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EXPANDING OPPORTUNITY BY STRENGTHENING FAMILIES, COMMUNITIES, AND CIVIL SOCIETY

HEARING

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TUESDAY, APRIL 30, 2019

UNITED STATES CONGRESS,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 10:30 a.m., in Room 216, Hart Senate Office Building, the Honorable Mike Lee, Chairman, presiding.

Representatives present: Marchant, Heck, Herrera Beutler, Beatty, Schweikert, Beyer, and Trone.

Senators present: Lee, Hassan, Peters, and Sasse.

Staff present: Rachel Brody, Barry Dexter, Sol Espinoza, Connie Foster, Natalie George, Harry Gural, Colleen Healy, Christina King, Michael Pearson, Hope Sheils, Kyle Treasure, Jillian Wheeler, Jim Whitney, Scott Winship, and Randy Woods.

OPENING STATEMENT OF HON. MIKE LEE, CHAIRMAN, A U.S. SENATOR FROM UTAH

Chairman Lee. Good morning and welcome to this hearing of the Joint Economic Committee.

To begin, I would like to welcome back the members of the Committee who were part of this body during the previous Congress, as well as our new members. And I would like to congratulate Representative Maloney on her return as Vice Chair during this Congress. I look forward to working with all of you.

The topic of this hearing, Expanding Opportunity, is in many ways a quintessentially American topic. As Abraham Lincoln put so eloquently: The leading object of our government is, and has been, and I hope always will be, to elevate the condition of men, to lift artificial weights from all shoulders, to afford all an unfettered start and a fair chance in the race of life.

In other words, the purpose of government is to remove barriers for opportunity. Often, however, policymakers have a limited understanding of what "opportunity" is, what that word means. We sometimes see opportunity purely in terms of economic outcomes—namely, educational or financial success. And, moreover, we can view financial capital as the only important source of wealth on which opportunity in our society depends.

Economic wealth is no doubt important. No one would dispute its importance. And it is right that the Federal Government should certainly seek to remove barriers to economic wealth. But to see opportunity exclusively in those terms fails adequately to capture an individual source of wealth on which human beings draw, and one that is in fact key to expanding opportunity. And that is, Social Capital.

Social capital is the wealth produced from our associational life, from what we do together as human beings in a particular society. It inheres in the web of social relationships through which we pursue joint endeavors, and it comes from our families, our communities, churches, synagogues, rotary clubs, and little leagues, and it is through these institutions of civil society that we make a happy and productive life with other people. They shape our characters and our capacities. They help us address the challenges we face in life and provide us with meaning and purpose as we live our lives.

For the past two years, the Social Capital Project on the Joint Economic Committee has documented trends in our associational life and its distribution across this great country. It has studied the evolving nature, quality, and importance of our associational life, and the relationship it has to different problems our Nation is facing.

The Joint Economic Committee has recently undertaken the work of exploring the connection between opportunity and social capital. And it has found that opportunity is largely dependent on social capital available to us through the relationships we have with our families, neighbors, fellow congregants, and coworkers.

These relationships are crucial both to our economic opportunities and our opportunity for producing and sustaining a vibrant, healthy, meaningful community life.

And so the goal of the Joint Economic Committee is now to craft policies rooted in social capital, policies that will expand opportunity for all Americans by strengthening families, communities, and civil society in general.

This undertaking will of course not be without its challenges. After all, social capital is not something we can see, or touch, or smell. We cannot even directly measure it. We almost do not have the vocabulary or the tools to do it.

In addition to these difficulties associated with measuring it, there are also some real significant difficulties in establishing its causal importance. And while policy can certainly help promote the bases for a flourishing civil society within our culture, we must also inevitably confront its limits and determine when, whether, to what extent, and in what way the Federal Government has a part to play in this project, and the extent to which the Federal Government might be inflicting harm on these institutions.

