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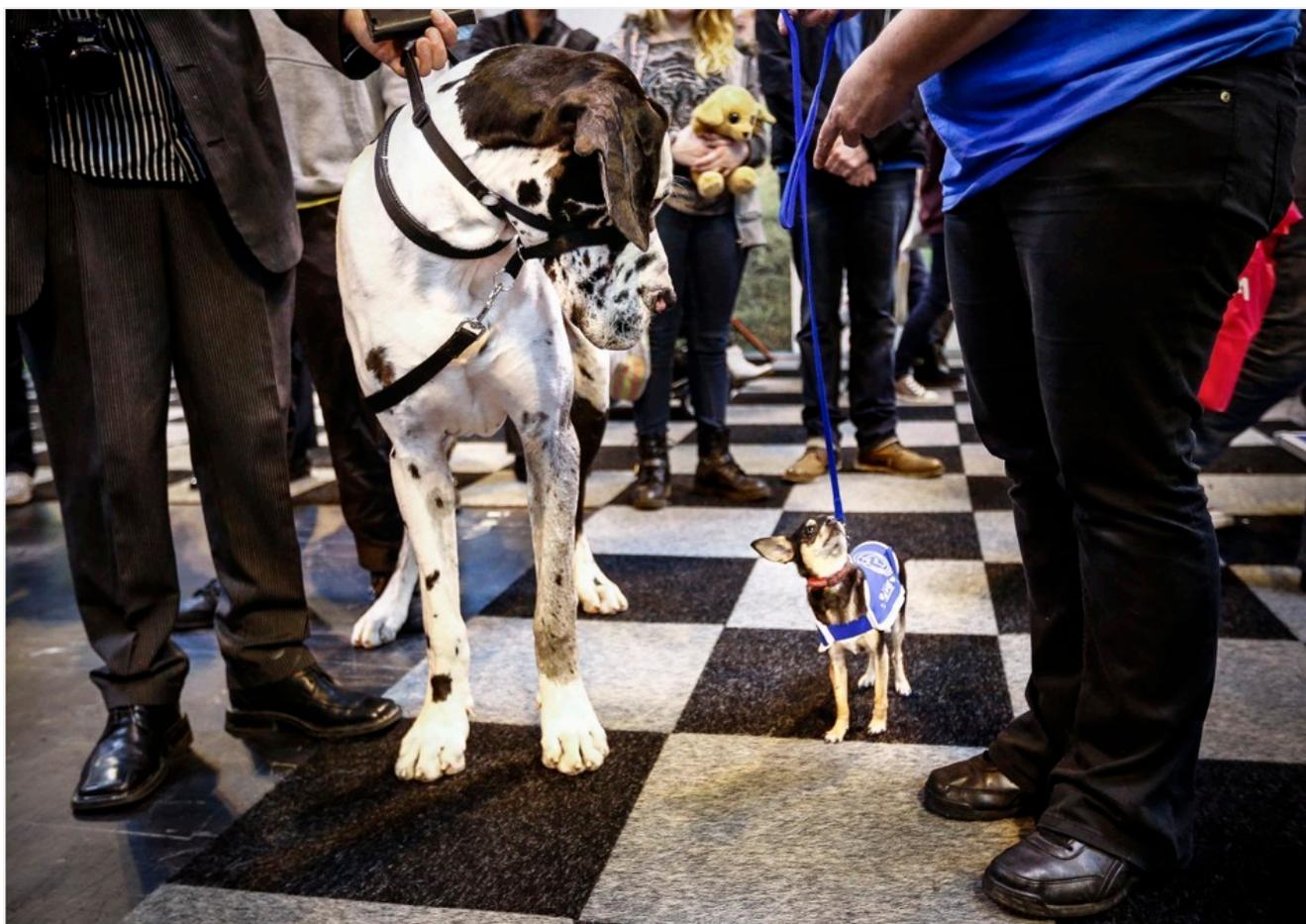
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The Atlantic Inequality Matters

Conservative commentators have been arguing that the uneven distribution of wealth and income in America isn't a problem. They're wrong.



