April 5, 2017

The Joint Economic Committee

"The Decline of Economic Opportunity in the United States: Causes and Consequences"

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Chairman Tiberi, ranking member Heinrich, it is a pleasure to once again come before this committee, and I thank you for holding this hearing on the state of economic opportunity in the United States. In our often hyper-partisan era, it is refreshing to see this joint committee coming together to think about ways in which public policy can enhance the opportunity, mobility, and living standards of Americans who've not been sufficiently reached and lifted by economic growth in recent decades.

My testimony stresses the following points:

--Though the US economy continues to grow steadily at moderate rates and the labor market closes in on full employment, many barriers to economic opportunity and mobility remain in place.

--These opportunity barriers include high levels of income inequality, unequal access to educational opportunities, residential segregation by income, inadequate investments in children and certain areas, and a markedly slower employment recovery in rural relative to metro areas.

--Near-term policy solutions aimed at reducing these barriers include running tight labor markets, infrastructure investment, direct job creation, health care and other work supports, apprenticeships, and more.

--Longer-term solutions invoke policy interventions targeting inequality, inadequate housing, income and wage stagnation, nutritional and health support, the criminal justice system, and educational access.

--Avoiding policies that keep opportunity barriers in place is just as important as the proactive agenda items I recommend. Reducing the provision of public health care, regressive tax cuts, and budget cuts to programs that help low- and moderate-income families would all reduce opportunity.

Opportunity barriers and their causes

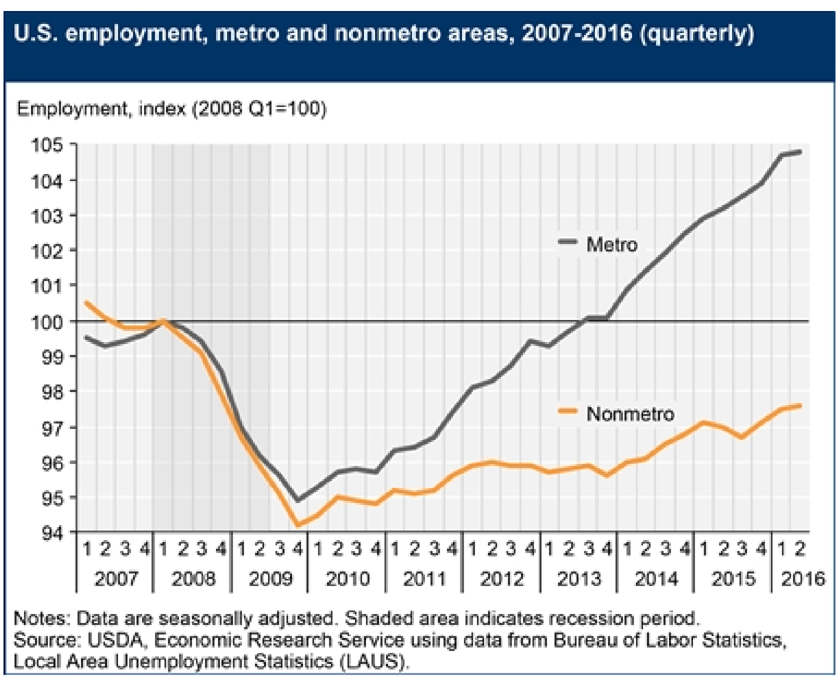
There is no fixed definition of economic opportunity, but most will agree that it corresponds to the realization of personal potential. If a child faces an inadequate school system, or a toxic environment, it will be much harder for her to realize her intellectual, and later, her economic, potential. If a parent lives in a community with an insufficient quantity of jobs, or jobs that pay wages that are too low to support a family, or jobs for which she lacks the necessary skills, both she and her family face opportunity shortfalls. Such barriers can meaningfully be extended beyond schooling and jobs to housing, nutrition, health care, and even infrastructure. For example, consider the fact that due to toxic infrastructure—lead leaching into water pipes—children in parts of our country may suffer brain impairments (though, importantly, such damage need not be permanent). This is a clear example of an opportunity barrier constructed by a public policy failure, one that should be unacceptable in an economy as wealthy and advanced as our own.

Given that framing of the problem, a clear role for policy in the opportunity space is to take down the barriers that get between people and the realization of their economic potential. The extent of the problem can be at least roughly measured through a set of proxies that indicate the existence of opportunity barriers.

