



Statement Prepared for the Joint Economic Committee Hearing on

“Increasing Economic Opportunity For African Americans: Local Initiatives that are Making a Difference”

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*The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.*

## 1. Introduction

Economic mobility refers to the ability of an individual or a family to improve their economic status, either within a lifetime or across generations. It is a reflection of economic opportunities available to parents and their children as they attempt to move up the income ladder. A new study by Pew Charitable Trusts defines upward mobility as the extent to which children can rise above their parents' position relative to their peers.<sup>1</sup> It concludes that 71 percent of individuals whose parents were in the bottom half of the income distribution improved their rankings relative to their parents. However, only 45 percent of them experienced improvements relative to their parents' ranking that were significant. Further, only 38 percent of individuals who started in the bottom half of the distribution made their way to the top half as adults.

The differences in economic mobility across demographic groups are striking as well. Men have a greater likelihood to move up the income ladder (41 percent) than do women (27 percent). The increases in income experienced by women are less likely to place them 20 percentiles higher relative to their parents' position, than for men. Finally, women at all income quintiles are much more likely to fall down to the bottom quintile than are men.

Amongst all races, economic mobility is of particular concern for African-Americans. African-Americans experience significantly less upward economic mobility compared to whites. Forty-four percent of blacks in the bottom quintile stay there into adulthood compared to just 25 percent of comparable whites. A large majority of blacks born in the bottom half of the income distribution are likely to exceed their parent's place in the income distribution, but only 35 percent improve their relative position by 20 percentiles or more, less than the nearly 50 percent statistic for whites.

Economic mobility is highest for white men, followed by white women, black men and, last of all, black women. These findings are echoed in Hertz (2005) who finds that blacks are 30 percentage points more likely to remain in the bottom quarter of the income distribution relative

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<sup>1</sup>Bhashkar Mazumder, "Upward Intergenerational Economic Mobility in the United States" (The Pew Charitable Trusts, Economic Mobility Project, [2012](#))

to whites.<sup>2</sup> A study by the Economic Mobility Project of the Brookings Institution also finds more downward mobility for blacks than for whites from the middle of the distribution.<sup>3</sup>

Moreover, it appears from other studies that economic mobility in America on the whole is stagnating. Using tax record data for individuals born between 1971 and 1993, Chetty et al. (2014) conclude that, for the most part, intergenerational mobility has not changed significantly over time.<sup>4</sup> For example, children born in 1971 who had parents in the bottom fifth of the income distribution had an 8.4 percent chance to reach the top fifth of the income distribution themselves, compared with a 9 percent chance for similar children born in 1986.<sup>5</sup> Several studies have also found that mobility in the U.S. is significantly lower compared to other developed countries (e.g., Bjorklund and Jantti 1997, Jantti et al. 2006, Corak 2013).<sup>6</sup>

From a policy perspective, understanding the causal mechanisms for upward economic mobility is extremely important.<sup>7</sup> In this testimony, I highlight the factors that are highly correlated with economic mobility with a particular focus on how these factors apply to African-Americans. I then offer several policy suggestions that could address some of these challenges based on an extensive review of the literature on this topic.

## II. Correlates of Mobility

In general, studies such as Chetty et al. (2014) identify five broad factors that are important for mobility.<sup>8</sup> The strongest correlate of mobility is family structure, which is defined as the prevalence of single parents in an area. Chetty et al. also find a strong negative correlation between standard measures of racial and income segregation and upward mobility. Not

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<sup>2</sup> Tom Hertz, “Rags, Riches, and Race: The Intergenerational Economic Mobility of Black and White Families in the United States” in Samuel Bowles, Herbert Gintis, and Melissa Osborne Groves, eds. *Unequal Chances: Family Background and Economic Success* (2005)

<sup>3</sup> Julia B. Isaacs, “Economic Mobility of Black and White Families” (The Brookings Institution, Economic Mobility Project, 2007)

<sup>4</sup> Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez, “Where Is the Land of Opportunity?: The Geography of Intergenerational Mobility in the United States” (NBER working paper, 2014)

<sup>5</sup> Lee and Solon (2006) use a longer panel from the PSID and show that for cohorts born between 1952 and 1975, intergenerational mobility has not changed dramatically over the last two decades.

<sup>6</sup> Black and Devereux (2011) review recent papers on the topic as well as cross-country analyses. For example, the paper by Jantti et al. (2006) suggests that persistence is higher in the U.S. than in U.K. or Nordic countries.

<sup>7</sup> Bowles and Gintis (2002) conclude that IQ and educational attainment can explain at most three-fifths of the intergenerational transmission of earnings.

<sup>8</sup> Chetty et al. (2014)

surprisingly, education plays an important role too. The paper finds that moving from the lowest-income to highest-income parents increases the college attendance rate by 67.5 percentage points, similar to estimates reported by Bailey and Dynarski (2011) using survey data. This suggests that much of the divergence in outcomes between children from low vs. high income families emerges well before they enter the labor market. In general, areas with higher test scores, lower dropout rates and smaller class sizes have higher rates of upward mobility. Social capital indices (Putnam, 1995), which reflect the strength of social networks and community involvement in an area, are also very strongly correlated with mobility.

In the following section, I address how each of these factors is particularly relevant for the African American community and provide some policy suggestions for addressing these challenges.

### III. Challenges and Policy Suggestions

#### III.A. Addressing segregation issues

Segregation, both by race and income, is an important factor influencing economic mobility. Chetty et al. (2014) find that upward economic mobility is lower in areas with large African-American populations. Racially segregated areas have especially lower levels of upward mobility. Compounding this problem is the fact that areas with larger African-American populations also exhibit greater income segregation. Further, blacks are far more likely than whites to live in areas of concentrated poverty.<sup>9</sup>

Living in isolation from high and middle income families has negative effects on low-income and minority families. In particular, many studies find that blacks who live in segregated metropolitan areas have lower educational attainment and lower earnings than their counterparts who live in more integrated areas.<sup>10</sup> One reason for this is that poor and minority communities do not have the benefit of interacting with peer groups that may be more likely to believe in the advantages of good schooling or may be able to provide guidance and networks for finding employment. Second, income segregation leads to poor funding for local public schools that predominantly serve low-income children. Finally, segregation is also an issue when individuals

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<sup>9</sup> Alemayehu Bishaw, "Areas With Concentrated Poverty: 2006-2010" (United States Census Bureau, American Community Survey Briefs, [2011](#))

<sup>10</sup> Leah Boustan, "Racial Residential Segregation in American Cities" (NBER working paper, [2013](#))

live in large, sprawled out areas and have long commutes to work. This affects their ability to match with good jobs and increases the cost of search for these jobs. Indeed, the paper finds higher upward mobility in areas with less sprawl.

