cbpp.org/cms/index.cfm?fa=view&id=4220>

¹⁰³ A comprehensive meta-analysis from RAND (2014; see http://www.rand.org/content/dam/rand/pubs/research_reports/RR200/RR266/RAND_RR266.pdf) found significant positive effects for these programs. The "higher-quality studies" RAND examined "found that, on average, inmates who participated in correctional education programs had 43 percent lower odds of recidivating than inmates who did not." RAND researchers also looked at employment. While they only had one "higher-quality" study of employment to examine and were thus limited in their ability to draw conclusions, they found in an examination that included lower-quality studies that people who in prison had participated in either education or vocational programs were 13 percent more likely to find employment than those who hadn't. They found the strongest effect for vocational training. While RAND believes more research is needed to determine exactly what types of programs are most effective, its research strongly suggests that education and training programs for inmates "far exceed the break-even point" in terms of cost-effectiveness.

¹⁰⁴ The National Employment Law Project (NELP) has a series of excellent recommendations for reforms to both the FBI's system (see <http://www.nelp.org/page/-/SCLP/2013/Report-Wanted-Accurate-FBI-Background-Checks-Employment.pdf?nocdn=1>) and the system that applies to private background check companies (see <http://www.nelp.org/page/-/SCLP/2014/Wild-West-Employment-Background-Checks-Reform-Agenda.pdf?nocdn=1>).

¹⁰⁵ <http://www.nelp.org/page/-/SCLP/2014/Seizing-Ban-the-Box-Momentum-Advance-New-Generation-Fair-Chance-Hiring-Reforms.pdf?nocdn=1>

¹⁰⁶ http://www.nelp.org/page/-/SCLP/2014/Guides/NELP_Research_Factsheet.pdf?nocdn=1

**UP:
EXPANDING OPPORTUNITY
IN AMERICA**

SCOTT WINSHIP

MANHATTAN INSTITUTE FOR POLICY RESEARCH

EXECUTIVE SUMMARY

Despite the absence of cooperation and consensus in Washington, widespread agreement has emerged that federal policy should focus on expanding opportunity. The goal calls for an agenda to increase economic growth rates in order to move everyone up. But even with a rising tide that lifts all boats, policies to expand opportunity must help more low-income children transcend their origins and make it into the middle class. The agenda outlined here is addressed to this second task: increasing the upward mobility of poor children.

“Opportunity” means that one’s birth circumstances do not impede the pursuit of one’s American dream. Today, children raised in poverty have only a 40 percent chance of making it into the middle class as adults. Moving more poor children up is a moral imperative for the nation. But it is not obvious how to do that, and past approaches have failed.

Some proposals offered today are likely to prove equally unsuccessful because they misdiagnose the problem of immobility as stemming from rising income inequality and because they presume that what we have tried before will work if we just fund it more generously. A successful program for improving opportunity will take seriously how little we know about how to achieve that goal. It will recognize that different actors in efforts to help the poor have particular strengths that are suitable for specific roles. Increasing upward mobility will require acknowledging that simple financial incentives are often more effective than planned social programs, and that ill-designed safety-net programs can do as much or more to impede mobility as they do to promote it.

The opportunity agenda elaborated in this paper would promote upward mobility without increasing deficits by:

- Creating an Opportunity, Evidence, and Innovation Office (OEIO) in the White House to fund and evaluate hundreds of local mobility experiments and an Opportunity Advisory Commission (OAC) to make budgeting recommendations to Congress. These bodies would help discover and promote successful local approaches to expand opportunity and to dismantle ineffective federal programs that waste taxpayer dollars;
- Supporting through the OEIO a number of specific innovative and promising approaches to expanding opportunity. Among these would be early-childhood interventions, reorganization of high schools with high drop-out rates, and vocation-oriented learning communities within high schools;
- Sending a dozen safety-net programs to the states to promote experimentation and localization while requiring work and time limits for most—but not all—beneficiaries;
- Incentivizing work by reforming the Earned Income Tax Credit into an expanded work subsidy available to all low-income workers;
- Incentivizing delayed, planned, and marital childbearing by making the Child Tax Credit much more generous to married parents without making it less generous to single parents;
- Reforming the Social Security Disability Insurance program to promote work among able-bodied men and women while continuing to support impaired men and women; and
- Providing the legal clarification and guidelines to spark the creation of investor markets to finance higher education, hold schools and programs accountable, and support new competitors to incumbent colleges and universities.

INTRODUCTION

Washington is not known as “Consensus City.” Yet the last few years have seen the emergence of widespread agreement across the ideological spectrum that economic opportunity should be at the center of federal policymaking. These days, it doesn’t matter if you’re on the left, on the right, or in the center; the direction that matters is up.

A modern opportunity agenda should have two goals. First, it should seek to increase upward mobility into the middle class among poor children. This will be the topic of the current paper. Second, an opportunity agenda should try to make more families more prosperous, wherever they start out and wherever they end up in the ranks as adults. Elaborating a growth agenda is left as a task for the future.

Our safety-net policies have succeeded in reducing poverty to a greater extent than is often appreciated.¹ But they have failed to increase the upward mobility of poor children—and through their work, marriage, and savings disincentives, these policies may even have prevented upward mobility. Nor have federal policies related to early-childhood; to primary, secondary, and postsecondary education; or to workforce development proved effective at moving low-income children into the middle class.

It is tempting to conclude that the federal government should get out of the business of mobility promotion, or that it should do nothing more than dismantle counterproductive policies. But anyone so tempted should first ask a fundamental question: What do we owe poor children who do not choose the circumstances into which they are born?

Rather than shrug and lament that there’s nothing we can do, it is worth persisting and considering that perhaps the problem is how we have tried to increase mobility in the past. Yuval Levin, one of today’s foremost conservative intellectuals, has put it well:

The overwhelming fact about [the nation’s] half century of intense and costly efforts to combat entrenched poverty is that they have not worked.... That means we do not have an answer that can be put into effect using the resources and power of the government. Rather, those resources and that power can enable experimentation with different approaches by different public and private providers of services and aid throughout the country.... Experimentation is what you do when you do not know the answer.²

There remains a moral obligation to poor children to experiment—to leverage the federal government’s strengths so that the nation may discover how to expand opportunity.

The opportunity agenda proposed here is based on four principles. First, an opportunity agenda must reflect epistemological modesty—“the knowledge of how little we know and can know.”³ We lack the knowledge necessary to rank-order specific barriers to upward mobility in terms of importance, to order by effectiveness policy solutions addressing any one barrier, and to rank these policies in terms of political feasibility. We especially lack the knowledge required to identify the optimal set of proposals that simultaneously account for these three dimensions. The proposals below acknowledge this problem by promoting state and local experimentation to affect mobility-enhancing behavior and to spend safety-net dollars in a way that better facilitates mobility.

Second, an opportunity agenda should leverage the strengths of different types of actors. The principle of subsidiarity calls for interventions to occur at the smallest and most local level that is practical. The proposals here emphasize state and local roles, where knowledge specific to particular communities is greatest. But they also envision clear responsibilities at the federal level. The federal government would fund state and local

experimentation to ensure that mobility promotion is a national priority, and it would facilitate knowledge transfers between states and localities. The safety net would also continue to be largely financed through federal spending, ensuring that poor states are as able as others to support families at the bottom and that the safety net remains robust during economic recessions. The proposals also rely more expansively on private markets, where they are likely to be more effective than government policy.

A third principle is that clear financial incentives rather than social programs may be the most successful means available to government—especially at the federal level—for changing behaviors that impede mobility. The policies here eschew programs to increase work and marriage and reduce out-of-wedlock childbearing in favor of financial carrots and sticks that steer people toward such mobility-promoting behavior.

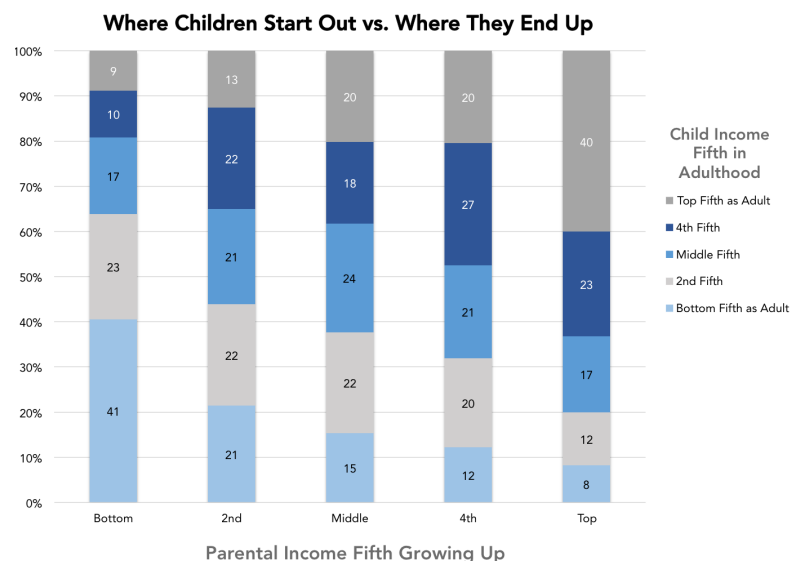
Finally, the opportunity agenda here is based on the principle that government programs often have unintended consequences that impede upward mobility. In some regards, government should be smaller rather than bigger, less generous rather than more so, if it seeks to enhance mobility.

As will be seen, these principles derive from evidence about what has and has not worked in the past and about what has and has not impeded the mobility of poor children. But the agenda here does not pretend to know definitively what will work in the future. We need to try something new.

THE STATE OF UPWARD MOBILITY IN AMERICA TODAY

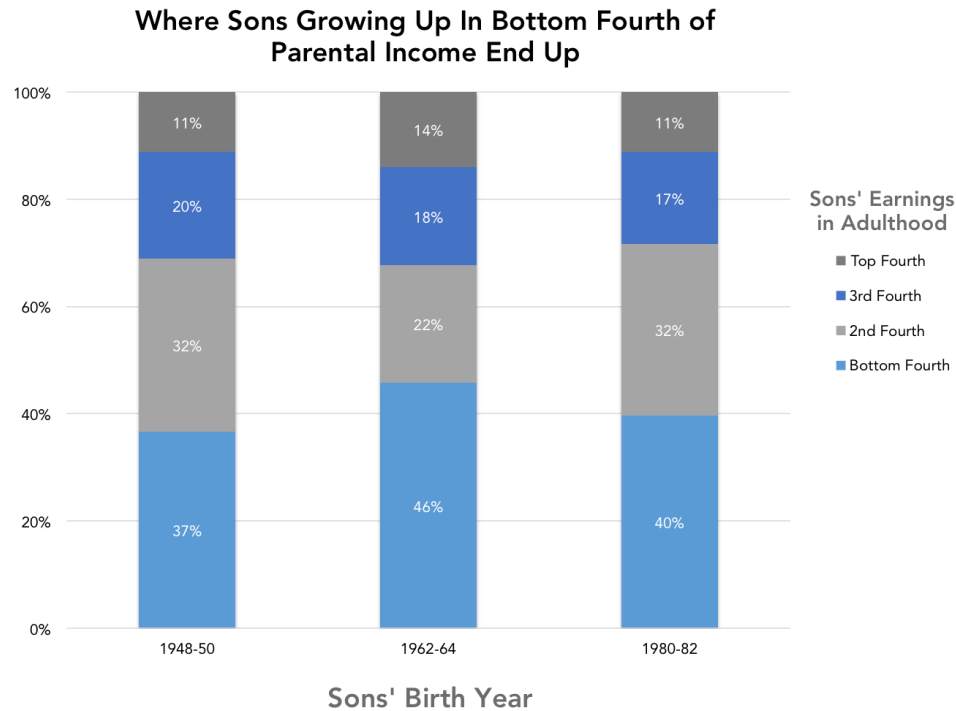
A straightforward way to assess upward mobility rates is to divide adults into fifths based on their household income and to do the same based on their household income growing up. In a world in which family background bears no relationship to where children end up, 20 percent of adults who were raised in the poorest fifth of families would remain in the poorest fifth of adults, 20 percent would end up in the next-poorest fifth, and so on, so that 20 percent would end up in each fifth of the adult income distribution. The same would be true of adults who grew up in the middle class or who had affluent parents.