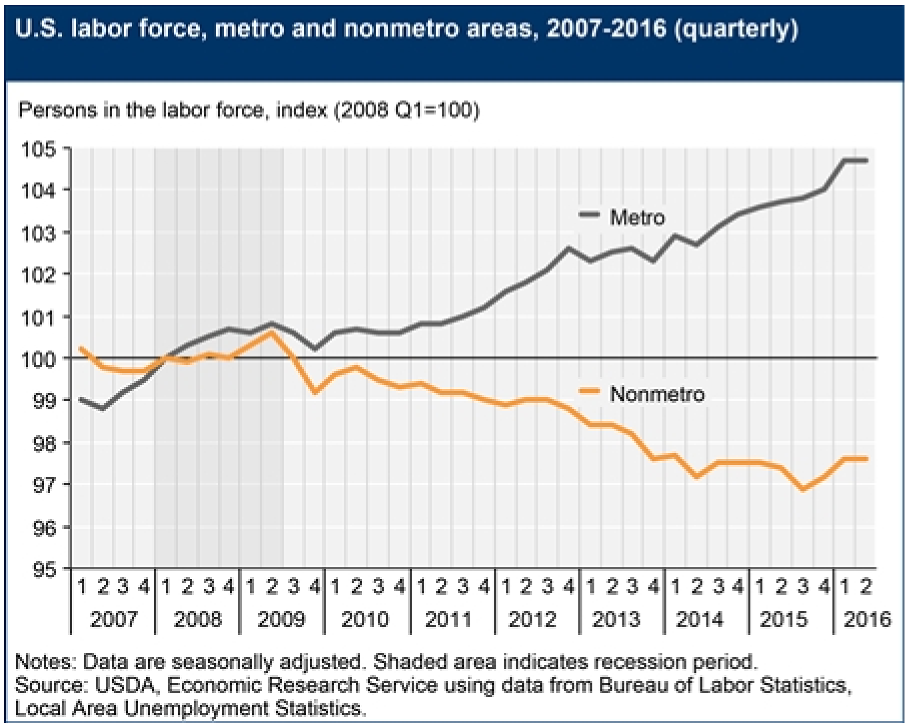
Labor market barriers associated with income, race, and education: Federal Reserve chair Janet Yellen recently noted that unemployment rates "averaged 13 percent in low- and moderate-income communities from 2011 through 2015, compared with 7.3 percent in higher income communities." Chair Yellen also noted that in majority minority areas, the jobless rate averaged 14.3 percent between 2011 and 2015. The share of 25-54-year-old (so-called "prime age") workers in these areas was nearly 9 percentage points lower than in non-majority-minority communities. Racial disparities exist in unemployment rates even controlling for education. Among white people with terminal high school degrees, unemployment was about 5 percent in 2015. For black people, it is twice that. Black people with at least BA's have unemployment rates of 4.1 percent, compared to the 2.4 percent for whites with at least BA's.

Labor market barriers associated with rural areas: My own work has documented periods of slack labor markets and their negative impact on the earnings and income growth of low- and moderate-income working families. The Economic Research Service of the United States Department of Agriculture recently analyzed different trends in employment in rural (or nonmetro) labor market indicators versus those from metro areas.

The figure below shows employment growth in rural and metro areas, with both indexed to 100 in 2008q1. While employment levels fell about the same amount in percentage terms in both areas over the Great Recession of 2007-2009, metro employment has recovered much more quickly, as the gap at the end of the figure reveals. In the middle of 2016, rural employment was still well below its pre-recession peak.

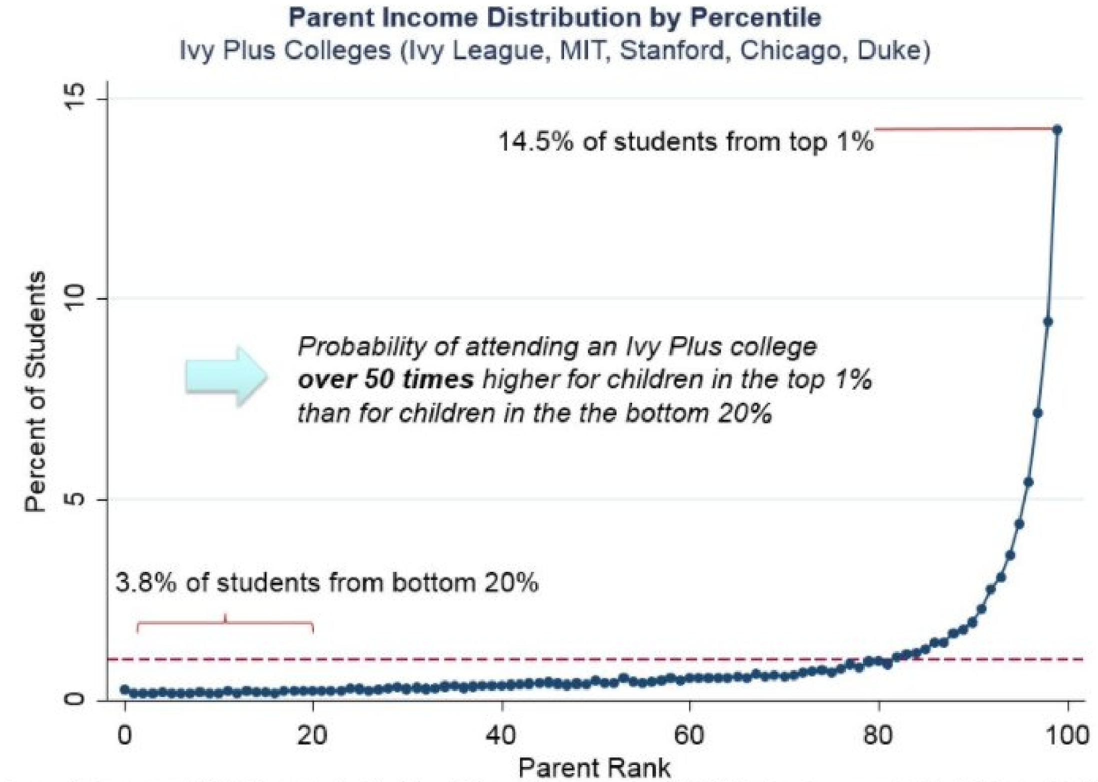


Labor force participation rates have been particularly slow to recover over this expansion, and while part of that trend is driven by the retirement of baby boomers, and thus not necessarily an indicator of weak labor demand, participation rates have yet to recover for prime-age workers as well. The next figure shows that the size of the labor force has significantly declined in rural areas, a trend all the more striking when compared to the labor force growth in metro areas during this same time period. Part of the discrepancy is due to differential population growth rates – while population grew over this period in metro areas, it was flat in rural places – but the rural labor force grew even more slowly than its population.