In a recent paper, Boustan (2013) outlines three types of policies to overcome the problems of residential segregation: place-based, people-based and indirect. Place-based policies seek to improve the housing stock of poor or minority neighborhoods to encourage in-migration of more affluent households. Ellen (1999) advocates using “community betterment projects” in black neighborhoods, such as improving school buildings, reducing crime rates, or investing in neighborhood infrastructure, to encourage integration.<sup>11</sup> However, survey results suggest that these place-based policies may not be effective.

People-based policies help individual home-buyers or renters gain access to existing neighborhoods. These policies involve lending to low-income borrowers regardless of the characteristics of the neighborhoods in which they are purchasing a home. This approach is typified by the Community Reinvestment Act of 1977. Friedman and Squires (2005) find that the CRA was moderately successful in reducing residential segregation.<sup>12</sup> Also, empirical studies suggest that housing vouchers, which moved African-American children out of public housing and into less distressed homes, had positive impacts on test scores. Experiments conducted in the cities of Baltimore and Chicago were particularly successful in this regard, though there were cases where such experiments had no impact.<sup>13</sup>

Indirect policies aim to combat the consequences of residential segregation rather than the root causes. To this end, these policies include extending public transit routes into poor areas (Holzer, Quigley, and Raphael 2003) or, as suggested by Raphael and Stoll (2001), subsidizing car ownership to connect black neighborhoods to job opportunities.<sup>14 15</sup>

Others have proposed investment in early childhood development and education to improve educational attainment, decrease reliance on welfare, and increase lifetime earnings,

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<sup>11</sup> Ingrid G. Ellen, *Sharing America's Neighborhoods: The Prospects for Stable Racial Integration* (Harvard University Press, 1999) noted in Boustan (2013)

<sup>12</sup> Samantha Friedman and Gregory D. Squires, “Does the Community Reinvestment Act Help Minorities Access Traditionally Inaccessible Neighborhoods?” (University of California Press, 2005)

<sup>13</sup> Julia Burdick-Will and Jens Ludwick, “Neighborhood and Community Initiatives” (NBER volume titled “Targeting Investments in Children: Fighting Poverty When Resources are Limited”, 2010)

<sup>14</sup> Harry J. Holzer, John M. Quigley, and Steven Raphael, “Public transit and the spatial distribution of minority employment: Evidence from a natural experiment” *Journey of Policy Analysis and Management* (2003)

<sup>15</sup> Steven Raphael and Michael A. Stoll, “Can Boosting Minority Car-Ownership Rates Narrow Inter-Racial Employment Gaps?” (Brookings-Wharton Papers on Urban Affairs, 2001)

especially for low-income children.<sup>16</sup> However, the efficacy of Pre-Kindergarten programs is unclear.<sup>17</sup>

In a paper from earlier this year, my AEI colleague Abby McCloskey and I propose improving the human capital of disadvantaged city residents by introducing a greater degree of school choice.<sup>18</sup> In a recent paper, Hastings et al. (2012) find that school choice has significant and positive impacts on student test scores and attendance rates.<sup>19</sup> Their study focuses on charter and public schools in a district comprised primarily of minority and low-income children. The paper provides evidence that school choice programs raise test scores not just because students attend a better school, but also because offering choice improves student motivation and effort. For students who were assigned their first-choice schools, truancy rates declined by 21 percent for those entering high school and test scores improved significantly. Students in charter schools saw noticeable gains in reading and writing, while public magnet school students saw gains in reading and math. Even students who do not attend the charter schools seem to benefit from their existence. Homes, DeSimone, and Rupp (2003) find that charter school competition raised the composite test scores of both district schools and charter schools.<sup>20</sup>

The Harlem Children's Zone program in Harlem, New York combined charter schools with a web of community services designed to ensure that the social environment outside of school is supportive for children from birth to college graduation.<sup>21</sup> Under this program, charter schools were required to select students by lottery because the number of applicants exceeded the number of available slots for admission. The program was tremendously successful at increasing the achievement of the poorest minority children.

In a 2011 paper, Deming, Hastings, Kane, and Staiger studied the impact of a public school choice lottery in North Carolina on college enrollment and degree completion.<sup>22</sup> In 2002,

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<sup>16</sup> Albert Wat, "Dollars and Sense: A Review of Economic Analyses of Pre-K," (The Pew Charitable Trusts, Pre-K Now Research Series, [2007](#))

<sup>17</sup> Katherine A. Magnuson, Christopher J. Ruhm, and Jane Waldfogel, "Does Prekindergarten Improve School Preparation and Performance?" (NBER working paper, [2004](#))

<sup>18</sup> Aparna Mathur and Abby McCloskey, "Fostering Upward Economic Mobility in the United States" (American Enterprise Institute Economic Studies Series, [2014](#))

<sup>19</sup> Justine S. Hastings, Christopher A. Neilson, and Seth D. Zimmerman, "The Effect of School Choice on Intrinsic Motivation and Academic Outcomes" (NBER working paper, [2012](#))

<sup>20</sup> George M. Holmes, Jeff DeSimone, and Nicholas G. Rupp, "Do School Choice Increase School Quality?" (NBER working paper, [2003](#))

<sup>21</sup> Hastings et al. (2012).