In reality, about 40 percent of children who grow up in the poorest fifth of families have incomes in adulthood that place them in the bottom fifth. In other words, remaining “stuck at the bottom” is twice as likely as it would be if family background didn’t matter. Less than 40 percent of poor children make it into the middle fifth or higher as adults—a figure that would be 60 percent if family background were irrelevant.⁴



Source: Author’s computations from the National Longitudinal Survey of Youth 1979.

The evidence suggests that there has been remarkably little change in upward mobility over the past three generations.⁵ Equally surprising, while past research on income and earnings mobility has indicated that the U.S. has less upward mobility than our peer countries, new evidence suggests that we may have upward earnings mobility rates no worse than Sweden or Canada and not much worse than the other Scandinavian countries.⁶ Occupational mobility rates in the U.S. have also been comparable with those in other countries.⁷



Source: Author's computations from the National Longitudinal Surveys.

In the telling of many observers, however, upward mobility is uniquely crippled in America and becoming more so, largely because of rising income inequality. The appendix of this report explores these questions. It finds ample reason to think that mobility could remain unchanged in the next generation. It also finds little support for the view that economic inequality is an important factor affecting upward mobility, and the agenda proposed below reflects this perspective.

There are many other inequalities between rich and poor children besides income disparities; the ultimate sources of income inequality are likely to also be important sources of immobility. They are likely to be similar today as in the past, which is consistent with flat immobility in the presence of great societal and economic change.

The seven proposals below are premised on the likelihood that the deeper sources of immobility that also underlie income inequality are of fundamental importance. To an extent greater than most researchers are willing to admit, we do not have nearly enough knowledge to know what the most important sources of immobility are, let alone what the most effective ways to combat them are. The proposals here acknowledge this ambiguity. They seek to discover effective mobility-promoting programs, to extend the lessons of past safety-net overhauls that appear likely to be mobility-increasing, and to try out a new approach to financing higher education that would inject accountability into postsecondary schools.

PROPOSAL 1: WAGE WAR ON IMMOBILITY THROUGH AN OPPORTUNITY, EVIDENCE, AND INNOVATION OFFICE AND AN OPPORTUNITY ADVISORY COMMISSION

A HISTORY OF CENTRALIZED, INEFFECTIVE, AND UNACCOUNTABLE SOCIAL PROGRAMS

One approach to increasing opportunity is to design social programs to directly intervene in the lives of parents or children in order to change their skills, behavior, values, or attitudes. Most obviously, public primary and secondary schooling is intended to develop child knowledge and skills that will pay off in adulthood. Unfortunately, we know astonishingly little about how to increase the upward mobility of low-income children through social programs.⁸ It is not difficult to understand why. For decades, we have funded programs micromanaged from Washington, based on uniquely successful local efforts. These federal programs have almost invariably proved unable to replicate the success of the original initiative on a national scale. We rarely have evaluated these programs rigorously—and when we have, they routinely (on the order of nine out of ten times) have shown little to no impact on outcomes related to opportunity.⁹ We then have failed to hold unsuccessful programs accountable by eliminating them.

PRIORITIZING UPWARD MOBILITY WHILE DEMANDING RESULTS

A nation committed to expanding opportunity would devote much more attention and resources to discovering what local strategies successfully change the skills, behaviors, and values of disadvantaged children and their parents. Fortunately, under the Obama administration's Office of Management and Budget (OMB), a transformation of opportunity-promotion efforts in the direction of evidence-based policymaking has begun to take hold.¹⁰ The proposal here would propel this transformation further.

Specifically, it would create an Opportunity, Evidence, and Innovation Office (OEIO) within the White House and an independent congressional agency, the Opportunity Advisory Commission (OAC), to advise Congress on mobility policy. The idea for an OEIO draws on Brookings Institution senior fellow Richard Reeves's clarion call for an Office of Opportunity to measure mobility and progress toward increasing it and to assess policy proposals for their impact on mobility.¹¹ But the office proposed here would have three other responsibilities.

First, and most important, the office would fund and evaluate an array of demonstration projects and other efforts at the state and local levels. Currently, a number of programs across the government fund demonstrations, award competitive grants, or provide targeted funding to institutions for specific mobility-related purposes. Most of them would be moved into the OEIO—in particular, the Social Innovation Fund (SIF, currently in the Corporation for National and Community Service), the Investing in Innovation Fund (i3, currently in the Department of Education), the School Improvement Grants initiative (also in the Department of Education), and the Workforce Innovation Fund (Department of Labor). The Obama administration's Office of Social Innovation and Civic Participation, which birthed the SIF and i3 programs, has not been very active in this area since, and it would be displaced by the OEIO.¹²

But the OEIO budget for funding demonstrations would be substantially higher than the combined sum of the various programs that exist today. The proposal here would spend \$20 billion every year to fund and evaluate hundreds of state and local demonstrations and projects. In so doing, it would operationalize the recommendation of entrepreneur and social scientist Jim Manzi that the federal government commit to the widespread use of randomized controlled trials to evaluate policy experiments and base policy priorities on evidence.¹³

Within the OEIO, different grant-making programs would rely on different approaches. For instance, today's SIF leverages private contributions and nongovernmental grant-makers to fund nonprofit organizations via public dollars matched by nongovernment sources. Its Pay for Success program awards grants to intermediaries for the purpose of structuring "social impact bond" arrangements. Social impact bonds are a funding model in which private funds are secured for some public purpose and bondholders are repaid contingent on the funded activity producing defined benefits and public savings. The current Investing in Innovation Fund awards competitive grants to school districts and nonprofits working with them to improve student outcomes. It relies on three tiers of funding to support proposals with varying levels of evidence underlying the activities to be funded.

Importantly, the OEIO evaluation efforts would not simply identify whether certain approaches "work" but would identify, within a given approach to mobility promotion, what the grantees that are successful or unsuccessful do differently. A model for this kind of research is provided by Harvard economist Roland Fryer, who has intensively studied what successful charter schools do.¹⁴

The second responsibility of the OEIO would be to work with OMB to promote evidence-based policymaking in existing programs run by federal agencies. To this end, the OEIO would produce reports highlighting the evidence in favor of or against different approaches and specific programs. The efforts of the OEIO and OMB on this front would be strengthened by improved integration of and access to data sources across the federal government. A bill introduced last year by Congressman Paul Ryan and Senator Patty Murray would create a commission to explore this issue, which would make recommendations on ways to better measure the outcomes of federal policies and to evaluate them.¹⁵

Third, the OEIO would provide information to policymakers, organizations, and social entrepreneurs about promising and unpromising approaches to expanding opportunity, and it would create opportunities for these stakeholders to learn from one another's work. Most of the responsibilities of the Institute of Education Sciences, which conducts and funds research on education policy effectiveness and disseminates the results, would be moved into the OEIO, and the activities of this group would be expanded to address mobility-related policy areas outside education. Through reports and conferences, the office would explore mobility-related policies where there is limited scope for federal involvement, including those related to occupational licensing, residential zoning, sentencing and incarceration, and concentrated poverty.

The OAC would focus on evaluating for Congress existing and future federal programs that ostensibly seek to increase upward mobility. The OAC would make recommendations to Congress, via annual reports, about which programs should be eliminated, cut, expanded, or adopted. It would rely on existing evidence from outside and within government (including the results of the OEIC's demonstration projects and its other informational resources). The OAC could identify programs that were not being rigorously evaluated and for which little relevant evidence exists and recommend the passage of legislation to impose stronger evaluation requirements on such programs.

Funding for the OEIO and the OAC would come from part of the savings from reforming the Social Security Disability Insurance program (see below).¹⁶ Over the long run, it is probable that the OEIO and the OAC would reduce federal spending by providing the justification for cutting and eliminating ineffective programs. Those who would balk at the \$20 billion OEIO budget should keep this in mind, as much of the evidence that comes back from the demonstrations will likely show few to no program effects. Pressure to cut ineffective programs will also come from OMB and the OAC as evidence becomes an increasingly important criterion for budget decisions. In the long run, the likely effect of the OEIO and the OAC will be that the federal government funds far fewer programs but more effective ones.

PROPOSAL 2: EXPERIMENT WITH PROMISING AND INNOVATIVE APPROACHES TO MOBILITY PROMOTION

For a sense of the kind of demonstrations that the OEIO might fund, I offer several examples of programs, approaches, and models that have demonstrated initial success. In every case, the objective would be to change the behaviors and aspirations of low-income parents and their children in order to increase rates of upward mobility from the bottom.

TEXT-MESSAGING STRATEGIES SUCH AS READY4K!

Nearly all parents want to support their young children's learning to ensure that they are ultimately well prepared to enter school. Some, however, lack the knowledge and skills that others take for granted. There is ample evidence that inequalities in parenting are primary factors behind early-childhood cognitive disparities that produce later inequalities.¹⁷ The question is how to offer help to parents in a way that is inexpensive, practical, and minimally paternalistic.

One especially cost-effective approach is to take advantage of text messaging to provide information to mothers and fathers about effective parenting practices. In contrast to parenting programs that involve a small number of intensive face-to-face sessions, approaches based on text messaging offer continuous reinforcement and focus on small, actionable parenting tips. Cell phones and text-messaging plans are ubiquitous even among low-income families,¹⁸ and once the content of a program is developed, it subsequently has extremely low costs. This approach is also easily scalable and transferable, since it does not rely on implementation by especially skilled, invested, or dynamic staff. Most important, text-messaging approaches have been shown by rigorous evaluation to effectively improve parenting and child outcomes.

For example, the READY4K! program sent text messages to parents of four-year-olds in public San Francisco preschools three times a week, over eight months.¹⁹ The text messages were created by Ben York, a Stanford University graduate student in education, and his professor, Susanna Loeb, and follow a curriculum designed with California preschool standards in mind. They suggest actions as simple as, "When you're bathing your child, point out the letters on shampoo bottles. Ask your child to name them and tell you the sounds that they make."

Receipt of the texts increased the frequency of a range of literacy activities among parents, and it also increased parental interaction with preschool teachers. Child literacy test scores rose correspondingly, by 0.21 to 0.34 standard deviations, which suggests that the program could close 25 percent of the reading gap between poor and affluent children and half the gap between poor and middle-class children.²⁰

The overall cost of sending the messages? One dollar per family. Scaling the program up is as simple as adding an opt-in checkbox to preschool enrollment forms.

San Francisco has expanded the program to all its preschools and kindergartens. The creators of the program have added math-related texts to the program and are expanding it to 12 states in the next year. They plan evaluations in each state to assess more subtle aspects of the program, such as the frequency and timing of messages. They also plan to extend the program to younger children and to develop messaging to promote socio-emotional outcomes.

The success of the READY4K! program and its low cost suggest that children around the country would benefit from access to it or similar products. Text-messaging-based programs also have proved successful at reducing the "summer melt," whereby college-bound high school graduates fail to follow through and enroll, and at improving student outcomes by helping parents monitor their children's attendance and homework completion.²¹

LENA DEVICES TO ASSESS AND IMPROVE EARLY-CHILDHOOD LANGUAGE ACQUISITION

Research indicates that an important way that parenting matters for child outcomes is the amount that mothers and fathers talk with their children. A promising “talk pedometer” technology is now being leveraged in a variety of ways to help parents improve on this score.

A landmark study by Betty Hart and Todd Risley completed 30 years ago showed large gaps between lower- and upper-income families in the number of words and conversations that young children experienced at home.²² It found that the number of words and conversations predicted a child’s vocabulary growth and IQ better than parental education and their socioeconomic status.