Mobility barriers associated with regional economic segregation. In recent decades, families with children have lived in increasingly segregated neighborhoods, a trend driven both by rising income inequality and by wealthier parents segregating themselves into areas with higher-performing schools, among other factors. As Chetty et al. and my colleagues Barbara Sard and Doug Rice have found, residential segregation by income exacerbates the gaps in opportunities between children from low-income and high-income backgrounds. Researcher Ann Owens also connects this development to diminished future opportunities for children: "Rising income inequality provided high-income households more resources, and parents used these resources to purchase housing in particular neighborhoods, with residential decisions structured, in part, by school district boundaries. Overall, results indicate that children face greater and increasing stratification in neighborhood contexts than do all residents, and this has implications for growing inequalities in their future outcomes."

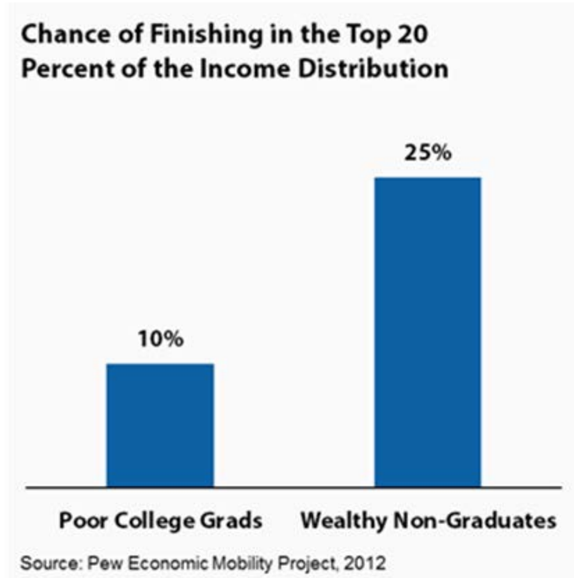
Education barriers associated with income: Yellen noted that close to 100 percent of children of parents with higher incomes and levels of educational attainment pursued higher education, and 60 percent earned a bachelor's degree. But among children of parents with lower incomes and education levels, 72 percent pursued higher education and only 14 percent completed a BA. The figure below, from Chetty et al., shows that the likelihood that a child from a wealthy family will attend an Ivy-league or similarly elite school is 50 times that of a child from a low-income family.



Source: Estimates from "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility" (undergoing peer review) by Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan. Graph covers 1980-1982 birth cohorts. Numbers similar for 1989-1991 cohorts.

Federal Reserve data also show that as inequality has increased, college debt burdens have become much larger for low- relative to high-income families. In 1995, families with education debt in the bottom half of the net worth (a broader definition of income, including assets minus liabilities) distribution had a mean debt-to-income ratio of around 0.26 (for every dollar of their net worth, they owed 26 cents in college debt). For families in the top 5 percent, that ratio was eight cents on the dollar. By 2013, the debt-to-income ratio had more than doubled to 0.58 for the bottom half (some of whom are poor but many of whom are middle class) while remaining unchanged for those at the top.

Mobility barriers associated with income, inequality, and inadequate investments in children. While higher educational attainment is clearly associated with higher earnings, it is also the case that children who grow up in affluent households but do not graduate from college are *2.5 times* as likely to have high incomes in adulthood as children who grow up poor but *do* graduate from college (see figure below). Recent research by Raj Chetty and others finds correlations between higher inequality and lower mobility. Chetty finds that as inequality has increased over time, one metric of mobility—the likelihood that adult children out-earn their parents—has fallen, and that rising inequality explains 70 percent of the increase. One reason this relationship might exist is that, when less GDP growth flows to lower-income families, their abilities to overcome mobility barriers—to move to opportunity, to invest in their children's future, to avoid the negative externalities of difficult neighborhoods—is diminished.



In fact, growing inequality is associated with less investment in children, both by parents and governments. In the early 1970s, high-income families spent 4 times what low-income families spent on "enrichment goods" for their kids (tutoring, books, trips, art supplies); in the mid-2000s, they spent seven times as much. Other OECD countries spend 5 times what we spend on young children, often through pre-kindergarten education, despite the fact that solid research shows the benefit-cost ratio of such spending to be more than 8-to-1.

--Employment and opportunity barriers associated with the criminal justice system. The National Employment Law Project reports that 70 million people in America now have a conviction or arrest history that can show up on a routine background check for employment. NELP also points out that more employers are conducting background checks wherein these records are likely to show up. Research shows extensive employment and earnings disadvantages to those with criminal records, with serious negative spillovers to the families of those who face incarceration. The opportunity/mobility costs of having a criminal record are high: men with criminal records are twice as likely to remain in the bottom fifth of the income scale as men without records. The fact that these problems disproportionately affect racial minorities is partially a function of institutionalized racism associated with the criminal justice system, so the barrier of discrimination is germane here as well.

The root causes of these problems are described by the barriers themselves. Discrimination, persistently slack labor markets, historically high levels of inequality and even higher levels of wealth inequality, regional economic segregation, inadequate investments in both the contemporary and future well-being of less-advantaged children and families (often through disinvestment in public goods), low access to educational opportunities, high exposure to toxic environments—all of these factors are causes of the erosion of opportunity for many in our society.