To bound the types of policies under consideration, and based on the past two years of research, the Project has identified five broad goals related to opportunity: making it more affordable to raise a family; increasing how many children are raised by happily married couples; connecting more people to work; improving the effectiveness of investments in youth and young adults; and rebuilding civil society.

Our distinguished panelists will help us shed light on these issues and these questions today, and I look forward to hearing their testimony, and also to seeing the fruits of our discussion going forward.

I now recognize Senator Hassan for her opening remarks.

[The prepared statement of Chairman Lee appears in the Submissions for the Record on page 38.]

OPENING STATEMENT OF HON. MARGARET WOOD HASSAN, A U.S. SENATOR FROM NEW HAMPSHIRE

Senator Hassan. Well, thank you Chairman Lee, and thank you for holding a hearing in which we can examine innovative ways to increase economic opportunity in all of our communities. And I want to thank all of the witnesses for being here with us today.

I want to focus today on how we can create opportunity for entrepreneurs by increasing their access to social connections and personal networks or, in other words, by helping build their social capital. Entrepreneurs frequently use their personal connections to identify business opportunities, find community mentors, and secure the capital that they need to launch and grow their startups.

However, not everyone starts off with connections to the business community. And entrepreneurs outside these informal networks can find it harder to access vital resources like financial counseling and capital investment. This presents particular challenges for women entrepreneurs.

Last year the National Women's Business Council issued a report that found that women's personal networks have fewer connections with ties to resources like financial capital. This is also an acutely important issue for entrepreneurs in rural areas of my State. In rural areas, there is often extremely limited access to high-quality, affordable broadband internet, which is an absolute necessity for any business hoping to compete in the modern economy.

Limited broadband access slows entrepreneurship and contributes to the so-called "brain drain," a problem for rural areas that I know, Mr. Chairman, you focused on in a report on social capital released just last week by this Committee.

Fortunately there are successful initiatives that Congress can build on. In New Hampshire, we have many nonprofit organizations and business incubators that are leveraging community interest and Federal investments to build social capital for entrepreneurs from all walks of life.

New Hampshire's Small Business Development Center provides business advertising and mentorship, for example. Our Regional Development Corporations provide business-gap financing, and we have start-up accelerators that tailor their services in innovative ways. So there are many programs already underway in the Granite State that can serve as models for our efforts to expand opportunity for entrepreneurs, and I expect that there are models in lots of other states, as well.

In my view, having the opportunity to start and grow a business should not be all about "who you know." Equality of opportunity for entrepreneurs should be predicated on a willingness to work hard to transform an innovative idea into a reality. The bottom line is that we have to do more to level the playing field and help aspiring business owners build social capital.

Our country was founded on the idea that nurturing the talent and energy of every person promotes human dignity and ignites a vibrant and competitive economy. And government certainly has a role in ensuring that we do just that.

When we bring people in from the margins, our communities, our democracy, and our economy all benefit. We thrive and we build a stronger future for our children.

So I look forward to our witnesses' testimony today on how we can help all Americans build social capital. Thank you, Mr. Chairman.

[The prepared statement of Senator Hassan appears in the Submissions for the Record on page 38.]

Chairman Lee. Thank you, Senator Hassan.

I would now like to introduce our distinguished witnesses and thank all of you today for being here with us.

First we have Dr. Nathaniel Hendren, Professor of Economics at Harvard University, and Founding Co-Director of Opportunity Insights. His work has documented the extent of equality of opportunity across a range of domains, from the inability of individuals to purchase insurance, to the difficulties faced by low-income children seeking upward mobility. And, more recently, the disparities in intergenerational mobility experienced by children of different races.

Welcome, Dr. Hendren.

Next we have Dr. Ryan Streeter, who is the Director of Domestic Policy Studies at the American Enterprise Institute, where he oversees research in education, American citizenship, politics, public opinion, and social and cultural studies.