<sup>22</sup> David J. Deming, Justine S. Hastings, Thomas J. Kane, and Douglas O. Staiger, "School Choice, School Quality, and Postsecondary Attainment" (NBER working paper, [2011](#))

the Charlotte-Mecklenburg school district implemented an open-enrollment scheme for public schools, ending the 30-year-old practice of busing students across the district to achieve racial desegregation. Under this scheme, students were guaranteed admission to their local public school but were allowed to rank their top three schools across the entire district. If these schools became overenrolled, the decision of who would attend would be made by lottery. Students from low-income and poorly performing high schools actively participated in the program and often chose higher-performing high schools over their neighborhood schools.

The authors found a particularly significant impact of school choice on girls; they responded to the chance of attending a better school with higher grades and increased enrollment in college-preparatory courses. Strikingly, girls who attended their first-choice school were 14 percentage points more likely to complete a four-year college degree.

Therefore, expanding school choice could, in the long-run, result in gains in economic mobility, particularly for minority communities.

### III.B. Labor Market Challenges

Black unemployment rates have been double that of whites consistently over the last fifty years, as per data compiled by Pew.<sup>23</sup> These unemployment rates have translated to high rates of poverty for African-Americans. Among racial and ethnic groups, African Americans have the highest poverty rate at 27.4 percent, followed by Hispanics at 26.6 percent and whites at 9.9 percent. 45.8 percent of young black children (under age 6) live in poverty compared to 14.5 percent of white children.<sup>24</sup>

A host of studies suggest that spatial mismatch is a big reason for lower employment among African-Americans. The idea of spatial mismatch is that blacks often live in areas where there is a scarcity of jobs. This would suggest that improving transportation options could ease access to jobs for blacks in areas with more job opportunities such as the suburbs. In a 2007 paper, Hellerstein et al. argue that spatial mismatch accounts for no more than a small role in lower black employment.<sup>25</sup> Instead, they find that even if blacks reside in areas that are dense with jobs

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<sup>23</sup> Drew DeSilver, “Black unemployment rate is consistently twice that of whites” (Pew Research Center, Fact Tank, [2013](#))

<sup>24</sup> Economic Policy Institute, The State of Working America, [Poverty Fact Sheet](#)

<sup>25</sup> Judith K. Hellerstein, David Neumark, and Melissa McInerney, “Spatial Mismatch or Racial Mismatch?” (NBER working paper, [2007](#))

at their skill level, these jobs are more likely to be held by whites, a phenomenon they call “racial mismatch.”

A host of active labor market policies are needed to get these unemployed back to work. Policy options include the use of wage subsidy programs, work-sharing arrangements, job placement services, an expansion of the EITC, and apprenticeship programs and training opportunities for teenagers and youth.<sup>26</sup> These policies can help match the long-term unemployed with good, productive jobs and help transition recent high school and college graduates into the workforce.

One labor market indicator that is strongly correlated with upward mobility is the teenage labor force participation rate. This could be because formal jobs directly benefit disadvantaged teenagers or because areas with good schools and other characteristics tend to have more teenagers working in the formal sector. About 33 percent of black teenagers and 25 percent of black youths between the ages of 16 and 24 are unemployed.<sup>27</sup> Since teenage and youth unemployment is highly likely to lead to lower incomes and fewer life opportunities, this is an urgent issue that needs to be addressed. Apprenticeship and training programs for youth have been shown to be effective at easing transitions of teenagers and disadvantaged youth to jobs. An example is the National Job Corps Study. The Job Corps program was designed to provide employment and training to disadvantaged youth and young adults. An overview of the program in Lalonde (2003) suggests that the program generated modest benefits though in the long-run the costs of the program tended to outweigh the benefits.<sup>28</sup>

A more market based approach would be to allow employers to develop customized job-training programs based on their needs. Such programs could be financed through state-based grants. A current experiment along these lines is the Wisconsin Fast Forward Initiative. The program allows employers to apply for grants for worker training, provided the employers hire the workers after they are trained. This enables employers to hire workers and provide them with the skills they need to be productive on the job. Such programs can be targeted more specifically at disadvantaged groups such as African-Americans.

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<sup>26</sup> For an overview of these policies, see Michael R. Strain, “A Jobs Agenda for the Right” (National Affairs, [2014](#)) and Aparna Mathur, “Statement Prepared for the Joint Economic Committee Hearing on Income Inequality in the United States” ([2014](#))

<sup>27</sup> From the [Bureau of Labor Statistics](#).

<sup>28</sup> Robert J. LaLonde, “Employment and Training Programs” (NBER volume titled “Means-Tested Transfer Programs in the United States”, [2003](#))



Certain federal and state government programs such as the Earned Income Tax Credit have been shown to have positive influences on economic mobility. This is not surprising since economists have consistently estimated that the EITC has a positive effect on the employment of single mothers and economically disadvantaged populations.<sup>29</sup> The Census Bureau estimates that the EITC lifted 5.4 million people out of poverty in 2010 alone. This also suggests that programs that incentivize work are likely to be far more successful than simple cash assistance programs in boosting incomes and mobility, primarily because people are able to earn for themselves and become productive participants in the labor market. Neumark and Wascher (2000) contend that the EITC is the most effective anti-poverty program in the U.S. compared to minimum wages or welfare.<sup>30</sup> Work by Dahl and Lochner (2008) and Duncan, Morris and Rodrigues (2004) find that EITC benefits positively influence the outcomes of children.<sup>31 32</sup>

Despite its success at encouraging work, the EITC has some significant flaws, in terms of its design as well as its eligibility rules. The high marginal tax rates faced by individuals in the phase-out region of the EITC are a disincentive to work. Eissa and Hoynes (2005) show that for women with a job, working more hours, say from part-time to full-time, would result in an increase in effective tax rates, thus creating an incentive to cut down on hours worked in the phase-out region.<sup>33</sup> Therefore, reducing the tax penalties by phasing out at a slower rate may be one improvement, though the trade-off would be that the EITC would be extended to higher income individuals as well.<sup>34 35</sup>

Another possible improvement to the EITC would be to extend the credits to childless individuals. Currently, the majority of benefits go to individuals with children, leaving out childless adults, who are the least served in the welfare system. While some research suggests

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<sup>29</sup> Eissa and Liebman (1996) and Meyer and Rosenbaum (1999a and 1999b) have directly estimated the effects of the EITC on the labor supply of single women with children. Both papers find that the expansion of the EITC raised work activity among this group. Hotz et al. (2005) finds similar results for disadvantaged groups.