The study was based on intense observation—but of only 42 children in Kansas. More recent research suggests that the “talk gap” may have been overestimated but still found that parents with at least a four-year college degree speak 24 percent more words to their two-year-olds than other parents do.²³ Another recent study discovered that language gaps are apparent in infancy. At 18 months of age, poor children process language 25 percent more slowly than better-off children.²⁴ Brain research, too, is corroborating the formative importance of spoken language in the early years.²⁵

Some of the latest research on the subject uses LENA (Language ENvironment Analysis) technology. LENA devices are worn by young children and record the words said by and near them by their parents and other caregivers. The resulting data are then uploaded to a computer, and dedicated software analyzes them to provide easy-to-digest feedback to parents about the number of words that their children hear and the extent of conversational interaction that takes place with them.

These LENA devices have been applied in different ways in a variety of interventions. In Rhode Island, the Providence Talks program pairs the devices with home visits by Early Head Start and other caseworkers. Participants receive personalized feedback and coaching tips from the caseworkers based on reports tallying words, conversational turns, and the amount of television exposure over the course of a day. The program is experimenting with giving cash transfers to parents, conditional on their meeting specified targets.

The LENA Research Foundation, meanwhile, has developed its own program, LENA Start, in recognition of the importance of developing affordable and scalable models that don’t require individual case management. LENA Start includes a curriculum for eight weekly group meetings by parents who are all using the LENA device, as well as a LENA mobile app and cloud-based access to data. It recently partnered with the San Mateo (California) County Library and Huntsville (Alabama) City Schools for its inaugural runs and expects to add more sites this fall.

The devices could be used by other local efforts to address the talk gap, tailored to their own objectives and priorities. The devices could be used to assess the quality of teaching and interaction in day-care centers and pre-K programs rather than being aimed at parents. Or perhaps a completely hands-off cash-for-talk approach might prove at least somewhat effective, where parents are simply given LENA devices and agree to share the data in order to assess whether any number of outcome targets have been attained, triggering a cash reward to the parents.

CONVERT LARGE SCHOOLS WITH HIGH DROP-OUT RATES INTO SMALL, PERSONALIZED SCHOOLS

In the early 2000s, New York launched a systemic, district-wide effort to reform its worst high schools, known as “drop-out labs.” Twenty-three large public schools that were failing their students were shut down and replaced with more than 200 new small schools, each with about 100 students per grade. The schools were organized around smaller, more personalized units, giving students a better chance of being known and noticed. They emphasized academic rigor, personal relationships between students and faculty, and community partnerships to provide learning opportunities outside the classroom. And they were open to all students.

In a study of more than 20,000 students enrolled in these new “small schools of choice,” MDRC, an evaluation firm that specializes in randomized controlled trial experiments, found that these schools had a number of large and sustained effects on student outcomes. High school graduation rates increased by 9.4 percentage points, and college enrollment rates grew by 8.4 percentage points.²⁶ These effects were experienced by almost all students, regardless of race or sex, and whether they were at or below grade level in math or reading. And they achieved these effects at a cost per graduate lower than in the high schools attended by control-group members, by 14 to 16 percent.²⁷ The savings came from higher graduation rates, resulting in fewer students needing to attend a fifth year of high school.

The schools were developed through a competitive proposal process designed to stimulate innovative ideas from a range of stakeholders. Most were founded with community partners that provided faculty with additional staffing support and resources during start-up and that now offer students learning opportunities inside and outside the classroom. The district contributed start-up funding (with support from philanthropy) as well as technical assistance to each of the small schools.

Providence, Rhode Island, recently announced that it was adopting the small schools of choice model, and the U.S. Department of Education just endorsed the approach for School Improvement Grant applications.²⁸

CAREER ACADEMIES

Career Academies offer a promising high school reform that has been widely adopted over the past 40 years but that could widen academic and vocational opportunities for many more students across the country. The approach provides vocational training to high school students organized into small learning communities (“academies”) within their high school. But unlike traditional vocational programs, Career Academies wrap a college-prep curriculum around a career theme, such as hospitality and tourism or health sciences. Students take courses tied to the theme alongside traditional academic instruction, applying English, math, and science within the thematic course work. Academies also establish partnerships with local employers and business associations to provide opportunities such as job shadowing, internships, and career awareness activities.

MDRC found that participation in Career Academies produced average earnings gains of 11 percent—over \$2,000 per year, sustained over eight years.²⁹ Among young men with a history of difficulty in the labor market, the increase was 17 percent on average, or \$3,700 per year. Career Academies also had strong effects on high school graduation and receipt of a postsecondary degree or credential. And young men were more likely to be married and to be custodial parents if they had children. While there are thousands of these programs around the country, just 5 percent of high school students have the opportunity to participate in a Career Academy.

PROPOSAL 3: BLOCK-GRANT MEANS-TESTED PROGRAMS AND SEND THEM TO THE STATES

Rather than try to directly change parents and children, the biggest federal social policy programs over the past 50 years have focused on giving the poor benefits such as cash, vouchers for food, payments to medical providers, and other forms of financial assistance. While these programs were not explicitly intended to increase upward mobility, many observers, commentators, and policymakers have assumed that they do because of the popular view that poverty itself is the primary cause of immobility. Not only is this belief questionable, the idea that antipoverty programs increase mobility must ignore the disincentives to engage in mobility-promoting behavior embedded in many safety-net programs.

The proposal here would extend the lessons of the 1990s welfare reforms to the rest of the federal safety net. It would promote independence and facilitate state experimentation and flexibility, and it would simplify the safety net by consolidating programs.

THE SAFETY NET BEFORE THE 1990s: ANTIPOVERTY PROGRAMS AS ANTI-MOBILITY PROGRAMS

The fact that poor children often end up poor as adults does not mean that poverty per se is particularly consequential for mobility. Able-bodied native-born parents with persistently low incomes tend to be poor for two reasons: they lack the skills and personal qualities sought by employers; and many experience family disruption. It is no imposition of judgment to recognize that parents lacking the personal assets that make for economic success will have a more difficult time inculcating mobility-promoting skills and personal qualities in their children.³⁰ It is not judgmental to conclude that mothers and fathers who have unplanned pregnancies are, in the aggregate, more likely than other parents to have values and aspirations that run counter to upward mobility, which then will tend to be passed on to their children.

If economic resources were what mattered for upward mobility, we would expect to see rising mobility over time because poverty has fallen. Official figures show that 17 percent of American children were poor in 1967 and that 22 percent were in 2012. But those figures fail to count income from most of the biggest antipoverty programs in determining who is poor.³¹ The calculation of the poverty line also results in a threshold that grows faster than the cost of living, so that it takes more and more inflation-adjusted income to be considered nonpoor.³²

Correcting the flaws in the official measure would show that child poverty declined from something like one-third to 19 percent over this period.³³ That improvement has come at great public expense. In 2011, the federal government spent \$750 billion on antipoverty programs. Per poor person, that amounts to more than a sixfold increase since 1968, after taking into account the higher cost of living.³⁴

However, most evidence indicates that intergenerational mobility has changed very little for adults in the past 40 years.³⁵ After spending about \$20 trillion at the state and federal levels since 1965 on antipoverty programs, we have improved the living conditions of untold millions of low-income children, but we have not increased the likelihood that they will reach the middle class as adults.³⁶

In fact, there are reasons to believe that our means-tested programs are an important part of the problem. Many federal safety-net programs include features that inadvertently discourage upward mobility. They lower the costs of having children out of wedlock at a young age, of reducing effort in school, and of choosing not to obtain additional education. Safety-net programs also create disincentives to work, save, and get or remain married.

THE MOBILITY-PROMOTING REFORMS OF THE 1990S AS A MODEL

During the 1990s, policy reforms changed the nature of the help that low-income Americans receive from the federal government and succeeded at reducing the anti-mobility features of the major cash assistance program (then called Aid to Families with Dependent Children, or AFDC; today called Temporary Assistance for Needy Families, or TANF). The welfare-reform legislation that passed in 1996—having been preceded by more modest reforms in 1988 and state experimentation during the early 1990s—made it more difficult to receive benefits and more unpleasant to stay on the rolls, by introducing time limits to receipt of benefits and imposing stringent work requirements. It block-granted welfare benefits, ending the entitlement of eligible families to assistance. Teenage mothers were required to live with an adult and be in school or a training program to receive benefits. States were given flexibility to impose other requirements on beneficiaries and to otherwise tailor their programs as they saw fit.

While federal support for nonworking adults became less generous in the 1990s, spending to support less-skilled workers became more generous. The Earned Income Tax Credit was expanded, the partially refundable Child Tax Credit was created, and spending on child-care programs was increased. The State Children’s Health Insurance Program was created to serve those ineligible for Medicaid because their incomes were too high.

Will this formula for antipoverty policy—more support for the working poor, less for the nonworking poor—increase upward mobility among poor children? We will not know for a few more years, as children who were born in the 1990s are no more than 25 years old. But there are strong reasons to think that welfare reform has expanded child opportunity and therefore that reform of other means-tested programs along the same lines would do so, too. As I have discussed elsewhere, the trends in income, poverty, employment, and out-of-wedlock births all improved in ways consistent with safety-net reforms having beneficial effects starting in the 1990s.³⁷

The problems with the old AFDC program remain in other means-tested programs today, some of which are bigger than TANF, AFDC’s replacement. Practically none of these programs have any work requirements or time limits. And the perverse incentives embedded in AFDC are compounded by the sprawling nature of antipoverty policies today. An array of programs, scattered across multiple agencies and each with its own rules and requirements, has left states with few options for untangling the knotted safety net through innovation and cross-program coordination. The expanded safety net has also pushed up the value of the package of benefits available to single-parent families. The Congressional Budget Office has noted that a single mother receiving \$20,000 in government benefits contemplating a job paying \$30,000 will be better off by less than \$10,000 if she chooses work.³⁸ There are income levels where earning additional dollars results in only ten cents more in discretionary income.

BUILDING ON WELFARE REFORM

Reforms to safety-net programs, then, that promote independence, state experimentation, and consolidation have the potential to increase upward mobility. Two leading approaches along these lines have been proposed: one by Senator Marco Rubio; and the other by Congressman Paul Ryan.

The Rubio proposal, modeled on a design developed by policy researcher Oren Cass, would package most or all antipoverty programs into a “Flex Fund” that would be sent to the states in proportion to their current spending, with few strings attached.³⁹ Rather than emphasizing work requirements, the Flex Fund would largely serve the nonworking poor, with wage subsidies for the working poor (see Proposal 4, below).

Ryan proposes a pilot program rather than a wholesale overhaul.⁴⁰ He would consolidate 11 means-tested programs—including TANF, food stamps, and the major public housing programs—and give states wide latitude over how the “Opportunity Grant” is spent (though less latitude than the Rubio proposal). Unlike the Rubio proposal, Ryan’s would mandate work requirements and time limits (except for the elderly and disabled). His plan would also require states to centrally involve nonprofit organizations and local service providers generally, giving low-income beneficiaries their choice of eligible providers for hands-on case management. The providers would develop life plans with beneficiaries and hold them accountable.

The proposal here would adopt elements of both the Rubio and the Ryan approach. Specifically, it would modify the Ryan approach in three ways. First, rather than a pilot project, the current proposal would (like Rubio’s) be intended to apply nationally. The reforms would be phased in over five years, with a number of state pilots initiated in the first year and monitored over the phase-in period to ensure that there are no unanticipated problems. It would automatically be expanded nationally after this phase-in period, barring legislation to repeal the legislation. During the phase-in, states that participate would have to abide by the Earned Income Tax Credit and Child Tax Credit reforms proposed below, which would also expand nationally after five years.

Second, this proposal would add the Supplemental Security Income (SSI) program as a 12th to be rolled into the block grant.⁴¹ SSI has been abused by states and families since welfare reform passed. States have moved families from TANF rolls—where they could make it more difficult to fulfill work participation requirements and where they must be partly supported by state funds—to SSI, which is almost entirely funded by the federal government and which has no work requirements. The absence of those requirements and of time limits makes SSI attractive to families who would otherwise have to rely on TANF.

