

Katherine S. Newman, James B. Knapp Dean of the Arts and Sciences,
Johns Hopkins University
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Hearing on “Drivers of Intergenerational Mobility and the Tax Code”¹

I am pleased to have this opportunity to contribute to your deliberations about the ways in which the tax code might facilitate upward mobility. To do so, I draw on several decades of research I have contributed on the nation’s working poor, especially in New York, as well as a wealth of data gathered by economists and others who have studied the pathways of other countries whose mobility rates exceed our own. My aim is to consider what kind of investments promote mobility and how difficult it is for working people below the poverty line to make them. I offer some thoughts on how the tax code might assist them and what we see in the experience of other countries that should give us confidence these investments might pay off in greater levels of inter-generational mobility, particularly for Americans at the bottom of the income ladder.

Education and Inter-generational Mobility for Children of the Working Poor

It is by now axiomatic that upward mobility depends on educational attainment. Even in the current recession, unemployment is far lower among college graduates than high school graduates and drop outs are vastly over represented among the nation’s poor. The wage premium to higher education is substantial. Accordingly, ensuring that the children of the working poor complete high school and attend college or seek some kind of advanced training is the best recipe for fostering upward mobility.

Staying on that track is very sensitive to the quality of early childhood education. Low wage jobs leave families with few resources to invest in the next generation and hence among the families I studied, childcare options were meager in supply, erratic, and poor in quality. In the 14 years I followed working poor and near poor families in Harlem and the outer boroughs of New York City², my observations of their child care arrangements nearly always left me

¹ *“The opinions expressed herein are my own and do not necessarily reflect the views of The Johns Hopkins University.”*

² Katherine Newman. 1999. No Shame in My Game: The Working Poor in the Inner city. New York: Knopf and Russell Sage. Katherine Newman. 2006. Chutes and Ladders: Navigating the Low Wage Labor Market. Boston: Harvard University Press and Russell Sage Foundation. Katherine Newman and Victor Chen. 2007. The Missing Class; Portraits of the Near Poor in America. Boston: Beacon Press.

concerned about the fate of the next generation. The most common source of child care for the working poor was a relative or a neighbor, often with four or five other children to mind. The best of these settings would see young children scribbling in coloring books once in awhile, but very often, they were left to entertain themselves while the grown-ups in the room watched television and ignored their presence. Rarely were the children mistreated. They were fed, kept warm in the winter, and out of harm's way. Their mothers knew they were safe, which is not unimportant in the troubled neighborhoods where they live. Yet I rarely observed attempts to engage these children, much less to introduce them to the kinds of cognitive stimulation that more fortunate children routinely receive in formal daycare or early childhood education programs. Unregulated family day care is all that the working poor and near poor are likely to be able to afford. Under these conditions, young children often end up poorly prepared for school and lag behind their more advantaged counterparts which leaves them at risk for poor performance in later grades and dropping out in their teenage years.

One example from my fieldwork may illustrate the problem. Danielle Wayne (pseudonym), the divorced mother of three children, returned to the workforce during the course of my research.³ Her older children, ages 8 and 10 were doing well in school, having benefitted from her undivided attention and engagement in their schools when they were young and she was supported by public assistance and erratic contributions from her ex-husband. Danielle's youngest child, a two year old named Safiya, had a very different experience. When Danielle went to work, she took Safiya to her ex mother in law to be looked after during the day. At a cost of \$50 a week, this was the maximum she could afford and she was grateful to this sixty year old grandmother for accepting the child.

I visited Safiya and her grandmother to see how this two year old was spending the day. Her day care is a two bedroom apartment in public housing in the center of Harlem. Carla Wayne, Safiya's grandmother, had three children to look after. The day I arrived, the TV was set to the Jerry Springer show and the kids were glancing up to see topless women. One of Carla's own daughters, a woman in her mid-30s was sitting on the couch in a stupor. She explained to me that she had four teenage children of her own, but was no longer living with them. Carla

³ This case is discussed at length in Katherine S. Newman and Victor Chen. 2007. The Missing Class: Portraits of the Near Poor in America. Boston: Beacon Press. Pp 87-90.

explained later that her daughter has a serious drug problem and had nowhere else to turn for shelter.