<sup>30</sup> David Neumark and William Wascher, "Using the EITC to Help Poor Families: New Evidence and a Comparison with the Minimum Wage" (NBER working paper, [2000](#))

<sup>31</sup> Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement" (NBER working paper, [2008](#))

<sup>32</sup> Greg J. Duncan, Pamela A. Morris, and Chris Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement With Data From Random-Assignment Experiments," *Developmental Psychology*, [2011](#)

<sup>33</sup> Nada Eissa and Hilary Hoynes, "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply" (NBER working paper, [2005](#))

<sup>34</sup> Dahl and Lochner (2008)

<sup>35</sup> Saul D. Hoffman and Laurence S. Seidman, *Helping Working Families: The Earned Income Tax Credit*, W.E. Upjohn Institute, [2003](#)

that the majority of these single adults are men or noncustodial parents who are already working, this may still be an effective means to transfer resources to another segment of the poor without significantly discouraging work.<sup>36</sup>

Finally, there are significant marriage penalties in the EITC because credit is based on family income rather than individual income. As a result, a married woman with a husband who works full-time, faces significantly higher tax rates with the EITC than without it. Also, married women with children face much higher tax rates than single women with children.<sup>37</sup> Holtzblatt and Robelein (2001) conclude that the least expensive option to ease the marriage penalty would be to allow for a second-earner deduction.<sup>38</sup> This would reduce the amount of income subject to a tax for a two-earner family, thus extending and flattening out the phase-out region. This would be more cost-effective than the approach adopted in ARRA which extended the plateau of the EITC schedule for joint filers.

The system of tax credits and means-tested transfers such as the EITC, TANF, SNAP, and Medicaid or CHIP should be designed to minimize disincentives for work. On balance, low-income households could face up to a 30 percent marginal tax rate at low levels of earned income because of a phase-out of these different credit and transfer programs, according to the Congressional Budget Office.<sup>39</sup> The CBO suggests that these increases in marginal tax rates tend to decrease the supply of labor by inducing people in the workforce to put in fewer hours or be less productive. At the very least, combining some of the means-tested programs (such as SNAP, TANF and Housing Vouchers) into a single program could improve take-up rates and allow policymakers to obtain a clearer understanding of the marginal tax rates faced by low-income individuals.

### III.C. Good Quality Schooling

In the Chetty (2014) paper, income-adjusted test scores and dropout rates are very highly correlated with upward mobility. These results are consistent with the hypothesis that the quality

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<sup>36</sup> Bruce D. Meyer, “The Effects of the Earned Income Tax Credit and Recent Reforms” (NBER volume titled “Tax Policy and the Economy, Volume 24”, [2010](#))

<sup>37</sup> Eissa and Hoynes (2005)

<sup>38</sup> Janet Holtzblatt and Robert Rebelein, “Measuring the Effect of the EITC on Marriage Penalties and Bonuses” in *Making Work Pay: The Earned Income Tax Credit and Its Impact on America’s Families* (Russell Sage, Foundation, [2002](#))

<sup>39</sup> Congressional Budget Office, “Effective Marginal Tax Rates for Low-and-Moderate Income Workers” ([2012](#))

of schools plays a role in upward mobility. Areas with greater upward mobility tend to have high college attendance rates for children from low-income families, suggesting that attending college is an important pathway for moving up in the income distribution. The Pew Study finds that test score differences, which proxy for skill differences, can explain a large share of the black-white mobility gap.<sup>40</sup> Further, the more years of schooling black (and white) children attain, the more likely they are to move out of the bottom quintile. The black-white mobility gap reduces significantly for children who complete college.

Research suggests that even when there is no difference in initial test scores for black and white children when they enter kindergarten, black students start falling behind white students with similar characteristics between the beginning of kindergarten and the end of first grade.<sup>41</sup> Further, these differences tend to widen over time. These are likely the result of several factors. For instance, black children may attend worse quality schools, may receive less parental input or may have worse home and neighborhood environments. The paper suggests that the most likely explanation is that black students attend worse schools on average. These differences in schools are not largely in terms of traditional measures, such as class size, teacher education, and computer to student ratios, but in terms of non-standard “inputs” including gang problems in school and the percentage of students receiving free lunch.

Low-income students drop out of high school at five times the rate of middle-income families and six times that of higher-income families, according to the Department of Education.<sup>42</sup> Over thirty percent of households headed by someone without a GED are impoverished compared to fewer than ten percent of households headed by someone with a GED or higher.<sup>43</sup> Further, blacks have a high school dropout rate that is double that of whites.<sup>44</sup> They also experience rates of poverty that are three times that of non-Hispanic whites.<sup>45</sup>

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<sup>40</sup> Mazumder (2012)

<sup>41</sup> Roland G. Fryer, Jr. and Steven D. Levitt, “Understanding the Black-White Test Score Gap in the First Two Years of School” (NBER working paper, [2002](#))

<sup>42</sup> US Department of Education, “Trends in High School Dropout and Completion Rates in the US: 1972-2009” ([2012](#))

<sup>43</sup> Hilary Hoynes, Marianne Page, and Ann Stevens, “Poverty in America: Trends and Explanations.” (NBER working paper, [2005](#))

<sup>44</sup> National Center for Education Statistics [Fast Facts](#)

<sup>45</sup> [National Poverty Center](#), Gerald R. Ford School of Public Policy, University of Michigan

To increase high school graduation rates, the Brookings Hamilton Project has proposed a law requiring students to complete high school.<sup>46</sup> Currently, states require students legally to stay in school through 10<sup>th</sup> grade; the proposal would simply extend this requirement through 12<sup>th</sup> grade. But enforcement for these policies is mixed, ranging from no punishment (Maine), sending a notice to parents (Oregon), a misdemeanor (Minnesota, Mississippi), a parental fine of \$500 (Arkansas), or imprisonment. Many of these punishments are likely too small to keep a student in school, especially if the family is disengaged. Therefore, expanding the law without realigning incentives is unlikely to increase graduation rates.