Before joining AEI, he was the Executive Director of the Center for Politics and Governance at the University of Texas at Austin. Thanks for being with us today, Dr. Streeter.

Next we have Mr. Jose Quiñonez, the Founder and CEO of Mission Asset Fund, an award-winning nonprofit organization that helps financially excluded communities to participate in the mainstream U.S. financial system. He has received a number of honors and awards for his work, including the 2013 Irvine Leadership Award, and was nominated for the San Francisco Chronicle's 2019 Visionary of The Year. Welcome, Mr. Quiñonez.

And we have Dr. Patrick Sharkey, Professor and Chair of the Department of Sociology at New York University, teaching courses in urban policy, criminology, statistics, and violence. He is also Scientific Director at the Crime Lab of New York. He has authored a number of books, including the award-winning "Stuck in Place: Urban Neighborhoods and the End of Progress Toward Racial Equality." Thank you for being here, Dr. Sharkey.

We are all very grateful that you are here, and we will give each of you now an opportunity to present your testimony. We will start with you, Dr. Hendren, and move forward in the order in which you were introduced.

STATEMENT OF DR. NATHANIEL HENDREN, PROFESSOR OF ECONOMICS AND FOUNDING CO-DIRECTOR OF OPPORTUNITY INSIGHTS, HARVARD UNIVERSITY, CAMBRIDGE, MA

Dr. Hendren. Thank you. So I do have some presented slides. I do not know if it is possible to show them on the screen. If it is, feel free. And if there is a clicker for the slides, I would be delighted to use it. If not, I would be happy to just roll—alright.

Alright. So thank you for the opportunity to be here to talk with you today. I think, like many of us, I grew up inspired by the notion of the American Dream, this idea that every child should have an opportunity to climb that income ladder. In my research, with a broad set of collaborators, we try to measure the extent to which we live up to this ideal.

Unfortunately, our research shows that this dream is simply out of reach for too many children. There are many ways of quantifying the American Dream, but one way to measure it is to ask what fraction of children grow up to earn more than their parents in adulthood.

Now we find that for children born in 1940, the American Dream was nearly a guarantee. Ninety percent of those kids grew up to earn more than their parents. But today, only half of children grow up to earn more than their parents.

Now another measure of the American Dream is the likelihood that a child born at the bottom of the income distribution grows up to reach the top regions of the income distribution—sort of the ability to go from rags to riches.

Now if incomes in adulthood were perfectly independent of one's background, we would expect that 20 percent of those with low-income parents would grow up to reach the top fifth of the income distribution in adulthood. But in the U.S., only 7.5 percent of children whose parents are in the bottom fifth of the income distribution grow up to reach the top fifth of the income distribution.

Now perhaps perfect mobility of 20 percent is too high of a standard. Another benchmark is to think about comparing across countries. Here again, the U.S. lags behind. In the UK, 9 percent of children grow up to reach the top fifth from low-income backgrounds; 11.7 percent in Denmark; 13.5 percent from Canada; and 15.7 percent in Sweden.

Now this broad pattern in the U.S. masks the fact that there are places in the United States where the American Dream is alive and well. Rates of upward mobility vary dramatically across the country, and even within cities. In some neighborhoods—for example, in Provo, Utah—children from low-income families grow up to earn $66,000 on average at age 35. In contrast, low-income children who grow up in parts of inner Baltimore with parents of the same income background, earn on average only $16,000 in adulthood.

Now upward mobility varies even more when we compare across neighborhoods within cities. As we have documented in The Opportunity Atlas, children who grow up just a few miles apart in families with comparable incomes have very different later-life outcomes.

For example, children who grow up in some parts of Provo, Utah, earn just $30,000 a year on average, less than half of their counterparts at $66,000. Or to take another example in Midtown Manhattan where poor children growing up on either side of Third Avenue earn either $28,000 a year or $45,000 a year on average in adulthood.