An hour into my visit, two men in their late twenties showed up and made their way to the bedroom at the back, next to the one the children use as a play space. The unmistakable scent of marijuana drifted out from the room where they were hanging out. Every so often, Carla would ask the oldest kid in her care, an 8 year old in third grade, whether she was getting her homework done. She sometimes summons the energy to take Safiya to the park. But for the most part, the best we could say about this childcare situation is that it is custodial. And it is taking a toll on two year old Safiya. At an age where children in early childhood education are playing active games, learning how to be in groups, starting to recognize colors, Safiya had a two word vocabulary: “No” and “Shuddup!” That’s it. She never said another thing to me or anyone else. In the setting where she was spending more than 8 hours a day, it is not likely she is going to learn more. And that is not going to put her in a good position to enter kindergarten ready to learn.

Benefits of Early Childhood Education: What the Evidence Shows

How do we avoid this kind of unproductive pathway? In the United States, the Head Start program was a critical intervention that proved its mettle in longitudinal studies that showed greater educational attainment, higher earnings⁴ and lower risk of incarceration among white and black adults who were enrolled in the program as children.⁵ It was never a universal

⁴ Rucker Johnson’s analysis of the Panel Study of Income Dynamics shows” significant beneficial effects of Head Start participation on educational attainment and reductions in the likelihood of grade repetition. The results indicate that Head Start participation reduces the annual incidence of incarceration between ages 18-29 by 5 percentage points for black males. [Johnson] also [found] significant improvements in adult health status associated with Head Start participation, and increases in men’s annual earnings and wages.” Head Start alone is clearly not enough. Johnson found “ the estimated Head Start impacts on educational attainment and men’s earnings and wages [were] greater when 1) Head Start spending is higher, and 2) when children subsequently attend schools with higher per-pupil spending during their adolescent years (ages 12-17). The impacts were less pronounced and, at times, non-existent when Head Start spending per 4-year old was below average and/or children attended poorly-funded schools during their adolescent years.” Rucker Johnson. “School Quality and the Long Run Effects of Head Start.” http://socrates.berkeley.edu/~ruckerj/RJabstract_LRHeadStartSchoolQuality.pdf

⁵ Jens Ludwig and Deborah Phillips. 2008. Long-Term Effects of Head Start on Low-Income Children. *Annals of the New York Academy of Sciences*. 2008. <http://home.uchicago.edu/~ludwigj/papers/NYAS->

program and hence although it improved outcomes for those who were touched by it, Head Start was not extensive enough to move the national needle.

In other countries, the extension of universal or large scale programs for preschool has become fairly common and their experience reaffirms the importance of this opportunity. Christopher Ruhm from the University of Virginia and Jane Waldfogel at Columbia University have provided the most comprehensive examination of the long term impact of exposure to early childhood education in countries where publicly funded and universal preschool beginning at the age of three or four is now normative.⁶

They summarize studies that followed children through to adulthood in order to measure the impacts. They find:

- Significant impact of “preschool density” for children 1-6 on completed schooling and earnings at 22-30 in **Denmark**, with larger effects for disadvantaged children.⁷
- Positive impact of preschool on grade repetition, test scores, high school graduation and adult wages in **France**. Here too, “these effects are particularly large for children from disadvantaged or intermediate [SES] backgrounds.”⁸
- More years in school, higher rates of college attendance and labor market participation in **Norway**. Effects were largest for children of low educated mothers.

These studies are able to move all the way from early childhood educational experience to adult outcomes. Ruhm and Waldfogel review a series of additional studies that look at outcomes for adolescents and find that in **Germany, India, Norway, Sweden, and Uruguay**, Kindergarten attendance raises school enrollment and achievement, especially for immigrant

⁶ Christopher Ruhm and Jane Waldfogel. 2011. “Long Term Effects of Early Childhood Care and Education.” Discussion Paper No. 6149, Institute for the Study of Labor (IZA, Bonn).

⁷ Paul Bingley and Niels Westergaard-Nielson. 2012.. “Intergenerational Transmission and Day Care in Denmark.” In Ermich, John et al (Eds) Inequality from Childhood to Adulthood: A Cross-National Perspective on the Transmission of Advantage. New York: Russell Sage Foundation.