At a minimum, TANF programs in all states should impose an eligibility requirement that school age dependents be enrolled in school. This would likely be a significant incentive for parents on welfare to ensure their children go to school since there are thousands of dollars on the line. For example, one interesting study evaluated the impact of Wisconsin's Learnfare program, a welfare waiver program that sanctioned the welfare benefits of families whose teenage children did not meet school attendance requirements. Dee (2011) found that Learnfare was extremely successful at targeting at-risk students and promoting school attendance among this group.<sup>47</sup> My policy suggestion is along the same lines. Currently, 15 states do not require dependents to be enrolled in school when their families are receiving TANF payments. We should make this a priority.

In my aforementioned study with Abby McCloskey, we propose a "milestone" credit, wherein low-income teenagers receive a cash bonus upon receiving their high school diploma to realign their incentives to stay in school. There is a growing body of research on using financial incentives to motivate educational goals. The Accelerated Study in Associate Programs (ASAP) granted full tuition waver for full-time college at the City University of New York, which was found to increase graduation rates.<sup>48</sup> Roland Fryer of Harvard has found that financial incentives can be a "cost-effective strategy for raising achievement among even the poorest minority students in the lowest-performing schools" if properly structured.<sup>49</sup> Fryer's research shows that

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<sup>46</sup> Derek Messacar and Philip Oreopoulos, "Staying in School: A Proposal to Raise High School Graduation" (Discussion Paper from The Hamilton Project, [2012](#))

<sup>47</sup> Thomas Dee, "Conditional Cash Penalties in Education: Evidence from the Learnfare Experiment," *Economics of Education Review*, [2011](#)

<sup>48</sup> The program included other incentives such as career counseling and finances for books and transportation, which may have influenced graduation rates too. Susan Scrivener and Michael Weiss, "More Graduates," (MDRC, [2013](#)).

<sup>49</sup> Bradley M. Allan and Roland G. Fryer, "The Power and Pitfalls of Education Incentives" (Discussion Paper from The Hamilton Project, [2011](#))

payments for inputs – like reading books – are more effective than payments for performance – like tests or grades.<sup>50</sup>

The “milestone credit” should begin as a pilot program, to test its efficacy on improving graduation rates, the size of the credit required, and the impact on lifetime earnings. To our knowledge, such a pilot program has not been tried. The cost-effectiveness of the program on a larger scale would depend on the ability of policymakers to target areas with high dropout rates. To encourage learning beyond high school, the “milestone credit” could be increased if the student goes on to technical school or college.

Beyond high school, many low-income individuals are unlikely to pursue a college degree because they do not have enough information about the federal Pell Grant program, how much the grant is likely to be and whether they will be able to pay for it (Avery and Kane, 2004).<sup>51</sup> These compliance costs fall most heavily on low-income individuals which may deter them from applying since the benefits are uncertain. Simplifying the application process could reduce costs and improve the efficiency of the program.

College aid should also be reformed. The appropriate amount of aid is a topic of much debate and we do not recommend a specific level in this study. However, to the extent aid is given, it should be concentrated on the students who cannot afford college. In 2012, the federal government spent \$33.4 billion on Pell Grants, which are needs-based grants for low-income students. According to the Institute for College Access and Success, African-American students have benefited greatly from Pell Grants. At a majority of historically black colleges and universities, two-thirds or more of all enrolled students receive Pell Grants.<sup>52</sup> However, roughly 7 percent of Pell Grant recipients are above 250 percent of the poverty line, according to the Congressional Budget Office.<sup>53</sup> Resources should be transferred from these students at the upper end of Pell Grant eligibility to students below the poverty line.

Aid should also be given with an incentive for students to graduate. Pell Grants amount to very little societal (or individual) benefit if the students do not complete the degree. Yet

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<sup>50</sup> Our proposed credit does not fall neatly into either category of an input payment or performance payment. To my knowledge, payments to encourage high school graduation have not been applied.

<sup>51</sup> Susan M. Dynarski and Judith E. Scott-Clayton, “The Cost of Complexity in federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics” (NBER working paper, [2006](#))

<sup>52</sup> Journal of Blacks in Higher Education, “[Pell Grants: The Cornerstone of African-American Higher Education](#)”

<sup>53</sup> Congressional Budget Office, “The Federal Pell Grant Program: Recent Growth and Policy Options” ([2013](#))

students from the lowest-income quartile historically are six-times more likely not to complete college than students from the highest-income quartile.<sup>54</sup>

Pilot programs should be established to experiment with the timing of Pell Grant disbursements to encourage graduation. One option could be providing lower payments on a semester-by-semester basis with the bulk of the grant given upon graduation. To our knowledge, this has not been tried. Additionally, a recent CBO report proposes restructuring the Pell grant program as a loan program.<sup>55</sup> A student would receive a direct loan at the beginning of a term that would be forgiven at the end of the term if the student completes the class, giving students an incentive to stay enrolled for a longer period. Encouraging the completion of college would greatly improve the mobility of low-income students. In 2012, the average unemployment rate for someone with only some college was 7.7 percent, above the 6.8 percent national average. The average unemployment rate falls to 4.5 percent with the completion of a bachelor's degree.<sup>56</sup>

### III.D. Family Structure

Marriage rates have fallen for all groups since the 1960s, but more sharply for blacks than for whites. In 1960, 74 percent of white adults were married, as were 61 percent of black adults. By 2011, 55 percent of whites were married, compared with 31 percent of blacks.<sup>57</sup> Further, the Census recently reported that 55 percent of black children are living in single-parent homes, versus just 21 percent of white children.<sup>58</sup> Data from Pew further suggest that mobility is higher for black children coming from two-parent families than from single parent households.<sup>59</sup> Many have argued that family stability plays a key role in children's outcomes (see Becker 1991, Murray 1984, Murray 2012). Since the 1980s, there has been a staggering decline in the traditional family: the number of families headed by a single mother has doubled.<sup>60</sup> Single mothers have a much higher rate of poverty (37 percent) than two-parent families (10 percent) or