Darren Staples / Reuters

JARED BERNSTEIN AND BEN SPIELBERG | JUN 5, 2015 | BUSINESS

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Lately, one argument that's been making the rounds is that people should worry less about inequality and more about opportunity. Arthur Brooks, head of the conservative American Enterprise Institute, [said](#), "I don't care about income inequality per se; I care about opportunity inequality." Senator and presidential candidate Marco Rubio [believes](#) that inequality is but a symptom of immobility and constrained opportunity. Tyler Cowen [argued](#) in the *New York Times* that what matters is not the fact that the top 1 percent is capturing a much larger share of total income growth than they used to, but that the poor are stuck in poverty.

These individuals have identified a worthy goal. Unequal access to opportunity offends deeply held American values, and poverty is not only a matter of near-term material deprivation—too often, it also robs low-income children of the chance to realize their intellectual and economic potential.

But it's not possible to effectively address either poverty or inadequate opportunity if America hives off its opportunity concerns from the broader problem of inequality (nor, as Senator Rubio intimates, can America reduce inequality by focusing solely on increasing mobility). Boosting mobility will require reductions in wage, income, and wealth inequalities.

For many in the opportunity-not-inequality camp, the relationship between the two concepts is an inconvenient truth. Concerns about inequality smack of "class warfare," of "going after" the top 1 percent and Wall Street. Cowen is revealing in this regard: "The inequality focus tends to draw us to redistribution, whereas a

mobility focus is more conducive to ideas for wealth creation.”

Many politicians and analysts would rather not address the power imbalances that have channeled so much of our economic growth to the highest-income families. They are much more comfortable focusing on the benign-sounding theme of “wealth creation” or insisting that [economic growth](#) alone can improve mobility without any redistribution of resources or political power, as if “a rising tide can lift all boats” matters when a few people are in yachts and many are stuck in dinghies.

But a growing body of research shows strong links among inequality, poverty, and opportunity. For example, [new research by Elise Gould of the Economic Policy Institute](#) reveals that of the factors most commonly cited as driving poverty in America—education, family structure, race and more (see chart below)—the number-one factor by far is the growth in inequality, which added seven percentage points to the poverty rate since the late 1970s.

So why is that? How is it that inequality reduces mobility and deepens poverty?

* * *

The relationship between childhood family income and life outcomes is well-established. Socioeconomic status is unfortunately the strongest predictor of a child's academic achievement, as decades of social science research [have found](#). A child's income rank—her family's income relative to the household income of other families—makes a difference for that child's future adult-income rank as well. [Research](#) by Raj Chetty of Harvard and his colleagues links every 10-percentile-point gain in childhood income rank with a 3.4-percentile-point gain in income rank as an adult. Since inequality by definition means that less income

will reach poor and middle class Americans for any given rate of economic growth, these facts alone highlight inequality's relevance to mobility discussions.

In addition, a large and growing body of evidence, recently [reviewed](#) by Katharine Bradbury and Robert Triest of the Federal Reserve Bank of Boston, directly connects inequality of outcomes to inequality of opportunity. As shown in the figure below, Bradbury and Triest find a significant, negative relationship between living in an area with greater income inequality and children's expected upward mobility.

The Relationship Between Inequality and Mobility

Commuting zones with greater inequality have reduced expected upward mobility for low-income children (Center on Budget and Policy Priorities)

It's critical to understand the fundamental difference between these findings and the Cowen, Rubio, et al. view that America can address poverty without addressing inequality. As just noted, rising inequality implies that the income and wealth generated by GDP and productivity growth increasingly flow to those at the very top of the scale. As a result, relatively fewer resources reach everyone else. One thus would expect to see low-income families less able (relative to the wealthy ones) to invest in children's futures, more indebted if they tried to go to college, more likely to be stuck in neighborhoods that lack opportunity, and more likely to experience the stressors that do permanent damage to children's later educational and earnings outcomes.