⁸ Christelle Dumas and Arnaud LeFranc. 2012. “Early Schooling and Later Outcomes: Evidence from Pre-School Extension in France.” In Ermich, John et al (Eds) Inequality from Childhood to Adulthood: A Cross-National Perspective on the Transmission of Advantage. New York: Russell Sage Foundation

children for whom exposure to the language of the host country is positive affected by entering school early, providing the maximum time for them to acclimate.⁹

We lack studies of this kind, for the most part, in the United States because we are new to the availability of universal early childhood education. What we do have tends to date from the late 1990s and the availability of longitudinal data (ECLS-K). Magnuson et al (2007a and 2007b) show that “children, particularly those who are disadvantaged, attending pre-kindergarten in the year before [formal] kindergarten, enter school with better math and reading skills.”¹⁰

The Impact of the Tax Credits and Income Supplements on Educational Performance

These studies are telling us that early childhood education makes a positive difference in educational performance in later years. What can the tax code contribute to this equation? The most important contribution it makes to educational outcomes for low income families occurs via the Earned Income Tax Credit.¹¹ Gordon Dahl and Lance Lochner¹² examined the impact of increases in the Earned Income Tax Credit on the math and reading achievement of 5,000 children, matched to their mothers, in the National Longitudinal Survey of Youth. They find that a \$1000 increase in income generated by an increasingly generous EITC “raises combined children’s math and reading test scores by 6% of a standard deviation in the short run” and show that “the gains are larger for children from disadvantaged families...”¹³ Indeed, their analyses suggest that Black and Hispanic children, kids in single parent households, and those born to low

⁹ Christopher Ruhm and Jane Waldfogel. 2011. “Long Term Effects of Early Childhood Care and Education.” Discussion Paper No. 6149, Institute for the Study of Labor (IZA, Bonn). Pp12-14.

¹⁰ These findings are not altogether salutary though because the same studies show children coming from pre-K have higher levels of behavior problems. Nonetheless “the largest benefits are observed for children from families with low levels of education or from disadvantaged neighborhoods.”

¹¹ Summarized in the Center for Budget and Policy Priorities report by J. Charite, I. Dutta-Gupta and C. Marr, “Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty.” June 26, 2012. <http://www.cbpp.org/files/6-26-12tax.pdf>

¹² Gordon Dahl and Lance Lochner (2008). “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit.” National Bureau of Economic Research Working Paper 145999. Cambridge, MA.

¹³ Dahl and Lochner, p. 2

educated mothers show the greatest improvement in test scores as a consequence of the additional income flowing into their households through this tax credit.¹⁴

Similarly, economist Raj Chetty and his colleagues analyzed administrative data for children in grades 3-8 from a large urban school district and the tax records for families in the district and argued that “additional income from the EITC and the CTC leads to significant increases in students’ test scores.”¹⁵

Others have found similar impacts of income increases for poor households on par with the amounts typically received via the EITC.¹⁶ Economist Greg J. Duncan of the University of California, Irvine and his colleagues, Pamela Morris (New York University/ MDRC) and Chris Rodrigues (Columbia University), analyzed ten anti-poverty and welfare-to-work experiments and found a consistent pattern of better school results for children in programs that provided more income. Each \$1,000 increase (in 2005 dollars) in annual income (the equivalent of a full Child Tax Credit for one child) sustained over two to five years led to modest but statistically significant increases in young children’s school performance on a number of measures, including test scores. While the study did not specifically analyze the EITC’s impact, the researchers noted that their results are most germane to “income-boosting policies that link increases in income to increases in employment — like the EITC.”¹⁷

The Great Smoky Mountains Study of Youth echoes these findings and adds strength to them because it lasted so long. The study began in 1993 and gathered longitudinal data on children.¹⁸ Because the researchers were interested in the developmental pathways of children in poverty, they oversampled American Indians from the Eastern Band of the Cherokee.

Three years after the study began, a casino owned by the tribe opened. All adult members of the tribe were eligible to receive a portion of the profits from gambling and starting in 1996, the funds began to flow into the households of the Cherokee to the tune of

¹⁴ Ibid, p. 18

¹⁵ Summarized in the Center for Budget and Policy Priorities report by J. Charite, I. Dutta-Gupta and C. Marr, “Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty.” June 26, 2012. <http://www.cbpp.org/files/6-26-12tax.pdf>

¹⁶ Ibid

¹⁷ Discussed at length in Charite et al. 2012.