And so these striking disparities raise the natural question: Why do outcomes differ so dramatically across places in the United States? Now our results suggest that the outcomes we see today of people in adulthood have their roots in the neighborhood environments in which these children grew up.

Every year a child spends growing up in a neighborhood with higher rates of upward mobility increases their income in adulthood.

And so the message is simple. Neighborhoods matter. Where we grow up shapes our outcomes in adulthood. If we can improve the neighborhood environments for children, especially for those who are most disadvantaged among us, we can increase upper mobility in the United States. The variation in The Opportunity Atlas we believe provides a learning opportunity that can inform such efforts where we can attempt to replicate the successes of places with high rates of upward mobility.

Now across the U.S., we do see that places with higher rates of upward mobility tend to be places where children are growing up in neighborhoods with lower poverty rates, stronger measures of school quality, stronger family structures, and stronger measures of social capital.

I do want to be clear today. While we can identify the characteristics of neighborhoods that tend to promote high rates of upward mobility, current limitations prevent us from identifying the best policies for improving upward mobility. And to that aim, I look forward to an extensive discussion.

And I am excited about our ongoing endeavors and collaborations on our end with researchers at the Census Bureau and Treasury Department to further understand these potential pathways to promoting upward mobility. Uncovering the recipe for success will not be easy, but thanks to access to administrative data and support of government research I do believe we can make progress on this important question.

And more generally, I am delighted to be here today to discuss how we might learn from evidence to inform policies that might improve upward mobility. And while I know there is a lot of disagreement in policies, it is my hope and belief that an evidence-based approach to improving upward mobility and opportunity for all of our children as its purpose expands party lines and allows us to begin to restore the American Dream. So thank you for letting me be here today.

[The prepared statement of Dr. Hendren appears in the Submissions for the Record on page 40.]

Chairman Lee. Thank you.

Dr. Streeter.

STATEMENT OF DR. RYAN STREETER, DIRECTOR OF DOMESTIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. Streeter. Thank you, Chairman Lee, Senator Hassan, and members of the Committee, for asking us to come and testify today on the important relationship between social capital and opportunity in America.

Through several decades of research, we know that social capital positively affects a wide range of things that we all care about and desire, such as good work, happy family lives, a good education, safety for our kids, and opportunity for us and others. Yet we do not utilize what we have learned about social capital very effectively in domestic policymaking anymore.

And before explaining what I mean by that and talking about policy, I would like to share some relevant data points from our research at the American Enterprise Institute on social capital in America.

The benefits of social capital are especially interesting when we look at how the informal elements of social capital such as talking with and getting together with neighbors and friends, and formal elements such as volunteering in civic groups, relate to one another and other things that we care about.

Consider the following: 46 percent of people who are both highly civic and highly social rate the communities where they live as "excellent" compared to 36 percent of people who are highly social but not very civically engaged in their communities. People who are highly civic and social are the least likely to say they would move away from their community if they could. They are more attached to where they live than others.

When you ask people if they get a strong sense of community from their neighborhood, highly civic people are more likely to say yes, compared with people who are just highly social.

Social people with lots of friends are very happy, but those who are also civically engaged are even happier still. People who are civically engaged but not especially social are more likely to report never feeling lonely than people who are very social but not civically engaged. I could go on. But suffice it to say that America's health is greatly enhanced city by city by those who embrace their communities out of a sense of responsibility.

To think about the future of social capital in public policy, it is worth taking a look at the past. We know so much more about the benefits of social capital today, thanks to the research of people like Dr. Hendren and others, than we did in the mid-1990s, but strangely we incorporate these ideas less today when we are designing policy solutions.

For example, from 1991 to 1996 we saw four major domestic policy reforms at the Federal and State levels that all presupposed the indispensable value of basic units of civil society: family, neighborhood, community, in their very policy design. Each understood in its own ways that civic and social networks were important elements of policy success.