And that's exactly what happens.

Research indicates at least three causal pathways via which inequality constrains opportunity for those at the lower end of the economic spectrum.

First, inequality is [driving](#) increasing residential segregation by income. The shares of families in neighborhoods of concentrated poverty and neighborhoods of concentrated wealth both more than doubled between 1970 and 2009, while the share of families in middle-income neighborhoods declined from 65 percent to 42 percent. Those high-poverty neighborhoods—where more and more families are living—create lasting disadvantages for many who grow up there: If a family with young children (less than age 13) relocates from a high- to a low-poverty neighborhood, the kids achieve better academic and economic outcomes later in life, as [new work](#) by Chetty et al. indicates.

Second, inequality leads to unequal access to quality educational experiences throughout a child's lifetime. Over the period of growing inequality, these disparities have increased. In 1995, for example, families with education debt in

the bottom half of the net worth distribution (a broader definition of income, including assets minus liabilities) had a mean debt-to-income ratio of around 0.26, meaning that for every dollar of their income, they owed 26 cents in college debt. For families in the top 5 percent, that ratio was eight cents on the dollar. But 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.

The lack of opportunity for those in poverty is not some separate problem from the unequal distribution of wealth and income across society.

Third, and most importantly, inequality directly undermines equality of opportunity, likely through a variety of mechanisms. As the gap between the rich and poor widens, lower-income families have less ability relative to their rich counterparts to invest in enrichment goods for their children. Children from families with less income have relatively less extensive and privileged social networks and, compared to their rich peers, are more likely to experience the type of "toxic" stress [that can hamper brain development and long term academic, health, and economic outcomes](#).

In short, inequality entrenches immobility not just by enabling increasingly unequal transfers of wealth from one generation to the next, but also through a number of more subtle pathways that affect opportunity on a daily basis. It may

not yet be possible to explain all of these subtle pathways with great certainty, but the **fact** that “rich and poor children score very differently on school readiness tests before they enter kindergarten” should be viewed as an unsurprising consequence of the high levels of inequality American society currently tolerates.

Members of the “don’t-mess-with-the-rich-to-help-the-poor” crowd also ignore the political dimension of inequality. While Rubio, Paul Ryan, and others are professing their concern for the poor, they’re busy trying to repeal the estate tax (at a cost of \$270 billion over 10 years) and writing budgets that gut the safety net. These policies restrict mobility at both the bottom and top by exacerbating the burdens of being poor, increasing the privilege of being born into riches, and eliminating revenue sources for investments that might begin to reverse the inequality of opportunity. Why do politicians pursue such policies? Because they are nudged along by the interests of wealthy donors. Inequality begets greater inequality.

In other words, disadvantages faced by children in low- and middle-income families and advantages held by their wealthy peers are two sides of the same coin. The lack of opportunity for those in poverty is not some separate problem from the unequal distribution of wealth and income across society.

* * *

Boosting mobility therefore requires directly addressing residential segregation, educational access, and other barriers described above. Here are some ideas that hold promise:

One conclusion that stems from the Chetty et al. findings regarding the benefits of moving from high- to low-poverty areas is to improve the Department of

Housing and Urban Development's Housing Choice Vouchers (HCV) program. Housing analysts Barbara Sard and Doug Rice recently [detailed](#) a number of specific, straightforward changes that could eliminate barriers for voucher recipients to move into low-poverty areas, including tying voucher subsidies to rent in specific zip codes instead of entire metropolitan areas. Importantly, such a change could be implemented without significant funding or even congressional action, and [HUD has just announced that it is considering doing so](#).

To balance the educational playing field beginning at the starting gate, America needs a robust, publicly funded pre-K program. A 2013 [proposal](#) from the Center for American Progress that would make pre-school free for kids in low-income families and partially fund tuition for higher-income kids would be a good start, though at \$10 billion a year, it's not cheap. Still, [research](#) summarized by the Council of Economic Advisers suggests that the economic gains, higher tax revenues, and lower public costs from the children who would benefit from this investment would offset part of these costs in the long run.