As a consequence, a rising share of SSI cases involve children with diagnoses involving mental health and behavioral problems, such as attention deficit disorder, that are difficult to assess.⁴² Once in receipt of SSI, parents face perverse incentives in that strong or improved school performance can disqualify children from the program. And a sizable share of adolescents receiving SSI move directly onto Social Security Disability Insurance (SSDI) rolls upon reaching adulthood. Giving states full responsibility for what SSI currently funds would remove the incentives for them to shift families onto what is arguably today’s most mobility-inhibiting federal program.

The third modification to the Ryan proposal is that states would not be required to use local nonprofit service providers as frontline administrators; nor would administrators be required to create life plans for their clients. Allowing states to choose different approaches would provide valuable information about the value-added of the local-provider/life-plan strategy.

As with Ryan’s and Rubio’s proposals, this one would require states to spend block-granted dollars—amounting to roughly \$200 billion in appropriations in 2012—on the poor rather than diverting the funding elsewhere, and it would mandate that states develop success measures and evaluate their programs. It would also include a countercyclical element in that funds would be available to increase the size of block grants in the event that unemployment rises above a threshold.

Like the Ryan proposal, but possibly in contrast to Rubio’s, the current proposal would include work requirements and time limits. Such restrictions are essential as a way of overcoming the high marginal tax rates that discourage beneficiaries of means-tested aid from working. As with the 1996 welfare reform, states would be allowed to exempt a share of their caseloads from these requirements—in particular, the parents of children with substantial disabilities—and reductions in the size of their

caseloads would count toward the percentage of beneficiaries that must be engaged in work-related activity. It cannot be emphasized enough that some adults will be unable to secure stable employment—even in good economic times—and any work requirement or time limit should include exemptions to anticipate the problems of the most disadvantaged beneficiaries.

The proposal here would reduce real spending on the programs in question over time by holding the amount of block grants at fixed levels rather than letting them grow in line with projected increases in program spending. While critics claim that block-granting would result in inadequate funding for those in need, they fail to acknowledge the way in which the fixed TANF block grant—supplemented with countercyclical funding—produced more funds available per beneficiary, as welfare reform reduced the number of people on the rolls.⁴³ The same dynamic would likely occur with the new block grants; and if it did not, the pilot program could be ended and the critics would have firm evidence for their claims, which they currently lack.

PROPOSAL 4: ENCOURAGE EMPLOYMENT THROUGH WORK SUBSIDIES

As noted, demanding more of the nonworking poor was only half of the successful welfare-reform formula of the 1990s. The other crucial component was expanded work supports. The Earned Income Tax Credit (EITC), in particular, was enlarged substantially in President Clinton's 1993 budget. Further reforming safety-net programs along the lines above—if the well-being of low-income families is to be enhanced—would require more generous work supports as well.

Most of the relevant policy discussion today revolves around relatively modest expansions of the EITC for childless workers, a worthy objective that has generated bipartisan support. The proposal here would instead adopt an element of Senator Rubio's antipoverty plan and convert the EITC to a federal wage subsidy calculated by employers and delivered through paychecks.

The wage subsidy would be similar to the EITC in that it would increase as workers earn more, up to a threshold, and would decline with additional earnings above a second threshold. It would differ in that the same subsidy would be delivered to qualified workers regardless of whether they are married or have children. This would remove the disincentive to marriage in the current EITC, where a single mother stands to lose much or all of her EITC benefit if she weds. Additional support for parents would be delivered through the revamped Child Tax Credit (CTC), discussed below. The reformed system of wage subsidies would also significantly boost the pay of single men who are childless or do not have custody of their children. To the extent that the additional income makes many men better able, in the eyes of women, to contribute to their family's financial security, the elimination of the marriage penalty will make marriage that much more attractive.

By receiving the wage subsidy monthly, beneficiaries would be better able to integrate the additional amount into their budgets and would avoid the temptation to spend the money on big-ticket splurges at tax time. The subsidy would be paid out as a new reverse payroll tax, which would simultaneously eliminate the EITC fraud concerns that conservative lawmakers have emphasized and the necessity among many EITC recipients of getting paid help with their taxes to determine their eligibility for the credit.

The level of the new wage subsidy amounts and phase-in/-out parameters should be set so that the average worker receives roughly \$2,500. The average tax return claiming the EITC received a benefit of \$2,407 in 2013, and that incorporated payments for the support of children that would be incorporated

into the CTC proposal below.⁴⁴ Because of this and because the subsidies to single childless workers and to married couples would increase, the proposal here would be significantly more generous than the current EITC. I estimate that this reform would cost roughly \$40 billion more annually than the current EITC.⁴⁵ It would be funded through reduced spending from the block-grant proposal above.⁴⁶

PROPOSAL 5: ENCOURAGE DELAYED AND PLANNED CHILDBEARING THROUGH TAX INCENTIVES

With wage subsidies no longer reflecting the number of children a worker has, the proposal here would expand the CTC. However, it would do so by offering much greater support to married couples than to single-parent families. In so doing, it would incentivize delayed, planned, and marital childbearing without penalizing single parents. Since a large body of evidence suggests that stable intact families are crucial for upward mobility, reforming the CTC along these lines might be expected to expand child opportunity.⁴⁷

Under current policy, taxpayers qualify for a credit of up to \$1,000 per child, regardless of marital status. The credit phases out rapidly at upper incomes, and it is refundable for those with little to no income-tax liability (a credit worth 15 percent of earnings above \$3,000, up to \$1,000 per child). The new proposal would be to retain the CTC as is for single parents but to expand it significantly for married couples, particularly those with the lowest incomes. Specifically, couples filing jointly could receive up to \$4,000 per child, with the credit refundable as under current law. The phaseout would begin at the income level of the 20th percentile of married couples and would continue at a phaseout rate such that the credit reached \$0 at the same income level that it does today for joint filers.⁴⁸

The reformed CTC would create a significant incentive for low-income Americans to delay childbearing until marriage. In recent years, the biggest effort to affect marriage and childbearing was the expansion of marriage-promotion and responsible-father programs in the legislation reauthorizing welfare reform in 2002. The programs largely proved failures, and no one since has offered a new approach.

There is a lesson to be taken from the 1990s welfare-reform efforts to incentivize work. Through state and local experimentation, it eventually became clear that programs to teach hard and soft skills to welfare recipients, or to instruct them in résumé-writing and job-search strategies, were fairly ineffective. What worked better was demanding “work first”—that is, emphasizing that beneficiaries find a job and move off the rolls as soon as they could—and providing supports to women who made the leap to employment, through wage subsidies and health and child care benefits.

Often, what the federal government does best is not to create and administer programs that persuade people to change their behavior but to provide financial incentives to the same effect. There may be a place for marriage-promotion programs, social marketing campaigns, exhortations from the bully pulpit, and efforts to expand access to birth control; but a reformed CTC would be a clear and simple signal to low-income Americans: over a decade, being a married parent of two children would yield \$60,000 more than being a single parent.⁴⁹

This reform, I estimate, would cost \$60–\$70 billion annually.⁵⁰ It would be covered by means of savings from reforming Social Security Disability Insurance⁵¹ (see below); by reforming mandatory spending programs and tax provisions so that various parameters affecting eligibility, benefits levels, and tax brackets would be adjusted for the cost of living using the “chained Consumer Price Index” rather than the current adjustment;⁵² and by a variety of spending cuts.⁵³

PROPOSAL 6: REFORM THE SOCIAL SECURITY DISABILITY INSURANCE PROGRAM

The Social Security Disability Insurance (SSDI) program has dissuaded increasing numbers of able-bodied men and women from working, limiting upward mobility over adults' working years and, in some cases, eroding the work ethic of their children and those in their communities.⁵⁴ It has become easier to enroll in the program; once enrolled, few adults ever return to work. Reforming the program so that fewer people view it as attractive relative to low-wage work would thus promote upward mobility.

RISING WORKFORCE DROPOUT AMONG MEN—AND MORE WITH MEDICAL CONDITIONS?

In 1951, 97 percent of men between the ages of 25 and 54 either worked or looked for work.⁵⁵ By 1970, this "labor force participation rate" remained at 96 percent. But that slight drop would grow into a substantial one in subsequent years. In 2013, it stood at 88 percent. Most of these men were uninterested in working.⁵⁶ Between 1994 and 2006, among nonretired, nondisabled, working-age men who were not working or looking for work, the share who told government surveyors that they did not want a job rose from 56 percent to 73 percent, representing a historical high point. We can't determine how many out-of-the-workforce men generally—including the retired and disabled—wanted a job during this period, but in 1993, 70 percent said that they did not. Virtually the entire decline in labor force participation among working-age men between 1979 and 2006—two strong years in the business cycle—is attributable to an increase in the number of such men who are uninterested in a job.

The biggest reason for the growth in working-age men not in the labor force and not interested in a job was a corresponding rise in self-reported disability or sickness. The increase in disability accounted for about one-third of the decline in labor force participation between 1969 and 2013, over twice the decline accounted for by increases in keeping house and taking care of family, in going to school, or in retirement, which each explained 15 percent of the drop.⁵⁷

Consistent with this increase in self-reported disability, the percentage of Americans receiving federal disability payments rose from 3 percent in 1974 to 6.5 percent by 2010.⁵⁸ Much of the growth occurred after 1995, and nearly all of it from rising enrollment in SSDI. (The rest of it came from rising enrollment in the Supplemental Security Income program, which I propose including in the block grant proposed above.) The percentage of men receiving SSDI payments doubled between 1970 and 2010.⁵⁹

HOW SSDI BECAME AN ALTERNATIVE TO WORK FOR THE ABLE-BODIED

Aging and the increase in the Social Security retirement age can explain some of the rise in SSDI receipt, but no more than half.⁶⁰ And the health status of Americans has not worsened over these years. Instead, a variety of policy changes in the mid-1980s made it easier for out-of-work Americans with relatively minor health problems but major employment challenges to qualify for SSDI. A rising share of SSDI recipients has qualified for benefits only because they are deemed unable to do work given their age, education, and work experience, rather than because they have a well-defined impairment included in the Social Security Administration's elaborate listing. A rising share has also qualified as a result of difficult-to-confirm back problems or other "musculoskeletal" impairments or mental impairments such as anxiety or depression.

More and more SSDI applicants are rejected (twice) but then contest their initial denials in an administrative hearing, where more and more of them are represented by a lawyer. Those hearings involve no representation of the federal government's or the taxpayers' interests, save the judge, who must also represent the best interests of the applicant. Great deference is paid to the reports of the applicant's physician. The judges are under impossible time constraints. The result is that they overturn large majorities of the denials when applicants persist in having a hearing—over 79 percent of them in 2010.⁶¹

The evidence that a significant number of SSDI beneficiaries are actually able to work is overwhelming.⁶² Among adults who report a work limitation, fewer and fewer are working over time, and more and more are receiving SSDI benefits.⁶³ In theory, the rise in SSDI receipt could primarily reflect a collapse in demand for less skilled workers; but again, the rise in male labor force dropout is accounted for by an increase in men who do not want a job. And the last time that skeptics argued that work-promoting safety-net reforms would hurt those affected was during the 1990s welfare-reform debates, and the skeptics were wrong.

FIXING SSDI

I recently proposed a series of reforms to shore up the nearly insolvent Disability Insurance (DI) Trust Fund, reduce the growth of SSDI rolls, and make it more difficult for able-bodied adults to join the rolls and to remain eligible.⁶⁴ A short-term reallocation of the payroll tax would extend the solvency of the trust fund a few years, until the structural reforms take over.