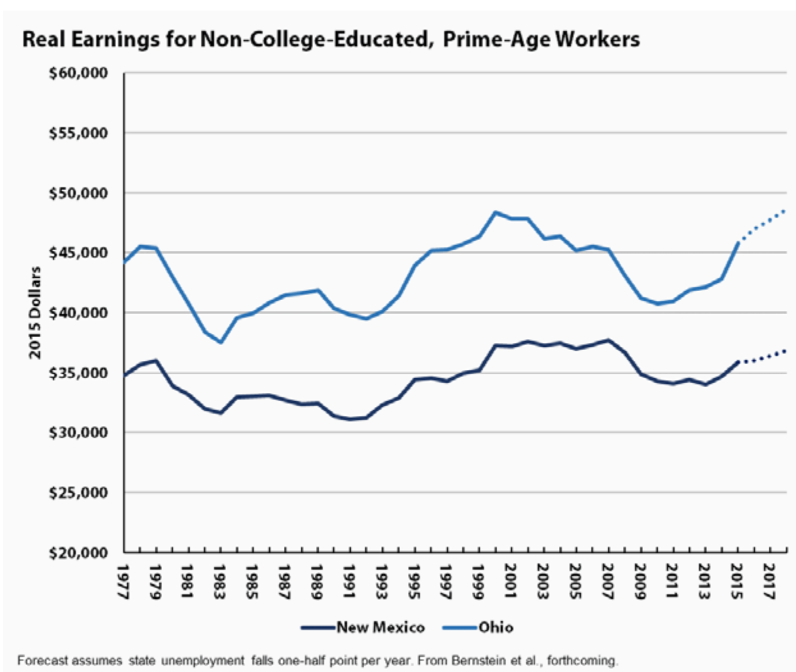
Especially given the economic focus of this committee, I stress the role of our high levels of inequality as one of the most important opportunity barriers. A common concern among macroeconomic analysts today, for good reason, is that growth, particularly productivity growth, has slowed sharply over the past decade (a problem seen across advanced economies). I would characterize this deceleration as one of the most important constraints on growth and, thereby, on aggregate living standards. But the key word is “aggregate.” In the presence of high inequality, stronger growth is necessary but not sufficient to take down mobility barriers. If most of the growth flows to the top of scale, as has occurred in recent decades, then absent aggressive redistribution, we cannot expect to push back on the many problems just documented.

How can public policy push for greater opportunity?

A useful way to think about policies targeting opportunity is to consider those that can address near-term opportunity barriers and those that address longer-term barriers. Near-term policies address opportunity deficits with negative impacts on people’s economic circumstances today, like the absence of gainful employment opportunities, or the impact on living standards when inequality contributes to stagnant paychecks. Long-term interventions, like quality pre-school or improved access to higher education, can enhance the future opportunities of children. As I report below, considerable research has found that many safety net programs, like nutritional and health care support, both help reduce poverty in the near term *and* improve longer-term outcomes for children.

Near-term opportunity enhancers

Running a tight labor market: There is extensive evidence showing that lower-wage and minority workers are disproportionately helped by tight labor markets. Forthcoming research from the Center on Budget and Policy Priorities (CBPP) Full Employment Project shows that in both Ohio and New Mexico, for example, the real annual earnings of non-college educated, prime-age workers ended up in 2015 at about the same level as they were in 1977 (see figure below). The figure, however, reveals a strong response to the tight labor market of the 1990s in both states, as well as a strong pop at the end of the figure, in 2015 (the latest year in which data is available), that continues in a forecast that assumes unemployment continues to decline.



This forecast, driven by simulating even lower unemployment than today's, implies an important role for the Federal Reserve: in balancing their dual mandate of stable prices and full employment, they must be careful not to tap the economic growth brakes (i.e., raise the benchmark interest rate they control) too aggressively. The recovery appears to finally be reaching some places that have thus far been left behind, so absent clear evidence of inflationary pressures, the Fed should proceed with caution.[1] It also implies a role for fiscal policy to help create more labor demand where it is lacking, as with my next policy suggestion: infrastructure investment.

Investing in infrastructure: It is widely agreed that underinvesting in maintaining and improving the nation's public goods is harmful economic policy. I should note that complaints about the conditions of our public capital are bipartisan: both poverty advocates and Chambers of Commerce argue that Congress must work together to address this investment shortfall. Civil engineers have identified the productivity-dampening deterioration of our roads, bridges, public transit, and other transportation infrastructure. The Obama administration's Environmental Protection Agency argued that our water treatment and distribution systems need $384 billion in investments over the next 20 years. Over half of America's public schools need to be repaired, renovated or modernized; the average age of the main building of a public school today is about 44 years. Roofs, windows, boilers, and ventilation, plumbing and electrical systems need to be fixed, upgraded or replaced.

Such investments fit both here and under longer-term opportunity enhancers, especially if we consider, as we should, investments in human capital as another dimension of investing in public goods. Improving water systems can yield profound long-term benefits in children's brain development, and upgraded school facilities have been shown to improve teacher retention and academic outcomes.