¹⁸ The children were ages 9, 11 and 13; they were followed annually until they turned 16 and then re-interviewed at 19 and 21.

approximately \$4000 annually. This “exogenous shock” made it possible to examine the impact of increasing income on children’s outcomes and the results are impressive: at age 21, children in the poorest households saw an additional year of education and the chances of committing a minor crime decreased by 22% for 16 and 17 year olds.

What all of this research is telling us is that the injection of resources into households either through the EITC or through income increases that mimic what the EITC provides for low income households is paying off in the increased educational performance of children. The knock on benefits of that improved track record surface later in the labor market and hence in inter-generational mobility.

What can we do to improve the chances that children from low income households will stay that course? Specifically, what can the tax code provide that improves the odds? Part of the answer is already with us: enlarge or at least preserve the Earned Income Tax Credit and the Child Tax Credit, both of which put resources in the hands of parents. There is a lot of debate about why this works, or rather what the pathway is from higher household income to improved educational and earnings outcomes. Candidates include more money to spend on children’s education, greater household stability, parents who are less stressed and hence do a better job raising their children, better health outcomes which prevents the disruptions to adult employment that can derail children and/or interrupt children’s own attachment to school. My guess is that all of these factors matter.

To this point, I have emphasized the value of the EITC in improving mobility through the route of educational attainment, which leads to greater stability in employment and hence greater earnings. The Congressional Budget Office points to the importance of maintaining the fruits of that mobility in retirement.¹⁹ Relying on administrative earnings data from the Social Security Administration and existing estimates of the effect of the EITC on employment and earnings growth, these economists simulated the impact of an EITC expansion on the future Social Security retirement benefits of less-educated women. Their results point to the beneficial impact of the EITC on the proportion of less educated women who would qualify for Social Security and an increase in the monthly benefit amounts to which they would be entitled. They conclude that, “the existence of the EITC contributes to the financial security of affected women as they age and retire.” Accordingly,

¹⁹ Dahl et al 2012. The Earned Income Tax Credit and Expected Social Security Retirement Benefits Among Low income Women. Working Paper Series, Congressional Budget Office.

investments we make as a nation in the EITC both enhance mobility prospects and help to maintain their value even after workers leave the labor force.

When the states follow the lead of the federal government, the benefits of the EITC are amplified. As you know, about half of the states have EITC's of their own, as do select counties and cities. Only some of them have made these credits refundable and it is among those states that we see the most productive outcomes in terms of morbidity, mortality, educational attainment, and crime.²⁰ The recession has placed state budgets under heavy pressure and constitutional requirements for balanced budgets and/or public clamor to avoid debt has led a number to propose or enact cuts in their EITC provisions or other tax credits (e.g. renter's credits) of great importance to low income households. Virginia, Georgia, New Jersey, Iowa, Wisconsin, Michigan, Kansas and North Carolina, have moved in this direction in recent months.²¹ Quite apart from the consequences of these changes for poverty rates, we can expect in the long run that inter-generational mobility will be negatively affected. Anything that can be done to encourage states to find other ways to address their revenue needs, approaches that do not reach into the pockets of low income households will reap benefits in terms of the pathways of those who have the unfortunate luck to be passing through childhood in an era of austerity.

Tax Incentives for Education

Beyond this, however, what other instruments might be of value? I would argue that to the extent that the tax code can incentivize parents to choose high quality early childhood education over other child care options, particularly informal and unlicensed care, this will pay off in the long run. Child care varies tremendously in quality and the biggest payoff in terms of school readiness is likely to come in those programs that maintain favorable adult/child ratios and aim to prepare children for the school experience. If we were able to develop a certification system that would identify programs that met accepted standards of early childhood education and reward parents through the tax code for choosing them, we would be more likely to see

²⁰ See Katherine S. Newman and Rourke O'Brien. 2011. Taxing the Poor: Doing Damage to the Truly Disadvantaged. Berkeley: University of California Press.