The first reform was in school policy which began in Milwaukee in 1990 with the first voucher law, and in Minnesota in 1991 with the first charter law, and then rippled across the country. The premise of the school reform movement was to empower parents and families to either form their own schools in cooperation with community leaders or have the ultimate choice in where their kids went to school. Empowering civically minded school reformers was central to the movement's success.

The second reform concerns public housing, which in city after city had become a symbol of failed policy riddled with crime, drugs, and persistent poverty. HOPE VI, which Congress created in 1992, made the neighborhood rather than a simple unit of housing the central focus of public housing assistance.

Housing projects were torn down and replaced with mixed-income, sometimes mixed-use, developments that gave families in public housing a greater stake in their neighborhood—or at least that was the intention.

The third reform is community policing, which predates the 1990s, but it was a Federal law in 1994 that effectively made it a nationwide practice.

In the 10 years after the law passed, the share of municipal police departments' practicing community policing grew from about 20 percent to 68 percent. Today, 80 percent of police departments practice community policing, which replaces command and control crime response with crime prevention, rooted in neighborhood level partnerships.

Fourth, and perhaps the best known, is welfare reform which was created in 1996 amidst quite a bit of public debate. Most of the debate then, as now, was focused on the merits of work requirements and the time limits on welfare recipients.

Less debated, but just as important, was the positive effect experienced by states that devolved responsibility for work outcomes to the municipal level. Where that happened, local leaders stepped up and took ownership for helping people find work, with generally impressive results.

If we hope to continue to make progress serving individuals and families struggling to fully participate in the American economy, we need to focus on the centrality of community relationships once again.

Whatever the merits of our current debates on a range of issues from subsidizing wages or making college less expensive, or even free, and so on, if we fail to recognize the important role that networks play at the local and regional levels in people's upward mobility prospects, our national debates about these former types of policy will achieve limited impact. Thank you.

[The prepared statement of Dr. Streeter appears in the Submissions for the Record on page 44.]

Chairman Lee. Thank you.

Mr. Quiñonez.

STATEMENT OF MR. JOSE A. QUIÑONEZ, FOUNDER AND CEO, MISSION ASSET FUND, SAN FRANCISCO, CA

Mr. Quiñonez. Thank you, Chairman Lee, Senator Hassan, and members of the Joint Economic Committee, for having this important hearing. My name is Jose Quiñonez. I am an immigrant. I came to this country in the dark of night as a 9-year-old. I adjusted my status under the Immigration Reform and Control Act of 1986. I became a U.S. Citizen and now I am living my American Dream of helping low-income people become visible, active, and successful in the marketplace.

As the CEO of the Mission Asset Fund, a nonprofit organization based in San Francisco, I have first-hand experience at addressing the daunting financial challenges our clients face every day. And what I have learned is this: Being poor in America is expensive, particularly for people living outside of the financial mainstream.

Nationally, one in seven Latinos are unbanked, meaning they do not have checking accounts, or savings accounts. And while researchers point to various reasons for why people go without accounts, we know banks exclude people based on immigration status, or by requiring narrow forms of IDs. Consequently, many of our clients are left unbanked and without a choice but to rely on alternative providers that charge more to cash checks or pay bills.

The average household—under-served household that earns $25,000 annually—pays about 10 percent of that income on fees and interest for financial services that those of us with bank accounts often get for free.

Lack of credit is a challenge. Nationally nearly one in three Latinos are credit-invisible, meaning they do not have credit scores or credit reports. And given the nature of our economy, there is little anyone can do without credit. People cannot get loans to buy homes, start businesses; they cannot rent apartments; in some states they cannot even get jobs without employers checking their credit reports. And without access to credit, affordable credit, people turn to high-cost lenders, some paying 100 percent APRs on small-dollar loans, and significantly more for short-term payday loans.

Barriers to economic mobility are not just financial. People are also burdened with uncertainty from the current anti-immigrant political climate, fearing losing their families and draining their savings. Many worry about being detained for lack of documentation, igniting a financial crisis. Bail alone can strip them of $5,000. Obtaining legal representation, up to $20,000. And the costs mount from there.