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<sup>54</sup> The data here comes from the 1980s. See Martha Bailey and Susan Dynarski, "Gains and Gaps: Changing Inequality in US College Entry and Completion" (NBER working paper [2011](#))

<sup>55</sup> Congressional Budget Office (2013)

<sup>56</sup> From the [Bureau of Labor Statistics](#)

<sup>57</sup> D'Vera Cohn, Jeffrey S. Passel, Wendy Wang, and Gretchen Livingston, "Barely Half of U.S. Adults Are Married – A Record Low" (Pew Research Center, Social and Demographic Trends, [2011](#))

<sup>58</sup> From the [U.S. Census Bureau](#)

<sup>59</sup> Pew Charitable Trusts, "Pursuing the American Dream: Economic Mobility Across Generations" ([2012](#))

<sup>60</sup> Hoynes, Page, and Stevens (2005)

childless families and individuals (19.5 percent).<sup>61</sup> In their paper, Hoynes et al.(2005) purport that changes in family structure may account for the entire increase in poverty from the 1980s to 2004.<sup>62</sup>

One of the reasons for changes in family structure is that increases in teen pregnancy rates mean more single motherhood at very young ages. Among all racial and ethnic groups, the teen pregnancy rate is highest for black teens.<sup>63</sup> Traditional prevention methods have included more birth control and sex education in schools. However, nontraditional methods are also worth exploring. Isabel Sawhill at the Brookings Institute<sup>64</sup> recommends a social marketing campaign on teen pregnancy, citing a recent study by Melissa Kearney and Phillip Levine that found MTV's "16 and Pregnant" show was responsible for one-third of the reduction in teen pregnancy rates in an 18 month period.<sup>65</sup>

As for support, one of the surest ways to lift single mothers out of poverty is to encourage them to participate in the workforce. However, the current tax code and system of child care supports acts as a disincentive to supplying labor.

*Federal Policies and Tax Rates:* Many federal policies impose high marginal tax rates on women, which discourages their workforce participation. The Affordable Care Act (ACA) has added to the tax penalties that already exist in the tax code and acts as a disincentive to supply labor. According to research by Mulligan, the marginal tax rates from the ACA from phasing out the subsidy could reach 50 percent for some earners, after taking into account other benefit

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<sup>61</sup> In other research, Lee (2005) also finds that the increase in family instability is an important factor in explaining rising family inequality. McLanahan and Sandefur (1994) find that children who grow up in single-parent or stepparent families have lower educational attainment than those who grow up with both biological parents. Gruber (2000) investigates the effects of changes in state divorce laws on outcomes for children. The timing of the "divorce revolution" -- the transition from fault based divorce, to divorce by mutual consent, to unilateral divorce -- varied from state to state. Using this state variation, Gruber estimates the effect of unilateral divorce on outcomes for children and finds a negative and significant effect of unilateral divorce on children's educational attainment.

<sup>62</sup> Another new study authored by Harvard economist Raj Chetty finds that rates of single parenthood at the community level are linked to children's economic opportunities over the course of their lives.

<sup>63</sup> From the [Office of Adolescent Health](#)

<sup>64</sup> Isabel Sawhill and Joanna Venator, "Three Policies to Close the Class Divide in Family Formation" (Social Mobility Memos, The Brookings Institution, [2014](#))

<sup>65</sup> A significant downside would be if it induced abortions, although the study's authors assert that teen abortion rates also fell during this period. See Melissa Kearney and Phillip Levine, "Media Influences on Social Outcomes" (NBER working paper, [2014](#))



programs and marginal taxes.<sup>66</sup> As per the Congressional Budget Office, the phase-out of the health insurance subsidies will result in an implicit tax on earnings and reduce the total number of hours worked by about 1.5 to 2.0 percent between 2017 and 2024 and will lead to a reduction in aggregate compensation of about 1 percent.

These large declines in labor supply, whether they happen through cuts in hours or through fewer jobs, are likely to occur among low-wage workers.<sup>67</sup> Given that the elasticity of labor supply for women is higher than for men and that women constitute a greater share of low-wage workers, it seems likely that women will disproportionately feel these effects.

Furthermore, married women face strong disincentives to work in the tax code. The disadvantageous tax treatment of a married couple's income relative to two single individuals earning an equivalent amount has led to the notion of a marriage penalty. For example, Fichtner and Feldman pointed out that the tax code subsidizes single-worker families earning \$60,000 while it taxes a two-earner household earning \$60,000, which creates inequality among families earning identical wages.<sup>68</sup> Dickert-Conlin found that most low-income couples are eligible for higher welfare benefits if they are separated rather than married.<sup>69</sup> A recent study by Kearney and Turner shows how a family headed by a primary earner making \$25,000 a year will take home less than 30 percent of a spouse's earnings because of taxes and the phase-out of benefits.<sup>70</sup>

Benefits aside, a single woman entering the workforce would pay a 10 percent tax rate on her first dollar earned, whereas a married woman entering the workforce would face a 25 percent tax rate if her husband earned \$60,000.<sup>71</sup> Between taxes, lost benefits, and the high cost of child care, some married mothers may actually lose money from working. As a result, they may choose to stay home.