²¹ Nicholas Johnson and Erica Williams. 2010. Some States Scaling Back Tax Credits for Low-Income Families Measures Would Increase Poverty, Slow Job Growth. Center for Budget and Policy Priorities. May 3. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3172>

positive consequences for school readiness. Increasingly, children from affluent families are turning up in Kindergarten having already logged several years in childcare programs that adapt them to the classroom experience, expose them to numbers and letters, and prepare them to concentrate and participate in ways that advantage them when school begins. Poor children who have been provided with child care may not be exposed to this kind of enrichment.

It is not likely that the tax code is the appropriate instrument for increasing the supply of affordable, early childhood programs of high quality. For this, other policies will be needed. Public support for moving the age of entry to public school down to age three or four is growing, given the increase in dual earner households. Where this policy is concerned, we can take comfort from the literature on the experience of other countries that are well ahead of us. It suggests that we will be doing our children, and the prospects of intergenerational mobility, a service if we pursue a similar course. Since increasing the age range of public school children would benefit the ever growing population of working parents on the prowl for affordable solutions, support for this kind of investment by states and municipalities is worthwhile, but not the province of the individual income tax system.

Finally, we should not focus our attention on young children alone, even if that is where we see the largest long term payoff. There are two other age groups that merit the support that tax credits could foster: teenagers and young parents. Anything we can do to encourage teens to stay in school and perform at higher levels will pay off in inter-generational mobility. Accordingly, mimicking early childhood education “credits” for teenagers is worthy of consideration. Millions of inner city teens are on their own in the hours after school. Investing in high quality after school programs, particularly those that support academic work through tutoring or enrichment would help to foster mobility through increased attachment to education. If we accept the principle that providing tax incentives for parents to pursue high quality early childhood education, or college attendance for that matter, there is no reason why the same logic should not apply to tax support for middle and high school enrichment programs in the after school hours.

Studies of the long term benefits of a college education among young parents, especially mothers, on the mobility prospects of their children point as well to the importance of adjusting the country’s tax code vis a vis higher education. As Attewell and Lavin have shown in their

book, Passing the Torch²², first time college students from low income backgrounds raise their children differently than people from the same kinds of families who do not attend college. They become more familiar with the benefits of museums, reading aloud, doing homework, visiting the zoo, and a host of other middle class habits that were often foreign to them from their own childhoods. Rubbing shoulders with people from more affluent backgrounds, low income mothers who went to college learned another way of raising kids and employed that knowledge to the task of rearing their own. What difference did this make over the long haul? Attewell and Lavin tracked a large sample of low income mothers who were the first in their families to attend college in the early 1970s and then examined the educational outcomes of their children decades later. Using a control group of mothers that did not finish college, they were able to measure the impact of college completion by low-income mothers on the mobility of their adult children. There were substantial improvements in children's educational performance measured from elementary school through college.

How could the tax code foster greater likelihood of college attendance among low income women? The American Opportunity Tax Credit, which refunds up to \$2500 for undergraduate education is a very important instrument for low income individuals and families supporting their children in college. This provision is scheduled to expire at the end of this year and should be renewed and expanded if we want to see more families repeat the intergenerational mobility story twenty years from now. Similarly, the Life Time Learning Credit, which enables students to deduct 20% of their tuition payments, should be increased. We often think of these provisions as facilitating mobility for the adults who attend college, and they do. But when we look at the ways in which a parent's college education changes the trajectory of their children, we see that it delivers benefits to the next generation down as well.

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As others in this hearing have pointed out, the United States is no longer the frontrunner in inter-generational mobility. There are many reasons for this slowdown, but one contributory factor may be our failure thus far to invest on a universal basis in early childhood education.

²²Paul Attewell and David Lavin. 2007. Passing the Torch: Does Higher Education Pay Off for the Next Generation? New York: Russell Sage Foundation (Rose Monographs).

Ever since James Heckman’s seminal work on the subject²³, it has been established that preschool remains the most cost effective instrument for insuring higher levels of educational attainment in adulthood. This, in turn, is the best predictor of positive employment and earnings trajectories. Investments of this kind level the playing field. Without them, family background is more likely to dictate the destiny of the next generation.

²³ James Heckman. 2008. “Schools, Skills, and Synapses.” *Economic Inquiry* 46(3): 289-324; James Heckman et al. 2010. “The Rate of Return to the HighScope Perry Preschool Program.” *Journal of Public Economics* 94(1-2): 114-128.