But in the near term, infrastructure investment can create employment for blue-collar laborers, making it a particularly strategic investment in parts of the country with too little labor demand. Economists have documented that when and where job markets are slack, infrastructure investment has a relatively high "multiplier," meaning a bigger bang for the buck on jobs and economic activity. Economist Josh Bivens points out that, by boosting longer-run productivity growth, well-placed infrastructure investment can allow the Federal Reserve to target lower rates of unemployment, an important complement to my point about tight labor market policy above.

Direct job creation: While Congress often tries to provide help to left-behind places through targeted tax-credits, such incentives have a poor track record. My conclusion is that these policies are simply too indirect, and that if we want to help places with too little labor demand, we must consider direct job creation policies, meaning either jobs created by the government sector or publicly subsidized private employment (as noted below, an alternative is to "move people to jobs," but that is an insufficient response to the problem). Infrastructure ideas, like renovating our stock of public schools by directly creating temporary jobs, fit into this space as well, but Bernstein and Spielberg (2016) elaborate a more ambitious approach.

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[1] A key distinction here is between inflation and inflationary expectations. Higher inflation (faster price growth) should be expected at this stage of the recovery, especially given how low inflation has been thus far. But as long as price expectations remain "well-anchored," the risks of dampening recent wage and income gains should be heavily weighted.

We stress that subsidized jobs and job creation programs provide income to people who need it and will spend it, thereby helping to boost weak local economies, while providing opportunities to workers disconnected from the labor market. We also cite research showing that there can be lasting benefits from helping such workers overcome labor market barriers that are preventing them from gainful employment.

Though our work largely focused on direct jobs to offset recessions, today many policy makers are legitimately concerned about places facing recession-like conditions even while other places are doing much better. We therefore recommend "an employment fund that supports a set of national service jobs on an ongoing basis *and* includes a flexible funding stream that can ramp up in economic downturns. This initiative should enable states to try different approaches to subsidized jobs, encouraging them to experiment to learn more about what works best and for whom."

Health care and other work supports: Another important way to help less advantaged persons get in and stay in the labor force – and to tap entrepreneurial opportunities – is to ensure a solid system of work supports, with health care as a standout example. Extensive research shows significant, positive labor supply effects from the Earned Income Tax Credit (a wage subsidy for low-wage workers), and policies that support working parents, especially help with child care, have been shown to raise women's ability to join and stay in the labor force.

Opportunities related to entrepreneurship are of particular interest to this committee. Members will thus be interested in the findings from two studies suggesting that employer-provided health coverage is a constraint on business formation by potential entrepreneurs. These studies find that people who can secure health coverage through non-employment sources have higher levels of self-employment and "entrepreneurship probabilities" than those who lack such access. Such work is consistent with other research by Nick Buffie showing the release of insurance-driven "job lock" as the Affordable Care Act has ramped up. These findings underscore a commonsense connection between access to affordable coverage outside of employment, the ACA, and entrepreneurial opportunities.

Helping small manufacturers join global supply chains: The Trump administration has talked about the need for policy to help our manufacturers compete more effectively in the global economy. In analysis I did with Congressman Ro Khanna, we argued that policy should target smaller manufacturers from areas with displaced workers, helping such firms modernize and find their way into the global supply chain. We identify three policies consistent with this goal: expanding the Commerce Department's Manufacturing Extension Partnership, pushing back on currency interventions, and investing in new, high-demand industries.

> The MEP's…mission is to "enhance the productivity and technological performance of U.S. manufacturing." It does not provide direct financing, but it does provide guidance, by helping small manufacturing firms adopt new technologies, integrate into global supply chains, strengthen regional partnerships and connect with national labs. According to a 2014 report from the nonpartisan Congressional Research Service, the 30,000 companies served by the MEP "reported $2.5 billion in new sales, $4.2 billion in retained sales, $1.1 billion in cost savings, $2.7 billion in new client investment, the creation of 17,833 jobs and the retention of 46,069 jobs."

> The program costs $130 million annually, or 0.003 percent of federal government spending…In the interest of helping small manufacturers and boosting U.S. net exports, its funding should at least be doubled.

Instead, as we note in the piece, President Trump’s “skinny budget” zeroes out the MEP, a counterproductive cut if our goal is to create more opportunity and jobs in this space.

In this recent oped, I also suggest two measures to level the trade playing field and push back on currency manipulation: currency reciprocity (the ability to purchase the currency of manipulators to neutralize their intervention) and countervailing duties on exports from countries that use currency depreciation to subsidize exports.

Invest in renewable energy: Pollin et al. find that a combination of market incentives (carbon caps and taxes) alongside public and private investment in renewable energy would improve both environmental and employment outcomes. In terms of public investment, they call for retrofitting publicly owned buildings, initiating green infrastructure projects (e.g., building out a “smart” grid), implementing procurement policy such as supplying the US military with renewable energy, and expanding federal research and development into renewable energy development, storage, and distribution. They estimate that their investment agenda (private and public) would generate 2.7 million jobs.

Khanna and I agree and highlight a role for public investment in battery/energy storage technology. We also note the utility of public/private innovation centers that build connections between university labs and factory floors. Such multilevel workforce investments that involve everyone from research programs and scientists to engineers and manufacturers have the potential to revitalize communities that have lost manufacturers and experienced years of disinvestment.