Even Social Security carries work disincentives for married women. Social Security benefits are funded by a payroll tax and based on earnings. For married couples, Social Security

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<sup>66</sup> Casey B. Mulligan, "Average Marginal Labor Income Tax Rates under the Affordable Care Act" (NBER working paper, [2013](#))

<sup>67</sup> Congressional Budget Office, "Labor Market Effects of the Affordable Care Act: Updated Estimates" ([2014](#))

<sup>68</sup> Jason J. Fichtner and Jacob Feldman, "Taxing Marriage: Microeconomic Behavioral Responses to the Marriage Penalty and Reforms for the 21st Century" (Mercatus Center working paper, [2012](#))

<sup>69</sup> Stacy Dickert-Conlin, "Taxes and Transfers: Their Effects on the Decision to End a Marriage" *Journal of Public Economics* ([1999](#))

<sup>70</sup> Melissa S. Kearney and Lesley J. Turner, "Giving Secondary Earners a Tax Break: A Proposal to Help Low- and Middle-Income Families" (Discussion Paper from The Hamilton Project, [2013](#))

<sup>71</sup> Fichtner and Feldman (2012)



benefits are based on whichever spouse earned more (which tends to be the husband). As a result, married women tend to receive the same Social Security benefits whether or not they work, but if they work, they are subject to a payroll tax. This, not surprisingly, discourages married women from working.<sup>72</sup>

*Child Care Costs:* Child care is a significant and growing expense for many families. In 2011, 61 percent of children under the age of five in the US were in some regular child care arrangement.<sup>73</sup> Families with an employed mother and young children paid \$143 per week on average for child care, up from \$84 in 1985, according to the Census Bureau.<sup>74</sup> This adds up to roughly 7 percent of family income being spent on child care. For families in poverty, child care can consume 30 percent or more of their monthly income.<sup>75</sup>

As the cost of child care increases, many mothers with young children may decide to leave the labor force to care for children or scale back the hours they work to balance household responsibilities. There is a large literature showing the impact of child care costs on mothers' labor market decisions, specifically that high child care costs are associated with less work, while subsidized child care costs are associated with more work.<sup>76</sup>

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<sup>72</sup> Sita Slavov, "Social Security's War on Working Wives" (Real Clear Markets, [2012](#))

<sup>73</sup> Lynda Laughlin, "Who's Minding the Kids? Child Care Arrangements: Spring 2011" (US Census Bureau, Current Population Reports, [2013](#))

<sup>74</sup> Ibid. Costs vary on the basis of children's ages, the number of children, the quality of care, and across state lines. For example, the average annual cost of full-time care for an infant in center-based care ranges from \$4,863 in Mississippi to \$16,430 in Massachusetts. See Child Care Aware America, "Parents and the High Cost of Child Care" ([2013](#))

<sup>75</sup> Laughlin (2013)

<sup>76</sup> This literature includes Susan L. Averett, Elizabeth H. Peters, and Donald M. Waldman, "Tax Credits, Labor Supply, and Child Care," *Review of Economics and Statistics* 79, no.1 (1997): 125–35; Mark C. Berger and Dan A. Black, "Child Care Subsidies, Quality of Care, and the Labor Supply of Low-Income, Single Mothers," *Review of Economics and Statistics* 74, no. 4 (November 1992): 635–42; April Brayfield, *Child Care Costs as Barrier to Women's Employment* (US Department of Labor, September 1992); Peter Cattani, "Child-Care Problems: An Obstacle to Work," *Monthly Labor Review* (October 1991): 3–9; Rachel Connelly, "The Importance of Child Care Costs to Women's Decision Making," in *The Economics of Child Care*, ed. David M. Blau (New York: Russell Sage Foundation, 1991), 87–118; Anne Johansen, Arleen Liebowitz, and Linda Waite, "The Importance of Child Care Characteristics to Choice of Care," *Journal of Marriage and the Family* 58, no. 3 (1996): 759–72; Jean Kimmel, "The Effectiveness of Child Care Subsidies in the Welfare to Work Transition of Low-Income Single Mothers," *American Economic Review* 85, no. 2 (1995): 271–5; Jean Kimmel, "Child Care Costs as a Barrier to Employment for Married and Single Mothers," *Review of Economics and Statistics* 80, no. 2 (May 1998): 287–99; Jean Kimmel, "The Role of Child Care Assistance in Welfare Reform," *Employment Research* 1, no. 2 (1994): 1–4; Karen Oppenheim Mason and Karen Kuhlthau, "The Perceived Impact of Child Care Costs on Women's Labor Supply and Fertility," *Demography* 29, no. 4 (November 1992): 523–43; Marcia K. Myers and Theresa Heitze, "The Performance of the Child-Care Subsidy System," *Social Review* 73, no. 1 (March 1999): 37–64; Martin O'Connell and David Elliot Bloom, "Juggling Jobs and Babies: America's Child Care Challenge," *Population Trends and Public Policy*, no. 12 (February 12, 1987); Harriet B. Presser and Wendy Baldwin, "Child Care as a Constraint on

For example, using data from the 1999 National Survey of America's Families, Blau and Tekin (2003) found that the child care subsidies in current welfare programs are associated with a 13-percentage-point increase in the likelihood of employment.<sup>77</sup> Baker, Gruber, and Milligan studied the introduction of universal highly subsidized child care in Quebec in the late 1990s and found highly significant labor supply effects.<sup>78</sup> Berger and Black evaluated the employment impact of two Kentucky child care subsidy programs.<sup>79</sup> They found that a weekly subsidy of \$46 increased maternal employment by 8.4 to 25.3 percent.

Also, work effects are stronger on the extensive than the intensive margin, meaning that the subsidies make it more likely that low-income single mothers work, but have little effect on hours worked. Compton and Pollak found that married women's geographical proximity to their mothers or mothers-in-law improves their labor supply, which they use as a proxy of child care.<sup>80</sup> Meyer and Rosenbaum found that higher expenditures on child care are associated with higher employment rates for single mothers.<sup>81</sup>

On average, married mothers are more likely to leave the labor force because of child care costs than single mothers, largely because single mothers are usually the only source of income in their household, whereas married mothers may have another wage earner in the household. In a review of the literature, Kimmel found that the estimated child price elasticities of employment for married women range anywhere from  $-0.74$  to  $-0.2$ , with most estimates falling in the middle.<sup>82</sup> This means that a 10 percent increase in child care costs is associated with a 7.4 percent decline in workforce participation. Kimmel found that most elasticity estimates for single mothers are close to zero. That said, low-income single mothers may be

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Employment: Prevalence, Correlates, and Bearing on the Work and Fertility Nexus," *American Journal of Sociology* 85, no. 5 (March 1980): 1202–13; David C. Ribar, "Child Care and Labor Supply of Married Women: Reduced Form Evidence," *Journal of Human Resources* 27, no. 1 (Winter 1992): 134–65; and David C. Ribar, "A Structural Model of Child Care and Labor Supply of Married Women," *Journal of Labor Economics* 13, no. 3 (July 1995): 558–97.