Policy changes that would promote the creation of markets in private long-term unemployment insurance would give the long-term unemployed who are not impaired security against employment shocks. Experience rating of the DI payroll tax would be piloted. This reform would tie employers' payroll tax rate for DI to the use of SSDI by their employees, giving businesses incentives to prevent disability and rehabilitate and accommodate workers who become disabled.

Receipt of unemployment benefits prior to applying for SSDI would render an applicant ineligible for the program unless he could qualify on the basis of the SSA medical listings, and the same would be true of applicants who worked less than two-thirds of the time over the preceding six years. Applicants and beneficiaries qualifying on the basis of musculoskeletal or mental conditions would need to demonstrate that they had sought out treatment and were complying with therapy.

SSDI reform should also update and maintain the listing of jobs used to determine whether someone can perform any work, so that it reflects the greater prevalence of jobs with few physical demands compared with those 25 to 35 years ago. Attorneys and physicians advocating for patients should be held more accountable. The deference given the view of applicants' physicians should be lessened. Additional examiners, judges, and other staff should be hired to lessen the incentives to just move people through the application and appeals process.

Other reforms would include requiring the least severely impaired beneficiaries to reapply after three years and increasing full reviews of moderately impaired beneficiaries. SSDI benefits would be reduced at the early-retirement age of Social Security to what they would be if the beneficiary switched from SSDI to Social Security pensions. Funding would be provided to eliminate the 900,000-case backlog of beneficiary reviews. The cost-of-living adjustment for benefit increases would be switched so that inflation was not overstated.

PROPOSAL 7: UNLEASH INVESTOR MARKETS TO FINANCE STUDENTS' HIGHER EDUCATION

Higher education today is beset by a number of problems. Most obviously, the costs of attending college have skyrocketed. The average college's tuition and fees rose 2 to 2.5 times as much as after-tax income between 1979 and 2007 in two- and four-year public institutions and four-year private institutions.⁶⁵ This increase in higher-education costs is tempered, however, by the fact that gaps in median earnings by educational attainment have grown for both men and women, indicating that higher education represents an increasingly valuable investment.⁶⁶

More severe than affordability, however, is the problem of college preparedness, which results in many students dropping out of college before obtaining a credential, often with student debt that they are obligated to pay. Another issue in higher education is that schools face little accountability for poor outcomes for students. To four-year colleges and universities, upperclassmen are relatively expensive, since classes are smaller and more likely to be taught by tenured professors, and since many juniors and seniors live off campus. Freshmen and sophomores are cheaper for schools to educate. Schools thus have few incentives to address high dropout rates.

Our outdated system of credentialing is another problem. The types of credentials available through postsecondary pursuits are unduly limited, with an outsize emphasis on two- and four-year degrees from accredited schools. Institutions of higher learning face limited competition from innovators because students obtaining education services from nontraditional providers do not qualify for federal aid. It is unnecessarily difficult to assemble customized courses of study by combining classes—perhaps online ones—from multiple institutions. Incumbent colleges and universities thwart innovation by controlling the accreditation process.

Given limited competition and accountability, federal aid to college students in the form of grants, tax breaks, and student loan subsidies probably allows schools to raise their tuition and fees more than they otherwise could.

MARKETS IN HIGHER EDUCATION FINANCING TO THE RESCUE

Reforming the way the nation finances higher education could address nearly all these problems. The solution is to clear the way for markets in human capital investment. Senator Rubio and former congressman Tom Petri introduced legislation last year that would do just that, creating a legal framework for "income share agreements" (ISAs).⁶⁷

ISAs are contracts between students and investors whereby investors agree to a specific amount of financial assistance for higher-education expenses in exchange for a claim on a specific percentage of the student's future income for a specific number of years.⁶⁸ Just as entrepreneurs are willing to pay future dividends to shareholders in return for capital to invest in their businesses, many students would benefit from voluntarily paying "dividends" to "shareholders" to invest in their own human capital. As with shareholders in companies, investors in students' human capital would be able to buy and sell these contracts.

In addressing the major problems with higher education, ISAs would have many advantages over student and parental loans, the main alternatives to financing higher education for most students. In terms of affordability concerns, ISAs have all the benefits of the income-based repayment options available for some types of federal student loans. But they would help prevent students from borrowing more than makes sense, given their likely economic situation after college, and they would help students to borrow more if that made economic sense.

An important difference between student loans with income-based repayment and ISAs is that student loans are awarded without regard to a student's ability to pay, while ISAs will tend to have better terms if someone is likely to command relatively high earnings and worse terms if someone is not. For some people, it doesn't make sense to take on substantial debt if a person's chosen school or program of study is unlikely to result in sufficiently high earnings, or if the person will have trouble attracting enough pay, regardless of school or program. Not everyone should be in a four-year college, for instance. Investors who determine that someone will not be likely to command much pay if he pursues his preferred path will offer unfavorable terms if the person insists on following that path. In this way, ISAs will tend to direct students toward schools and courses of study that are likely to pay off in higher earnings, increasing upward mobility.

From the opposite side, students for whom it does make sense to seek out substantial debt or financing will benefit more from ISAs, too. Students who are good risks will have a relatively easy time securing ISA terms that provide the full financing they seek. In contrast, Stafford loans have caps on the amount that may be borrowed. Above those caps, students must rely on private loans or Parent PLUS loans, which impose greater risk on students and parents because they generally lack income-based repayment options.

The risk is particularly large for low-income students and their families, who often must borrow more than others. Poor students' future income levels may feel or be more uncertain than those of more advantaged students. If they experience periods of unemployment or low earnings, low-income students will tend to have less in the way of savings for a cushion (and may be less able to count on help from family). Not only will the greater risk facing low-income students tend to dissuade them and their families from taking on substantial debt; lenders may be unwilling to extend credit to low-income students or their parents on acceptable terms for fear that the borrowers may be unable to repay if they get into financial trouble.

In addition to addressing affordability, ISAs would be superior to student and parent loans as a way of holding schools accountable. Student and parental loans don't provide any signal to borrowers about how profitable their human capital investment is likely to be. Student loan interest rates bear no relationship to school quality. In the absence of such signaling, schools have less incentive to be as effective as possible at educating their students.

ISAs, on the other hand, would leverage market mechanisms to pressure schools to improve their effectiveness. Schools that persistently failed their students would become unpopular relative to effective schools. Investors would offer worse terms to students attending institutions that produce low-earning graduates (or that fail to graduate their students), and they would offer better terms to students choosing effective schools. The market "prices" would themselves convey information about school quality to parents and students that is missing or hard to come by today.

ISAs would also do a better job solving the competition problem than federal loans do. Since these loans are generally available only for students attending schools that have successfully applied to participate in the federal loan programs, which must be accredited by existing bodies, students seeking more innovative educational options have to resort to private loans to pay for educational expenses. ISAs would offer students terms to finance options that appear to be good bets. ISA investors will be willing to take on the risk of supporting innovation, while taxpayers will generally be averse to subsidizing students pursuing unorthodox avenues.

Finally, ISAs have the potential to rein in tuition inflation. The interest on many student loans is subsidized by the federal government, and Parent and Grad PLUS loans are unlimited up to the cost of attendance. These features of federal student loans contribute—along with the relative absence of accountability and competition—to ever-rising higher-education costs because colleges are less constrained in setting tuition than they would otherwise be. ISAs would force schools to compete with one another on price to a much greater extent than is required of them today. To the extent that they successfully supported innovative approaches to higher education that do not resemble today's two- and four-year colleges, competition on price would be even greater.

Miguel Palacios, Tonio DeSorrento, and Andrew Kelly have noted that for ISAs to catch on, more than legal clarification will be required.⁶⁹ They recommend imposing loan limits on the Parent and Grad PLUS programs to curb overborrowing and to carve out a space for ISAs to develop, modifying student loan policies in anticipation of interactions between loans and ISAs when students combine the two funding approaches, and increasing access to data on school and student outcomes to provide more information for investors to evaluate risks.

In addition, accreditation reforms would ensure that ISAs can maximally transform the higher-education landscape. As Congressman Paul Ryan's opportunity "discussion draft" noted: "Students who build a customized plan of study need some sort of credential to show employers they have learned the necessary skills."⁷⁰ Credentialing along these lines would aid ISA investors. The draft builds on reforms initially proposed by Senator Mike Lee. It calls for easing the process of Department of Education recognition of new accreditors and for allowing accreditation of individual courses rather than entire schools or programs, among other measures. The idea would be to allow students to assemble their own program of accredited courses to qualify for an accredited degree.

CONCLUSION: DON'T LOOK DOWN, BUT DON'T BACK DOWN

Efforts to promote upward mobility have proceeded for decades from the view that the American economy has failed the poor and the middle class. It follows from this premise that the federal government must therefore rely on centrally managed safety-net and entitlement programs that eschew markets, dynamism, and choice and deemphasize personal initiative, responsibility, and risk-bearing.

But while the rate at which our lives improve has slowed, the living standards of the American poor and the middle class are higher than at any time before the twenty-first century and not meaningfully lower than any point in the past 15 years. Upward mobility has not diminished; by some measures, the U.S. produces a comparable amount as its peer nations, despite relying less on government. An opportunity agenda that cannot recognize the strengths of the American economic system and views every aspect of it pessimistically is one that is doomed to prescribe overly interventionist solutions that sacrifice too much to counter threats that are far less serious than critics imagine.

Defenders of markets and decentralization, however, have largely ceded opportunity policy to the pessimists; consequently, the crisis view of economic opportunity is the dominant one in American public discourse. The insights and epistemological modesty of advocates of limited government are sorely needed today. But they must be melded with an acknowledgment that the inability of newborns to choose their birth circumstances requires a moral commitment to doing what is practical to help children born into disadvantage to rise out of it. We cannot simply shrug in the face of inequalities of opportunity that prove stubbornly resistant to intervention.

APPENDIX: IS THIS TIME DIFFERENT? WILL UPWARD MOBILITY FALL, AND HAS INCOME CONCENTRATION HURT MOBILITY?

To sidestep the large body of evidence showing minimal change in the mobility experienced by adults in recent decades, analysts like the political scientist Robert Putnam argue that today's children will nevertheless experience less mobility than previous generations by the time they are adults.⁷¹ There are certainly inequalities between poor and rich children that are growing. But those who point to the growth of gaps in indicators such as eating family dinners at the table have not demonstrated that these early inequalities between poor and rich children are significantly related to adult educational and economic outcomes.⁷²

The extent to which rising disparities between rich and poor children also widens inequalities in adulthood depends not only on whether the childhood and adulthood outcomes are related but on the extent to which having increasingly better childhood outcomes continues to benefit rich children as adults. For instance, additional parental income enjoyed by the child of a multimillionaire may produce only small advantages as compared with the income enjoyed by the child of a less affluent millionaire. Given already-large childhood disparities, further widening of those disparities need not lead to significant increases in adulthood inequality if the returns to having more of the childhood resource are small for high-income children.