Apprenticeship programs: Economist Robert Lerman makes a strong case that apprenticeship programs, or work-based learning, can be highly effective in connecting young workers with limited prospects to good jobs. Public policy can help (and is doing so in some states and other advanced economies) through grants and credits to employers who stand up apprenticeship programs, as well as spreading the word to the broader employment community. Lerman writes that “expanding apprenticeship offers a long-term, evidence-based strategy that increases productivity by increasing skills at very modest cost to the government. Apprenticeships combine serious work-based learning and classroom instruction usually lasting two to four years, aimed at mastering occupational and employability skills, and leading to a recognized credential.”

Work-based, “learning-by-earning” programs can address high youth unemployment while preparing young people for “middle-skill” careers in potentially high demand sectors such as health care, advanced manufacturing, construction, and information services. Moreover, these programs can enhance opportunity by setting out career pathways for upward mobility, as well as including post-secondary education as part of their package.

Moving to opportunity: The inequality and mobility expert Raj Chetty and various teams of researchers have identified a set of neighborhood correlates associated with lower and high levels of opportunity and mobility for children. They find that when families with young children “move to opportunity,” those children do better as adults relative to children who stay in disadvantaged places. While Chetty et al.’s correlations are rigorously derived, it is important to realize that they represent correlation, not causation, so we cannot assume that neighborhood factors themselves drive mobility. For example, they find that families with a large share of mother-only families correlate with relatively low mobility. But two-parent families in those neighborhoods experience the same lower mobility rates, suggesting that single parenthood is likely a correlate more than a cause. Also, policy makers cannot, of course, simply advocate leaving disadvantaged neighborhoods as a sole strategy for families there. We must apply policies like those noted above to help the families that stay behind. Helping people move to opportunity is certainly one valid strategy, but moving opportunity to people where they are is another.

Longer-term investments in opportunity

As discussed above, the long-term rise of income inequality has negative impacts on long-term opportunity and mobility through at least three channels.

First, it makes neighborhoods of concentrated poverty and wealth more common and neighborhoods with more income diversity less so. Children in neighborhoods of concentrated poverty are exposed to more environmental hazards, lower-quality public goods, and less privileged social networks than children in higher-income neighborhoods.

Second, income/wealth inequality makes access to quality educational experiences less equal, with strong immobility consequences. Higher-income parents can invest in more enrichment opportunities for their children, and children from wealthier families can attend more adequately funded schools. Students from privileged backgrounds can afford to attend elite universities while students from less privileged backgrounds often can't, and when they can, their debt-to-income ratios can rise to levels that generate a new set of constraints.

Third, inequality directly undermines opportunity by subjecting some people to persistent disadvantages and stressors that others don't face. For example, poverty researchers note that experiences associated with persistent and deep poverty, such as overcrowded or unsafe housing, inadequate nutrition and medical care, and exposure to environmental toxins, can lead to "toxic stress" and delayed physical and social development, with obvious negative implications for future opportunity.

Addressing these long-term barriers requires policy interventions targeting inequality, inadequate housing, income and wage stagnation, nutritional and health support, educational access, and environmental degradation.

Importantly, extensive research on longitudinal data (data that tracks people or places over time) finds that many of our safety net programs work as long-term mobility enhancers. That is, quasi-experimental designs that follow children over time and compare those who received an intervention to those who didn't (or those who got larger "doses" of the intervention to others who got smaller doses) find that these programs do not simply boost consumption in the present. They work like investments, with lasting impacts. Consider:

--Duncan et al. find that a $3,000 annual increase in income to poor children before age 6 is associated with 135 extra hours of work a year for adults between the ages of 25 and 37, with an increase in annual earnings of 17%.

--Manoli and Turner find that adding $1,000 of the EITC during a student's senior year of high school boosts college enrollment by 0.4 to 0.7 percentage points.

--Cohodes et al. find that Medicaid eligibility expansions between 1980 and 1990 “had an impact equivalent to cutting today’s high school dropout rate by 9.7 to 14 percent and raising the college completion rate by 5.5 to 7.2 percent.”

--Hoynes et al. find that access to SNAP in the 1960s and early 1970s decreased kids’ adulthood obesity by 16 percent and their incidence of heart disease by 5 percent while increasing their high school completion rate by 18 percent.

--Former President Obama’s Council of Economic Advisors finds that every $1 spent on early childhood education results in roughly $8.60 of “benefits to society…about half of which comes from increased earnings for children when they grow up.”

--Chetty et al. find that children in families that received a Section 8 voucher when they were younger than 13 under the “Moving to Opportunity” program saw a 15 percent earnings boost in adulthood, while kids in families that got the voucher that had to be used in a low-poverty neighborhood saw a 31 percent earnings increase.

CBPP has elaborated a set of recommendations for boosting longer-term opportunities in the spirit of this research by strengthening and extending successful safety net programs.

For example, bipartisan support exists for significantly increasing the value of the Earned Income Tax Credit for childless adults. Such workers under 25 are ineligible for the wage subsidy and, if they earn poverty-level wages, are exposed to payroll and income taxes that can push them into or deeper into poverty. Older low-income childless workers are eligible for only a very small credit; e.g., a full-time minimum wage worker would be eligible for a credit under $50. Proposals to significantly increase the value of the credit would lift hundreds of thousands of workers out of poverty and bring millions closer to the poverty threshold.

Since we’re talking about childless adults, proposals to significantly raise this credit may appear to belong in the bin of shorter-term opportunity enhancers. However, researchers argue that these expansion proposals could have positive impacts on longer-term labor supply, reduced incarceration, and higher marriage rates.