<sup>77</sup> David Blau and Erdal Tekin, "The Determinants and Consequences of Child Care Subsidies for Single Mothers" *Journal of Population Economics* (2003)

<sup>78</sup> Michael Baker, Jonathan Gruber, and Kevin Milligan, "Universal Childcare, Maternal Labor Supply, and Family Well-Being" *Journal of Political Economy* (2008)

<sup>79</sup> Mark C. Berger and Dan A. Black, "Child Care Subsidies, Quality of Care" *Review of Economics and Statistics* (1992)

<sup>80</sup> Janice Compton and Robert A. Pollak, "Family Proximity, Childcare, and Women's Labor Force Attachment" (NBER working paper, 2011)

<sup>81</sup> Bruce D. Meyer and Dan T. Rosenbaum, "Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects" *Quarterly Journal of Economics* (2001)

<sup>82</sup> Jean Kimmel, "Child Care Costs as a Barrier to Employment for Married and Single Mothers" *Review of Economics and Statistics* (1998)

more sensitive to child care costs than single mothers generally, which can be attributed to welfare eligibility or a payment stream aside from work. In one of Kimmel's earlier studies, he found that the labor supply elasticity of child care costs for low-income, unmarried white mothers can reach  $-0.35$ .<sup>83</sup>

As this literature demonstrates, child care has a significant impact on female workforce participation. Consequently, the rising cost of child care severely limits economic opportunities available to women, who disproportionately leave the workforce as child care becomes more expensive or choose jobs with greater flexibility at the expense of pay and promotion.

There is significant agreement that work is a vital component of economic opportunity and that work incentives are a vital part of assistance programs. Expanding support for child care accomplishes both objectives. Additionally, the lack of affordable child care options has a significant impact on women's professional trajectories, keeping many women in low-paying, low-promotion jobs or out of the work force entirely.

In our paper, my colleague and I propose streamlining the current child care subsidies and tax credits, which are needlessly confusing, have low recipient rates, and leave out many low-income women who need them the most. The core of our proposal is to substantially increase the amount of the child care tax credit and make it refundable. This would reduce the need for CCDF, and those on welfare would be given priority for child care. It would eliminate the need for the employer-sponsored tax credit, making child care support available regardless of employer options.

Policymakers should also consider supporting child care expenses for educational attainment, presuming education does not become a substitute for work. The costs of child care support could be offset in part by increased payroll and income tax collection from the increasing number of working mothers and reduced welfare enrollment.

Some may argue that child care tax credits or subsidies unfairly reward working parents over those who choose to stay home. However, this is incorrect. Recall that workers pay payroll and income taxes. Allowing tax relief for work-related expenses adds more neutrality, not less.<sup>84</sup>

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<sup>83</sup> Jean Kimmel, "The Effectiveness of Child Care Subsidies in the Welfare to Work Transition of Low-Income Single Mothers" *American Economic Review* (1995)

<sup>84</sup> Alan D. Viard, "The Child Care Tax Credit: Not Just Another Middle-Income Tax Break" (On The Margin, *Tax Notes*, 2010)

Others may point out that child care may reduce cognitive achievement in children. Baker, Gruber, and Milligan found that children in Quebec's universal child care program are worse off in a variety of behavioral and health dimensions, including illness.<sup>85</sup>

Quality of care may mitigate some of these effects, although more research is needed.<sup>86</sup> For example, Bernal and Keane (2011) assess the cognitive outcomes from informal care (provided by family or neighbors) versus formal care (provided by a child care facility). The results are very different.<sup>87</sup> The estimate of formal care on child test scores is positive but statistically insignificant, while an additional year of informal care causes a 2.6 percent reduction in test scores. This has implications for children from low-income families, who are twice as likely to be in informal care as in formal care, likely because of cost.<sup>88</sup>

Some have proposed increasing the child tax credit, which provides a tax credit of up to \$1,000 per child, instead of providing funding for child care specifically.<sup>89</sup> There are several benefits to this approach. More income is generally correlated with better outcomes for children, and reducing taxes on income may encourage work. However, the labor supply effects of directly offsetting child care costs appear to be even stronger, especially for low-income women. As such, we believe that directly offsetting the cost of child care is a better option for improving women's economic outcomes in the long-run.

#### IV. Conclusion

In this testimony, I have reviewed the evidence on economic mobility, particularly for African-Americans. I have highlighted some of the factors that are found to be correlated with economic mobility. Finally, based on two recent studies with Abby McCloskey, I have summarized a set of policy options that may help individuals move up the ladder of economic opportunity. The most important challenges going forward are the creation of stable family structures that will invest sufficiently in the education and upbringing of their children, as well as providing the right kind of high quality education. In addition, improving labor market outcomes

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<sup>85</sup> Baker, Gruber, and Milligan (2008)

<sup>86</sup> In a review of the literature, Waldfogel concludes that more research is needed to assess the outcomes on children of various types of child care. See Jane Waldfogel, "Childcare, Women's Employment, and Child Outcomes" *Journal of Population Economics* (2000)

<sup>87</sup> Raquel Bernal and Michael P. Keane, "Child Care Choices and Children's Cognitive Achievement: The Case of Single Mothers" *Journal of Labor Economics* (2011)

<sup>88</sup> Laughlin (2013)

<sup>89</sup> Zachary Goldfarb, "Breaking: Obama to Propose Expanding EITC and Child Tax Credit in Budget" *Washington Post*, [March 3, 2014](#)

through the expansion of the EITC, wage-subsidy programs as well as job placement and training programs is important. I have proposed several reforms to existing welfare and workfare programs as well as incentives for teenagers and youth to attain higher education. If we can address some of these challenges, America may remain a land of opportunity for generations to come.