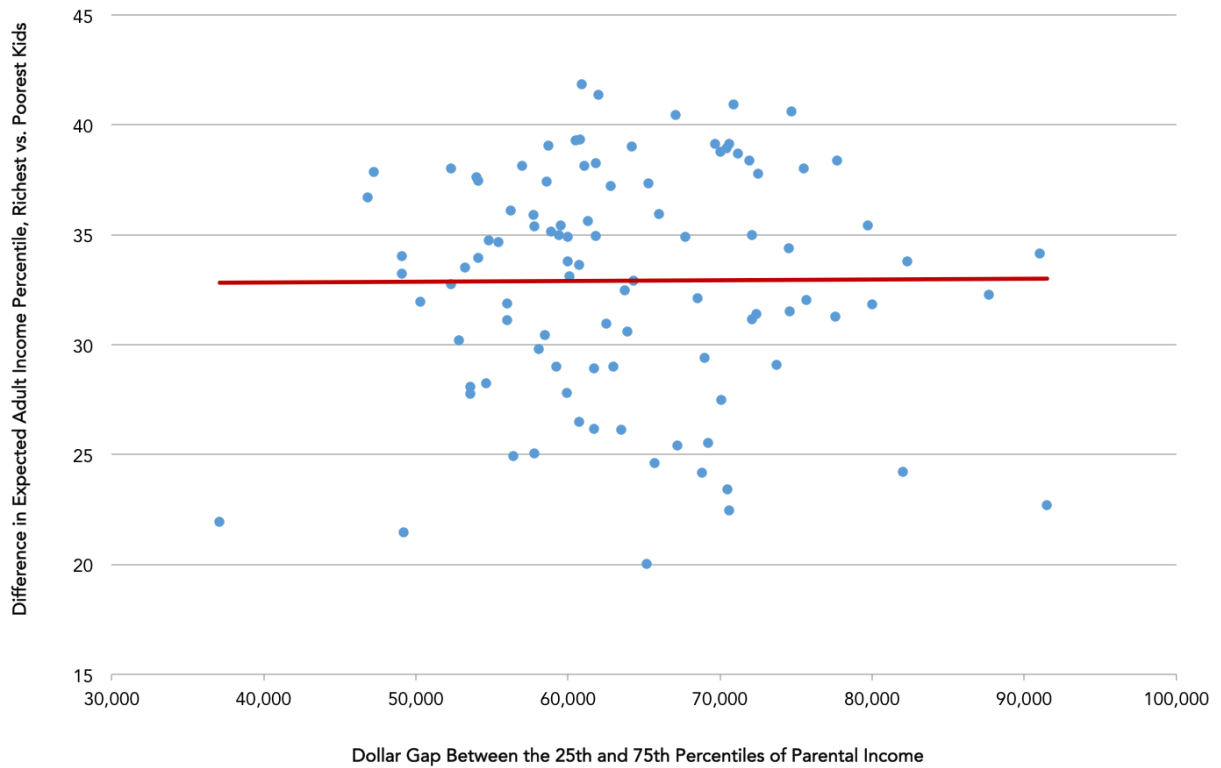
While some societal and economic changes might be expected to reduce upward mobility from the bottom, other disparities between rich and poor children have diminished. Exposure to lead paint is less common among poor children than in the past, and crime and drug use have fallen. Teen births have plummeted, and unplanned births have probably also declined. Racial discrimination has diminished. Parental educational attainment has risen. These are all barriers to mobility that affect the poor much more than they do other Americans.

Even where early inequalities have grown wider, it is often the case that both rich and poor children are doing better than in the past; it's just that the rich have seen bigger gains than the poor. This is the case for household income, for instance—child poverty has fallen significantly since the 1980s, but incomes at the top have increased much more. Inequality growth when everyone improves is fundamentally different from a situation in which the poor see deterioration.

The claim that “this time is different” and that upward mobility among today's children will be worse than in recent generations often highlights rising income concentration. But if rising income inequality is harmful to upward mobility, today's late-twentysomethings should already have experienced less mobility than previous generations because they experienced both widening income inequality between the poor and the middle class during the early 1980s, when they were very young and rising income concentration at the top throughout their childhood. But these young adults have experienced no less mobility than the past two generations.⁷³

This points to problems with accounts that link income inequality to lower mobility. Not only do the two not track each other well over time in the U.S.—mobility flat while inequality rises—but they don't track each other particularly well across countries or American labor markets.⁷⁴ The literature addressing whether higher inequality leads to lower mobility is wholly unconvincing, generally amounting to correlations that might easily be explained by other factors.⁷⁵ It is not even clear that increasing income at the bottom translates into meaningfully better outcomes above some relatively low threshold of poverty.⁷⁶

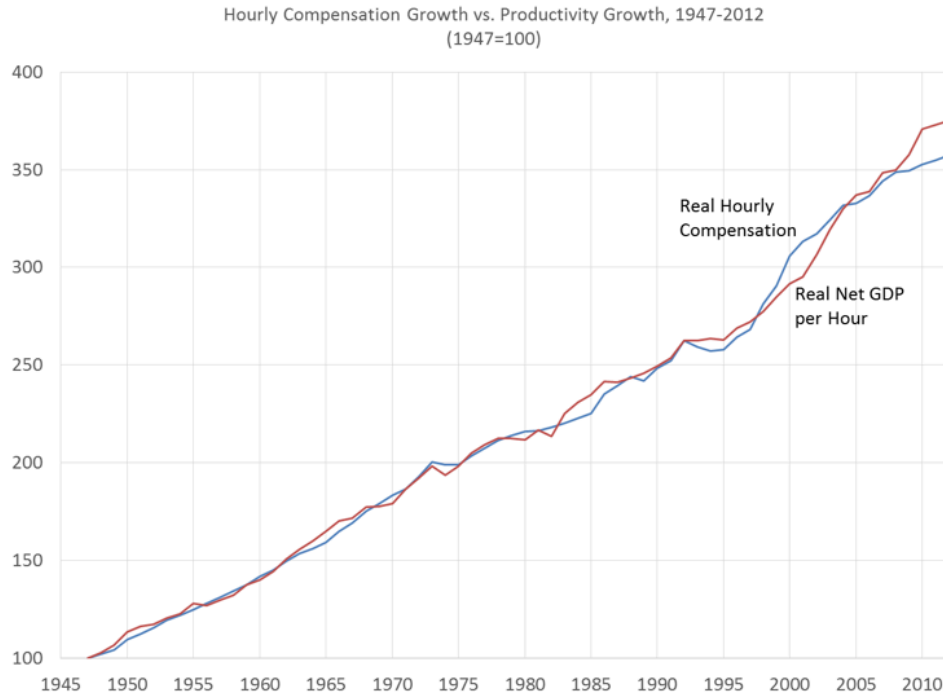
Across-the-Middle-Class Inequality vs. Relative Mobility Across 100 Largest U.S. Commuting Zones



Source: Donald Schneider and Scott Winship, "The Great Gatsby Curve Revisited, Part 1: Does More Inequality Correspond with Less Economic Mobility Across Local Job Markets?," 2013, <http://economics21.org/commentary/great-gatsby-curve-revisited-part-1>; analysis of data provided by Chetty et al. (2014).

Various analyses have concluded that rising income concentration has resulted in the poor and the middle class experiencing much slower income growth than they would have seen, but only by making two unacknowledged assumptions: that in the absence of rising income concentration, the economy would have grown by just as much as it has; and that inequality between the bottom half and the upper middle class would not have grown.⁷⁷

Ultimately, in evaluating changes in inequality, it is necessary to have a subjective benchmark of what is or would have been fair. Typically, observers and analysts concerned about inequality assert that the incomes of the middle class and the poor should grow at the same rate as their productivity. In fact, in the aggregate, compensation and productivity growth have tracked each other remarkably well when analyzed correctly.⁷⁸



Source: Author's analyses of Bureau of Economic Analysis National Income and Product Accounts data. See Scott Winship, "Has Inequality Driven a Wedge Between Productivity and Compensation Growth?," *Forbes.com*, October 20, 2014, <http://www.forbes.com/sites/scottwinship/2014/10/20/has-inequality-driven-a-wedge-between-productivity-and-compensation-growth>

What we do not know—because the data do not exist to tell us—is whether the compensation growth of poor and middle-class workers has tracked their own productivity growth. Consider, however, that the average pretax income in the top 1 percent of households in 1979 was 9.9 times the average in the middle fifth. By 2007, it was 28.4 times the average. The disparity between the two groups increased by a factor of 2.9 (28.4/9.9).⁷⁹ If the value added by those in the top 1 percent grew 2.9 times as much as the value added by those in the middle fifth over this period, then the rise in income concentration from 1979 to 2007 is exactly what we would expect.

Alternatively, the value added at the top may not have been fully reflected by the top's average income in 1979 because incentives for tax avoidance were much greater when top tax rates were higher or because cultural norms suppressed top incomes before eroding over time. For instance, during the mid-twentieth century, it was still a widely shared value that a male breadwinner should be able to support a family on one paycheck. That ideal, however imperfectly realized, reined in top incomes, to some extent, because middle- and working-class men received more than their productivity would have dictated. As the male breadwinner ideal eroded over time—weakened by the dramatic increase in wives' participation in the labor force—the restraint on top incomes diminished, and those incomes more closely came to reflect the value added of top managers and executives.

Indirect support for this interpretation of income-concentration trends is provided by corporate tax-return data, which show that the top 2 percent of corporations went from receiving roughly 84 percent of corporate income in 1979 to over 95 percent in 2007.⁸⁰ The top 1 percent of households saw their share of household income rise from 9 percent to 19 percent over the same period.⁸¹ Household income is much less concentrated than corporate income, but that was truer in 1979 than in 2007.