Increasing the EITC is sometimes promoted as a substitute to higher minimum wages. But Robert Greenstein, CBPP’s president points out that proposals to raise the minimum wage and the EITC should not be viewed as substitutes; their designs have several complementary attributes and it will take both to raise living standards and boost opportunities.

CBPP has also argued for strengthening the Child Tax Credit, which currently excludes the first $3,000 of a worker’s earnings from consideration, for very poor families with young children. That can be accomplished by either “making the *current* CTC fully refundable for families with a young child or by creating a fully refundable *supplement* to the CTC just for families with young children (an option that is more expansive because it boosts the tax credit for all families with young children that receive the CTC, not just those at lower income levels).”

With respect to the findings of Chetty et al., as well as Ann Owens (on residential segregation by income), CBPP also views renewing and boosting the funding of Housing Choice Vouchers as an opportunity-enhancing policy intervention. Housing expert Barbara Sard notes that HCV has a strong track record in reducing homelessness, foster care placements, and frequent disruptive moves, and has been associated with lower rates of "alcohol dependence, psychological distress, and domestic violence victimization among the adults with whom the children live." She finds that HCV "has an important, positive impact on minority families' access to opportunities," one that is particularly pronounced for minority families. But Sard also notes that relatively few families are able to use vouchers to find housing in low-poverty areas with access to better educational opportunities, and she suggests improvements that would enable more such moves, including increased incentives for state and local agencies to seek higher-opportunity locations; setting subsidy caps and jurisdictional rules that facilitate moving to opportunity; and direct assistance and encouragement both to landlords in low-poverty areas and to families who would benefit from moving to such areas.

A full treatment of criminal justice reform is beyond my scope here, but there are many changes that could begin to reduce the harm caused by mass incarceration. For example, Mitchell and Leachman recommend state-level policies that can reduce the negative effects of incarceration rates: reducing penalties for low-level felonies, many of which fall disproportionately on minorities, reexamining sentencing laws, reducing sentences, and more. Congress could accelerate such progress with legislation allowing federal judges to impose sentences below the mandatory minimums when warranted. Emsellem and Ziedenberg have also written about the need for expanding "fair chance" hiring practices such as "ban-the-box" (which allows those with records to not reveal them in initial interview stages), and they find positive results in many places that are trying these interventions. They also underscore the importance of making background checks more reliable and accurate, and recommend "clean slate" or expungement laws for minor, nonviolent felonies.

Finally, the long-term benefits of Medicaid access underscore the importance of tapping the Affordable Care Act's Medicaid expansion in the 19 states that have yet to do so. The expansion led to significantly improved coverage of low-income families in states that took it up, and Medicaid is particularly important to residents of rural areas, which, as shown above, have faced less employment growth in recent years. In this regard, recent efforts by some House Republicans to significantly cut the Medicaid program as part of their American Health Care Act go in exactly the opposite direction of creating more opportunity for less advantaged families. I now turn to that and other policies that should be strongly resisted in the interest of promoting opportunity.

Policies that would diminish opportunity

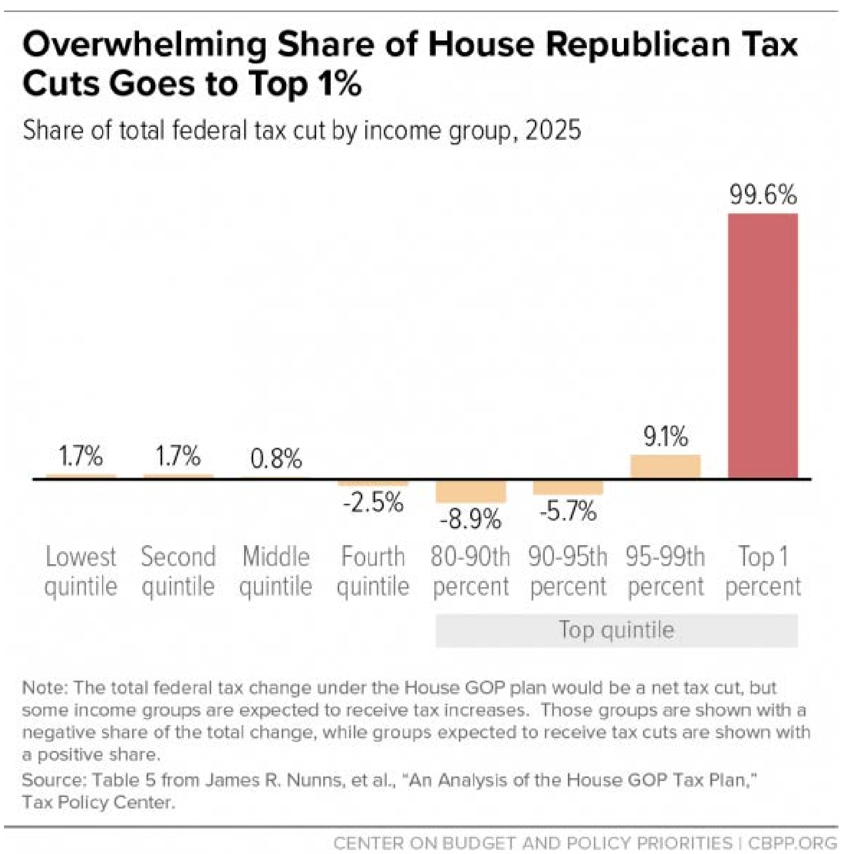
There are at least three areas where Congress and the Trump administration are in danger of taking steps with the potential to significantly reduce opportunities: health care, budgets, and taxes.