America also needs more equitable funding for K-12 education at both the federal and state levels. That means both funding increases—real overall state and local per pupil funding has declined in 35 states since 2007—and changes in the distribution of funding, which is inequitable in part because of the reliance on local property tax revenue, and because of the political power that affluent communities have.

Evidence also shows that college enrollment and completion can be boosted by providing students with relief from the rapidly-escalating costs of tuition and other school-related expenses. It is thus important to at the very least protect recent improvements in Pell grant awards and eligibility (which are under attack

by Republican budgets), and to potentially consider more ambitious ideas for free college along the lines of what Bernie Sanders has proposed.

While the above recommendations are important, growing up with less income significantly inhibits mobility even after taking educational access into account. As research by the Pew Economic Mobility Project indicates, children born into the bottom quintile who obtain a college degree are 2.5 times **less likely** to end up in the top quintile of the income distribution as adults than children who grew up in wealthy families but did not graduate college. In addition, changes to HUD's voucher program, while extremely valuable for the roughly 250,000 children who could benefit in the near-term, do not get at the root causes of neighborhoods of concentrated disadvantage. Policies that directly address inequality and poverty by boosting the incomes of poor and middle-class families are essential for maximizing mobility.

One proven way to do so is through safety-net programs like the Earned Income Tax Credit (EITC), Supplemental Nutrition Assistance Program (food stamps), and Medicaid. These are redistributive programs (just as Cowen feared) and the added income they provide do not simply **reduce poverty** now: An important new line of quasi-experimental research on these programs also shows that they function as longer-term investments over children's lifecycles. As **summarized** by Marr et al., research has suggested, for example, that "a \$3,000 increase in family income (in 2005 dollars) between a child's prenatal year and fifth birthday is associated with an average 17 percent increase in annual earnings and an additional 135 hours of work when the children become adults, compared to similar children whose families did not receive the added income."

That evidence and similar evidence for **food stamps** and **Medicaid** reinforces the importance of maintaining and in many cases strengthening safety-net

programs. In terms of the EITC, both President Obama and Representative Paul Ryan have recommended expanding the [benefits for childless workers](#), who currently receive very little of the credit. [Key provisions](#) of the EITC and the Child Tax Credit are also set to expire in 2017, and these provisions should be made permanent as well. In addition, states that haven't yet done so should adopt the Affordable Care Act's Medicaid expansion, especially since the federal government shoulders almost all of the costs. SNAP should be expanded, too, as a recent [estimate](#) by the Urban Institute suggests that a 30 percent increase in SNAP benefits "would reduce child poverty by 16 percent, lifting 1.8 million children out of poverty."

More progressive taxation of inheritances and returns of wealth (capital gains) would be sensible, just, inequality-reducing, and mobility-enhancing ways to finance such initiatives.

Finally, since most working families depend on paychecks that have been hurt by diminished job quantity and quality, improving job-market outcomes for low- and moderate-income households is another essential strategy to offset the direct effects of inequality on opportunity. That means ideas like raising the minimum wage, protecting collective bargaining, and getting to full employment are integral parts of the effort to expand the opportunity set for kids of low- and middle-wage working parents.

* * *

That inequality and immobility are intimately linked—and that we can't effectively reduce the latter without also reducing the former—should not be surprising. As more of the benefits of growth flow to a narrower slice of households at the top of the wealth scale, it becomes increasingly more challenging for the majority on the wrong side of the inequality divide to make

the investments in themselves, their children, and their neighborhoods that can foster their mobility. Once political power is added to the mix—the established [fact](#) that the beneficiaries of high inequality are disproportionately influencing public policy on their behalf—the opportunities for the middle class and poor to build better lives become even more limited.

Attacking immobility means attacking inequality. To pretend otherwise will only preserve the unfairness that's at the heart of the American economy today.

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