ENDNOTES

- ¹ Scott Winship, "Safety-Net Reforms to Protect the Vulnerable and Expand the Middle Class," in *Room to Grow: Conservative Reforms for a Limited Government and a Thriving Middle Class*, 58–64 (Washington, D.C.: YG Network, 2014), <http://ygnetwork.org/wp-content/uploads/2014/05/Room-To-Grow.pdf>.
- ² Yuval Levin, "The Mobility Crisis," *Commentary* 119, no. 3 (2015), <http://www.commentarymagazine.com/article/the-mobility-crisis>.
- ³ David Brooks, *The Social Animal: The Hidden Sources of Love, Character, and Achievement* (New York: Random House, 2011), p. 245.
- ⁴ Author's computations from the National Longitudinal Survey of Youth 1979 cohorts, based on a sample of 384 adults. Parental income is measured in 1978, when sample members were between the ages of 13 and 15 and their parents—either the father for male sample members with a father present, or the mother for female sample members and male members with no father present—were between the ages of 40 and 42. The income of sample members in adulthood is measured in 2005, when they were between the ages of 40 and 42. Both 1978 and 2005 were near-peak years in the business cycle.
- ⁵ Scott Winship, "Has Rising Income Inequality Worsened Inequality of Opportunity in the United States?," *Social Philosophy & Policy* (forthcoming). This is true not only if we rank parents and children by income or earnings but if we rank them by educational attainment or occupational status.
- ⁶ Scott Winship, "Does the United States Have Less Intergenerational Mobility than Its Peers?" (forthcoming). A recent paper by three economists, each analyzing his own country and coordinating their data choices and methodological decisions, found that the U.S. had no less upward earnings mobility among men than Canada or Sweden. See Miles Corak, Matthew Lindquist, and Bhashkar Mazumder, "A Comparison of Upward and Downward Intergenerational Mobility in Canada, Sweden, and the United States," *Labour Economics* 30 (2014): 185–200. Other recent studies indicate that one oft-cited paper comparing upward mobility in the U.S. with that in Scandinavian countries overstates the extent to which the U.S. lags behind them because the earlier study's estimate of American mobility is not methodologically comparable with those of the other nations. The study in question is Markus Jäntti et al., "American Exceptionalism in a New Light," IZA discussion paper no. 1938, Institute for the Study of Labor, 2006, <http://ftp.iza.org/dp1938.pdf>.
- ⁷ Emily Beller and Michael Hout, "Welfare States and Social Mobility," *Research in Social Stratification and Mobility* 24 (2006): 353–65; Robert Erikson and John H. Goldthorpe, *The Constant Flux: A Study of Class Mobility in Industrial Societies* (Oxford: Clarendon, 1992); and Janne Jonsson et al., "Occupations and Social Mobility: Gradational, Big-Class, and Micro-Class Reproduction in Comparative Perspective," in *Persistence, Privilege, and Parenting: The Comparative Study of Intergenerational Mobility*, ed. John Ermisch, Markus Jäntti, and Timothy Smeeding (New York: Russell Sage, 2011).
- ⁸ David B. Muhlhausen, *Do Federal Social Programs Work?* (Santa Barbara, Calif.: Praeger, 2013).
- ⁹ Jon Baron and Isabel V. Sawhill, "Federal Programs for Youth: More of the Same Won't Work," *Youth Today*, 2010, <http://www.brookings.edu/research/opinions/2010/05/01-youth-programs-sawhill>. A large randomized evaluation of Head Start, the nation's largest federal early-childhood program, found 16 positive effects out of 224 measured two and three years into the evaluation across two cohorts of children and two grade levels. That amounts to 7 percent of the outcomes. Only two outcomes out of 60 showed positive effects across more than one of the four cohort-grade combinations. These are not too far from the results that one would expect to find if Head Start had no effects at all; but through random chance, a few positive effects showed up each time the experiment was run. See Muhlhausen, *Do Federal Social Programs Work?*.
- ¹⁰ Ron Haskins and Greg Margolis, *Show Me the Evidence: Obama's Fight for Rigor and Results in Social Policy* (Washington, D.C.: Brookings Institution Press, 2014).
- ¹¹ Richard V. Reeves, "Planning the American Dream: The Case for an Office of Opportunity," Brookings Institution, 2014, http://www.brookings.edu/~media/research/files/papers/2014/05/planning_american_dream_office_of_opportunity_reeves/planning_american_dream_office_of_opportunity_reeves.pdf.
- ¹² The proposal here says nothing about what would happen to the national- and community-service activities of the Office of Social Innovation and Civic Participation, though they would be outside the OEIO.
- ¹³ Jim Manzi, *Uncontrolled: The Surprising Payoff of Trial-and-Error for Business, Politics, and Society* (New York: Basic Books, 2012).
- ¹⁴ Roland Fryer, "21st Century Inequality: The Declining Significance of Discrimination," *Issues in Science and Technology* 31, no. 1 (fall 2014), <http://issues.org/31-1/21st-century-inequality-the-declining-significance-of-discrimination>.
- ¹⁵ See <https://www.congress.gov/113/bills/s2952/BILLS-113s2952is.pdf>.
- ¹⁶ SSDI benefits, along with the Medicare benefits to which enrollees are entitled, cost the federal government just over \$210 billion in 2012. Scott Winship, "How to Fix Disability Insurance," *National Affairs* 23 (2015), <http://www.nationalaffairs.com/publications/detail/how-to-fix-disability-insurance>. If the OEIO and the OAC proposed here cost \$25 billion (an overstatement, since some existing spending would be rolled into the OEIO), then with the expanded Child Tax Credit proposed below (which would require about \$8 billion), SSDI reform would have to lower spending by $((25+8)/210=)$ 16 percent.
- ¹⁷ Richard V. Reeves and Kimberly Howard, "The Parenting Gap," Brookings Institution, 2013, <http://www.brookings.edu/~media/Research/Files/Papers/2013/09/09-parenting-gap-social-mobility-wellbeing-reeves/09-parenting-gap-social-mobility-wellbeing-reeves.pdf?la=en>.
- ¹⁸ Nine in ten parents in the U.S. own a cell phone, and three in four parents have sent or received a text message; see http://www.pewinternet.org/files/old-media//Files/Questionnaire/2010/PRC-IP_May%202010_Cellphone_toplevel_Roper.pdf and the crosstabs available for download at <http://www.pewinternet.org/datasets/may-2010-cell-phones>. In the San Francisco experiment discussed below, 80 percent of the parents had unlimited texting plans despite nearly all of them qualifying for financial assistance for preschool.
- ¹⁹ Benjamin N. York and Susanna Loeb, "One Step at a Time: The Effects of an Early Literacy Text Messaging Program for Parents of Preschoolers," NBER working paper 20659, 2014, <http://papers.nber.org/tmp/21468-w20659.pdf>.
- ²⁰ The gap between children in the lowest fifth of socioeconomic status and the highest fifth in the fall of kindergarten is 1.26 standard deviations, and the gap between the lowest fifth and the middle fifth is 0.59. See Greg J. Duncan and Katherine Magnuson, "The Nature and Impact of Early Achievement Skills, Attention Skills, and Behavior Problems," in *Whither Opportunity? Rising Inequality, Schools, and Children's Life Chances*, ed. Greg J. Duncan and Richard J. Murnane (New York: Russell Sage, 2011); online appendix table 3.A5, http://www.russellsage.org/sites/all/files/duncan_murnane_online_appendix.pdf.
- ²¹ Benjamin L. Castleman and Lindsay C. Page, "Summer Nudging: Can Personalized Text Messages and Peer Mentor Outreach Increase College Going Among Low-Income High School Graduates?," 2014, http://curry.virginia.edu/uploads/resourceLibrary/9_Castleman_SummerTextMessages.pdf; and Peter Bergman, "Parent-Child Information Frictions and Human Capital Investment: Evidence from a Field Experiment," 2014, <http://www.columbia.edu/~psb2101/BergmanSubmission.pdf>.
- ²² Betty Hart and Todd R. Risley, *Meaningful Differences in the Everyday Experience of Young American Children* (Baltimore: Paul H. Brookes, 1995).

- ²³ Jill Gilkerson and Jeffrey A. Richards, "The Power of Talk," 2nd ed., Infuture Technical Report ITR-01-2, 2008.
- ²⁴ Anne Fernald, Virginia A. Marchman, and Adriana Weisleder, "SES Differences in Language Processing Skill and Vocabulary Are Evident at 18 Months," *Developmental Science* 16, no. 2 (2013): 234–48.
- ²⁵ Jack P. Shonkoff and Deborah A. Phillips, eds., *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington, D.C.: National Academy Press, 2000); and P. K. Kuhl, "Early Language Acquisition: Cracking the Speech Code," *Nature Reviews: Neuroscience* 5, no. 11 (2004): 831–43.
- ²⁶ Rebecca Unterman, "Headed to College: The Effects of New York City's Small High Schools of Choice on Postsecondary Enrollment," MDRC, 2014, http://www.mdrc.org/sites/default/files/Headed_to_College_PB.pdf; and Howard Bloom, Saskia Thompson, and Rebecca Unterman, "Transforming the High School Experience," MDRC, 2010.
- ²⁷ Robert Bifulco, Rebecca Unterman, and Howard Bloom, "The Relative Costs of New York City's New Small Public High Schools of Choice," MDRC, 2014.
- ²⁸ Susan F. Lusi, "Innovative New Schools Will Help Providence Students," *Providence Journal*, March 19, 2015, <http://www.providencejournal.com/article/20150319/OPINION/150319220>.
- ²⁹ Jim Kemple, "Career Academies: Long-Term Impacts on Work, Education, and Transitions to Adulthood," MDRC, 2008.
- ³⁰ Brink Lindsey, *Human Capitalism: How Economic Growth Has Made Us Smarter—and More Unequal* (Princeton, N.J.: Princeton University Press, 2013).
- ³¹ These programs include Medicaid, Medicare, the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), the Earned Income Tax Credit (EITC) and Child Tax Credit, and housing assistance.
- ³² Scott Winship, "Actually, We Won the War on Poverty," *POLITICO Magazine*, January 24, 2014, http://www.politico.com/magazine/story/2014/01/war-on-poverty-conservatives-102548_full.html#.VQkG2I54qmg.
- ³³ Winship, "Safety-Net Reforms to Protect the Vulnerable and Expand the Middle Class."
- ³⁴ *Ibid.* This estimate defines the poor as the bottom fifth of Americans. These figures exclude spending on Social Security retirement, spousal, survivor, and disability benefits, and they exclude spending on Medicare, unemployment compensation, and workers' compensation.
- ³⁵ Scott Winship, "The Dream Abides: Economic Mobility in America from the Golden Age to the Great Recession" (forthcoming); Raj Chetty et al., "Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility," NBER Working Paper no. 19844, 2014, http://obs.rc.fas.harvard.edu/chetty/mobility_trends.pdf; Robert T. Reville, "Two Essays on Intergenerational Earnings and Wage Mobility" (Ph.D. diss., Brown University, 1996); Mary Corcoran, "Mobility, Persistence, and the Consequences of Poverty for Children: Child and Adult Outcomes," in *Understanding Poverty*, ed. Sheldon H. Danziger and Robert H. Haveman (New York and Cambridge, Mass.: Russell Sage Foundation and Harvard University Press, 2001); David I. Levine and Bhashkar Mazumder, "Choosing the Right Parents: Changes in the Intergenerational Transmission of Inequality—Between 1980 and the Early 1990s," Federal Reserve Bank of Chicago working paper 2002–08, 2002, http://www.chicagofed.org/digital_assets/publications/working_papers/2002/wp2002-08.pdf; Angela R. Fertig, "Trends in Intergenerational Earnings Mobility in the United States," *Journal of Income Distribution* 12 (2003): 108–30; Yunju Nam, "Is America Becoming More Equal for Children? Changes in the Intergenerational Transmission of Low- and High-Income Status," *Social Science Research* 33 (2004): 187–205; Susan E. Mayer and Leonard M. Lopoo, "Has the Intergenerational Transmission of Economic Status Changed?," *Journal of Human Resources* 40, no. 1 (2005): 169–85; David J. Harding et al., "The Changing Effect of Family Background on the Incomes of American Adults," in *Unequal Chances: Family Background and Economic Success*, ed. Samuel Bowles, Herbert Gintis, and Melissa Osbourne Groves (New York and Princeton, N.J.: Russell Sage Foundation and Princeton University Press, 2005); Tom Hertz, "Trends in the Intergenerational Elasticity of Family Income in the United States," *Industrial Relations* 46, no. 1 (2007): 22–50; Chul-In Lee and Gary Solon, "Trends in Intergenerational Income Mobility," *Review of Economics and Statistics* 91, no. 4 (2009): 766–72; and Deirdre Bloome and Bruce Western, "Cohort Change and Racial Differences in Educational and Income Mobility," *Social Forces* 90, no. 2 (2011): 375–95.
- ³⁶ Winship, "Safety-Net Reforms to Protect the Vulnerable and Expand the Middle Class."
- ³⁷ Scott Winship, "Will Welfare Reform Increase Upward Mobility?" *Forbes.com*, 2015, <http://www.forbes.com/sites/scottwinship/2015/03/26/will-welfare-reform-increase-upward-mobility>.
- ³⁸ Congressional Budget Office (CBO), "Effective Marginal Tax Rates for Low- and Moderate-Income Workers," 2012, <http://www.cbo.gov/sites/default/files/11-15-2012-MarginalTaxRates.pdf>.
- ³⁹ Oren Cass, "The Height of the Net," *National Review* 65, no. 19 (2013), <http://www.nationalreview.com/article/367805/height-net-oren-cass>.
- ⁴⁰ U.S. House Budget Committee Majority Staff, "Expanding Opportunity in America: A Discussion Draft from the House Budget Committee," 2014, http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf.
- ⁴¹ In addition to SSI, the other programs rolled into the block grant would include TANF, the Supplemental Nutrition Assistance Program (SNAP), Section 8 Tenant-Based Rental Assistance, Section 8 Project-Based Rental Assistance, Public Housing Operating and Capital Funds, the Community Development Block Grant, the Child Care and Development Fund, the Low Income Home Energy Assistance Program, WIA Dislocated Workers Program, Section 521 Rural Rental Assistance Payments, and the Weatherization Assistance Program.
- ⁴² Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Strategy for Change* (Washington, D.C.: AEI Press, 2011).
- ⁴³ Scott Winship, "Would a Block-Granted Safety Net Mean Less Aid to Families?," *Forbes.com*, 2014, <http://www.forbes.com/sites/scottwinship/2014/07/31/would-a-block-granted-safety-net-mean-less-aid-to-families>.
- ⁴⁴ See <http://www.etc.irs.gov/EITC-Central/eitcstats>.
- ⁴⁵ Providing \$2,500 to all 42 million workers between the ages of 20 and 59 who are below 200 percent of the poverty line would cost \$104.2 billion, whereas we spend roughly \$63 billion on the EITC, for a net increase of roughly \$40 billion. This is a rough estimate for several reasons. On the one hand, not all workers below twice the poverty line would receive benefits, and not all workers who would be recipients would receive \$2,500. On the other hand, additional people would be induced into the workforce, some people above 200 percent of the poverty line would receive benefits, and some people below twice the poverty line would get more than \$2,500. The number of workers below different thresholds was estimated from the "CPS Table Creator" feature on the Census Bureau website (<http://www.census.gov/cps/data/cpstablecreator.html>). The EITC estimate is the annual average of outlays from 2015 to 2024, from OMB (<https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/teb2016.xls>).
- ⁴⁶ CBO has estimated that block-granting SNAP, SSI, and several child nutrition programs would save \$400 over ten years. Appropriations for the programs included in

the block grant proposed here were 38 percent higher in FY2012 than the appropriations for the programs in the CBO estimate, and \$400 billion times 1.38 equals \$550 billion. See <https://www.cbo.gov/budget-options/2014/49517> for the CBO estimates and http://budget.house.gov/UploadedFiles/War_on_Poverty_Full_Inventory.xlsx for appropriations on individual programs in FY12.