Health care: I have already testified to the opportunity-enhancing characteristics of publicly provided health care, including how it unlocks entrepreneurial opportunities and improves the long-term health and educational attainment of children who receive it. Subsidized coverage, a key component of the ACA, also provides income relief for families whose budgets are already tight even before paying for health coverage.

In contrast, the recent House health care replacement bill (AHCA) not only rolled back the ACA's subsidies to lower-income and older persons, it cut Medicaid funding by 25 percent in 2027. In total, as scored by the Congressional Budget Office, the bill would have completely unwound the coverage gains of the ACA, adding 24 million to the ranks of the uninsured. Based on the research cited above, such ideas clearly run counter to an opportunity agenda. Instead, as noted above, I urge members to build on the successes of the ACA and improve its flaws. That would mean expanding Medicaid to the 19 states that have yet to adopt it, introducing a public option into the insurance exchanges, as President Obama himself suggested last year, and strengthening the risk pool by raising enrollment and marketplace subsidies to lower out-of-pocket costs.

Taxes: In addition to threatening opportunity by reducing health coverage, the AHCA also did so by proposing about $600 billion in highly regressive tax cuts. As noted throughout this testimony, and as the work of Chetty and others have underscored, high levels of inequality are associated with immobility, wage and income stagnation, residential segregation, and diminished opportunity in both the near-term and, especially regarding poor children facing educational and environmental barriers, the long term. Yet regressive tax cuts "pile on" and exacerbate market-driven inequalities that are already too high from an opportunity perspective.

As Congress moves on to tax policy, it is notable in this regard that, according to the non-partisan Tax Policy Center, by 2025, just short of 100 percent of the tax cuts in the House Republican tax plan go to the top 1 percent (see figure below). President Trump's tax plan is not quite as skewed to the wealthy, but it is close. In his plan, TPC analysis finds that millionaire households get an average 14 percent boost in their after-tax incomes, while the middle-class ($40,000 and $50,000) ends up with an average 1 percent boost in 2025. Tax analyst Chye-Ching Huang points out that the "total tax cuts for people with incomes below $100,000 would be only about one-fifth as big as the tax cuts for millionaires."



Huang also reports that the House plan loses $3.1 trillion in revenues (1.3% of GDP) in the first decade and another $2.2 trillion (0.6% of GDP) in the second decade. Trump's plan loses $6.2 trillion in revenues (2.6% of GDP) in the first decade and another $8.9 trillion (2.6% of GDP) in the second decade.[2]

In other words, these plans thwart opportunity in two ways: by exacerbating after-tax inequality, a problem clearly associated with immobility and diminished opportunity, and by reducing revenues needed to support the many ideas elaborated above, ideas which would lower barriers to opportunity.

Budget policy: President Trump's so-called "skinny budget" proposal likewise seems designed to buttress rather than reduce opportunity barriers. And while the president's partial proposal has been criticized by both Democrats and Republicans, in one important way relevant to this testimony, it merely exacerbates a longer-term trend: the decline in support for non-defense discretionary programs. Many programs in this budget category are associated with reducing the opportunity barriers discussed throughout this testimony, including housing assistance programs, job training programs, Head Start, aid for poor school districts, Pell grants, the MEP discussed above (a program within Commerce which helps small manufacturers access global supply chains), and block grants that support community and economic development. CBPP analysis shows that NDD funding is already heading for its lowest levels as a share of GDP on record. Recent Republican budgets have followed a similar "architecture": large tax cuts that worsen after-tax inequality and spending cuts that fall mostly on low- and moderate-income households.

Instead, I have argued that supporting an opportunity agenda in a fiscally responsible manner, while protecting key income and health security programs like Medicare, Medicaid, Social Security, and SNAP (food assistance), will require additional, not less, revenue. Meanwhile, revenue neutrality is too low a bar for our tax debate. In the interest of maintaining and supporting the opportunity enhancers discussed in this testimony, we must raise revenues, not try to break even (or, worse, use questionable scoring practices to claim neutrality). I have elaborated measures Congress might consider to raise revenues in a progressive manner, which include the closure of various loopholes that lead to lower effective tax rates for the richest individuals.

Conclusion

This testimony documents extensive barriers to opportunity and mobility stemming from income inequality, discrimination, residential economic segregation, low access to educational opportunities, inadequate job opportunities, and more. I then elaborate a set of short- and long-term policies to reduce these barriers. Finally, I argue that there are policies under discussion in the areas of health, taxes, and budgets that push in precisely the wrong direction, threatening to reinforce these barriers.

In discussing some of the long-term benefits to children who were in families that received certain anti-poverty benefits, I highlighted several rigorous analyses showing how these programs have improved the life chances of these recipients. This information is important both as a guide to opportunity-enhancing policy and as a reminder that, too often in this town, those who oppose these programs wrongly claim that "nothing works."

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[2] These are static scores. Dynamic scores show slightly lower revenue losses. For example, instead of losing $3.1 trillion, TPC's dynamic scores estimate that the House tax loses between $2.5 and $3 trillion.

In fact, there is continuing evidence that health care policy, child-centered educational policies, anti-poverty policies, and workforce policies (recall the above discussion around apprenticeships) are having their intended effects. If we are serious about providing Americans with the opportunities they deserve to realize their potential, then the policies and programs discussed in this testimony must be nurtured, strengthened, and improved.