⁴⁷ Sara McLanahan, Laura Tach, and Daniel Schneider, "The Causal Effects of Father Absence," *Annual Review of Sociology* 39 (2013): 399-427.

⁴⁸ Because this phaseout rate would result in a smaller credit for married filers than for single filers at higher income levels, once the credit level equaled that for single filers, it would continue to equal the single-filer level until the latter fully phases out.

⁴⁹ Note that single parents would still qualify for the same CTC that they receive today; the marriage bonus would not be a single-parenthood penalty. That said, because the EITC would no longer increase with the presence and number of children, the net effect would be to transfer some financial support from working single parents with multiple children to single childless adults and married parents. Some will object to this shuffling of funds, but it mirrors the direction of welfare reforms since the 1990s, which have redistributed between the nonworking poor and working poor—in the process, making work more common relative to nonwork. The intent here would be the same: to offer relatively less support to single parents with multiple children in order to make marital parenting more common.

⁵⁰ Under my proposal, the bottom fifth of married filers would receive the full \$4,000 credit. I would then phase it out linearly until the top fifth of married filers would receive nothing. I roughly estimated the phaseout for current joint filers with one child as beginning at the 62nd percentile and ending at the 65th, using Tax Policy Center estimates to convert \$110,000 and \$130,000 into percentiles (see <http://www.taxpolicycenter.org/numbers/Content/PDF/T13-0162.pdf>). I computed the multiple whereby the phased-out \$4,000 credit would exceed the current \$1,000 phased-out credit, separately for the bottom fifth of married filers and for the upper four-fifths. I then applied these factors to the ten-year cost of today's current-policy CTC for the bottom fifth and top four-fifths of married filers to compute the total cost of the reformed CTC.

To get this ten-year cost, I first estimated a ten-year current policy baseline for 2016–25. The projected current-law cost of the CTC is \$176 billion, which accounts for the expiration in 2018 of the lowered earnings threshold before the refundable part of the credit can be computed (lowered from \$10,000 to \$3,000 under current policy; see <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/teb2016.xls>). Next, I added the ten-year cost of extending the expiring provision, which amounts to \$90 billion over ten years, to get the ten-year current policy baseline of \$266 billion (see http://crrb.org/sites/default/files/analysis_of_cbo_pb_reest_fy_2016.pdf). Finally, I apportioned the ten-year cost to the bottom fifth of married filers, the top four-fifths of married filers, and single filers. I assumed that everyone—whether in the bottom fifth of married filers, the top four-fifths of married filers, or single filers—is equally likely to have a given number of children. Table 1.3 from the IRS's Individual Income Tax Returns 2012 report (Publication 1304; see <http://www.irs.gov/pub/irs-soi/12inalcr.pdf>) indicates that in 2012, married filers accounted for 73 percent of CTC credit amounts, and I applied this to the current-policy ten-year total and gave one-fifth of the amount to the bottom fifth of married filers and four-fifths to the other married filers. I gave 27 percent of the current-policy total to single filers. Under the specific parameters described here for amounts and phaseout levels and rates, the ten-year cost of this proposal is the current-policy cost multiplied by 2.46.

The results indicated a total cost of \$654 billion over ten years, and adding the cost of extending the expiring provision (\$90 billion) and subtracting the current-law projection of \$176 billion yields a net cost of about \$570 billion. This estimate actually assumes that the reforms have no effect on marriage, thereby underestimating their cost. It also underestimates the cost of providing the CTC to upper-income married filers because it does not adjust the phaseout so that it coincides with the phaseout for single filers once the two intersect, as described in the text. This projection assumes that the earnings threshold for the refundable part of the CTC stays at \$3,000; it also assumes that the credit limit of 15 percent of earnings for the refundable part rises to 60 percent (four times 15).

⁵¹ SSDI benefits, along with the Medicare benefits to which enrollees are entitled, cost the federal government just over \$210 billion in 2012; Winship, "How to Fix Disability Insurance." If the OEIO and the OAC proposed above cost \$25 billion (an overstatement, since some existing spending would be rolled into the OEIO), then with the expanded Child Tax Credit proposed here (which would require about \$8 billion), SSDI reform would have to lower spending by $((25+8)/210=)$ 16 percent.

⁵² Using the chained CPI to update thresholds and benefits in mandatory spending programs would save \$182 billion over ten years, and using it for tax parameters would save \$150. See <https://www.cbo.gov/budget-options/2014/49530> and <https://www.cbo.gov/budget-options/2014/49576>.

⁵³ The Child and Dependent Care Tax Credit would be repealed. Rather than privilege some forms of child care over others or two-worker families over those with a stay-at-home parent, better to offer greater support in the form of the CTC and let parents spend or not spend the dollars on child care, as they see fit. The repeal would save \$49 billion over ten years. See <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/teb2016.xls>. Amtrak subsidies would be eliminated, and highway funding would be reduced. Several farm subsidies would be reduced or eliminated. Other savings would come from limiting malpractice torts and charging certain user fees on businesses. On Amtrak subsidies and highway funding, which would raise \$14 billion and \$82 billion over ten years, see <https://www.cbo.gov/budget-options/2014/49555> and <https://www.cbo.gov/budget-options/2014/49552>. On reductions in agriculture subsidies, which would save \$51 billion, see <https://www.cbo.gov/budget-options/2014/49501>; <https://www.cbo.gov/budget-options/2014/49503>; and <https://www.cbo.gov/budget-options/2013/44739>. Tort reform would save \$68 billion (<https://www.cbo.gov/budget-options/2014/49640>), and various user fees would raise \$21 billion (<https://www.cbo.gov/budget-options/2014/49567>).

⁵⁴ The discussion of disability reform draws heavily from Scott Winship, "Nice Non-Work if You Can Get It," *National Review* 67, no. 1 (2015); and *idem*, "How to Fix Disability Insurance."

⁵⁵ Bureau of Labor Statistics, "Labor Force Statistics Including the National Unemployment Rate" database, <http://www.bls.gov/cps>.

⁵⁶ Winship, "Nice Non-Work if You Can Get It." The estimates in this paragraph were computed by the author, using the May supplements to the Current Population Survey and the Annual Demographic Supplements.

⁵⁷ *Ibid.*

⁵⁸ Burkhauser and Daly, *The Declining Work and Welfare of People with Disabilities*, figure 1-1.

⁵⁹ Mark Duggan, "Understanding and Projecting the Rise in SSDI Enrollment," presentation at the conference "Disability Insurance: Inherent Problems, Practical Solutions, and Action for Reform (Part 1)," April 12, 2013, slide 6, http://www.aei.org/wp-content/uploads/2013/04/mark-duggan-presentation-41213_153901116574.pdf.

⁶⁰ Winship, "How to Fix Disability Insurance."

⁶¹ See http://www.ssab.gov/Publications/Disability/GPO_Chartbook_FINAL_06122012.pdf, chart 9.

⁶² Winship, "How to Fix Disability Insurance."

⁶³ Burkhauser and Daly, *The Declining Work and Welfare of People with Disabilities*, table 1-1.

⁶⁴ Winship, "How to Fix Disability Insurance."

⁶⁵ Author's computations using data on the cost of tuition and fees from the College Board (see <http://trends.collegeboard.org/college-pricing>) and Current Population Survey microdata for income trends. I compare nominal educational cost with nominal income. Income is after taxes, includes cash and noncash transfers except for health

insurance (but includes employer-provided health insurance), and is size-adjusted.

⁶⁶ Author's computations using data on median earnings of full-time workers between the ages of 25 and 34 from the College Board (see <http://trends.collegeboard.org/sites/default/files/education-pays-2013-source-data-02272014.xls>). I adjust the medians to nominal dollars and then readjust them using the personal consumption expenditures deflator. For women, the median rose by 1 percent for workers with just a high school diploma, by 11 percent for workers with an associate's degree or some college, and by 35 percent for those with at least a bachelor's degree. For men, the changes are -19 percent, -7 percent, and 17 percent.

⁶⁷ See <https://www.congress.gov/bill/113th-congress/senate-bill/2230>.

⁶⁸ This discussion draws on that in Miguel Palacios Lleras, *Investing in Human Capital: A Capital Markets Approach to Student Funding* (Cambridge: Cambridge University Press, 2004); and Miguel Palacios, Tonio DeSorrento, and Andrew P. Kelly, "Investing in Value, Sharing in Risk: Financing Higher Education Through Income Share Agreements," American Enterprise Institute, 2014.

⁶⁹ Palacios, DeSorrento, and Kelly, "Investing in Value, Sharing in Risk."

⁷⁰ U.S. House Budget Committee Majority Staff, "Expanding Opportunity in America."

⁷¹ Robert D. Putnam, *Our Kids: The American Dream in Crisis* (New York: Simon and Schuster, 2015).

⁷² The following discussion draws from remarks I gave at a Brookings Institution Social Mobility Summit on January 13, 2014 (<http://www.economics21.org/commentary/slide-deck-equality-opportunity-and-economic-mobility>), and from Scott Winship, "The Dream Abides: Economic Mobility in America from the Golden Age to the Great Recession" (forthcoming).

⁷³ Winship, "The Dream Abides."

⁷⁴ Scott Winship and Donald Schneider, "The Collapse of the Great Gatsby Curve," 2014, <http://economics21.org/research/collapse-great-gatsby-curve>; and Donald Schneider and Scott Winship, "The Great Gatsby Curve Revisited, Part 1: Does More Inequality Correspond with Less Economic Mobility Across Local Job Markets?," 2013, <http://economics21.org/commentary/great-gatsby-curve-revisited-part-1>.

⁷⁵ Scott Winship, "Overstating the Costs of Inequality," *National Affairs* 15 (2013): 33–49.

⁷⁶ Susan E. Mayer, *What Money Can't Buy: Family Income and Children's Life Chances* (Cambridge, Mass.: Harvard University Press, 1996).

⁷⁷ Scott Winship, "Did Inequality Rob Middle-Class Households of \$18,000?," *Forbes.com*, January 15, 2015, <http://www.forbes.com/sites/scottwinship/2015/01/13/did-inequality-rob-middle-class-households-of-18000>.

⁷⁸ Scott Winship, "Has Inequality Driven a Wedge Between Productivity and Compensation Growth?," *Forbes.com*, October 20, 2014, <http://www.forbes.com/sites/scottwinship/2014/10/20/has-inequality-driven-a-wedge-between-productivity-and-compensation-growth>.

⁷⁹ Congressional Budget Office (CBO). "The Distribution of Household Income and Federal Taxes, 2011," 2014, <https://www.cbo.gov/publication/49440>.

⁸⁰ See <http://www.irs.gov/pub/irs-soi/07coccr.pdf> and <http://www.irs.gov/pub/irs-soi/1979cosbar.pdf>. In 1979, the top 2.1 percent of corporate income-tax returns received 84 percent of income subject to tax. In 2007, the top 1.7 percent received 95 percent of income subject to tax.

⁸¹ CBO, "The Distribution of Household Income and Federal Taxes, 2011."