So how can we help people realize their potential when they are financially invisible and also facing enormous challenges in their lives? We found answers in how our clients leverage social capital: their relationships with family and friends in order to survive and thrive.

Our clients practice a time-honored tradition of lending and saving money together. It is an activity known by a hundred different names the world over, but which is essentially the same. A group of people come together and agree to pool their money so that one member of the group can take the lump sum. And they do it again on a weekly or monthly basis until everyone in the group has had a chance of getting the lump sum.

So when people do not have access to loans, this is how they create their own, using their word and trust. We built our lending serving program on this tradition. We formalize loans by having participants sign promissory notes which MAF then services and reports to credit bureaus. Since launching the program in 2008, we have made over 11,000 loans to help participants build credit. In fact, they see an average increase of 168 points, opening a world of possibilities for them in the credit market. And the repayment rate is 99.3 percent, an unheard-of rate in the micro lending world.

Lending Circles is an example of what we could do with and for people if we designed programs and policies for success based on people's strengths and social capital to create lasting change.

But despite the promise of this approach, it is not enough to help the millions of people that are still trapped with barriers that diminish their economic potential.

We need better data to understand people's challenges. Research reports based on national data sets often ignore those who are financially invisible, thereby missing critical segments of our society. Congress can also remove asset limits to further benefit programs like SNAP that are a lifeline for families not earning enough to make ends meet.

Congress could also provide clarity that U.S. citizenship is not a prerequisite for accessing financial services, and allow for more government-issued IDs when opening accounts. Congress could also significantly reduce the number of credit-invisibles by allowing positive payment data from utilities, rent, and telecoms to be included in credit reports. And Congress can require ability to repay underwriting standards, and longer repayment terms for small-dollar and payday loans.

I believe these reforms can go a long way in unlocking people's economic potentials and help them realize their American Dreams, too. So thank you for holding this hearing, and I look forward to the conversation.

[The prepared statement of Mr. Quiñonez appears in the Submissions for the Record on page 49.]

Chairman Lee. Thank you.

Dr. Sharkey.

STATEMENT OF DR. PATRICK SHARKEY, PROFESSOR AND CHAIR OF THE SOCIOLOGY DEPARTMENT, NEW YORK UNIVERSITY, NEW YORK, NY

Dr. Sharkey. Thank you, Chairman Lee, Senator Hassan, and the members of the Committee. I will focus my comments on a basic question to the study of social capital: How do we build stronger communities?

Let me first give a sense of the problem we are facing. Several decades of evidence, which has been bolstered by the work of Dr. Hendren and his collaborators, has led to a clear conclusion: Neighborhoods in which children are raised play a central role in influencing their academic achievement, their cognitive development, their physical and mental well-being, and their economic mobility.

Labor market opportunities, environmental hazards, the quality of institutions like schools, libraries, financial institutions, police departments, vary dramatically depending on where one lives, creating a rigid geography of vulnerability and opportunity. And the problem is multi-generational. The vast majority of children who currently reside in poor neighborhoods are from families that have lived in similarly poor neighborhoods for multiple generations. So we know, the evidence tells us, that the consequences of living in highly disadvantaged neighborhoods are cumulative, with long-lasting effects that persist across generations.

There are good reasons to think that this link between our communities and our life chances is growing stronger. As income inequality in the Nation as a whole has increased, economic segregation has grown. Meaning, the rich and the poor are increasingly likely to live apart, sorting into separate communities.

Inequality between cities and regions is also growing. While many coastal and sunbelt cities like New York and San Diego have attracted newcomers with higher income, better education, other sections of the country, rustbelt cities like Detroit and Cleveland, have seen higher income, better educated residents leave.

As a result, metropolitan areas have begun to look more and more different from each other, some with bustling economies offering relatively high-wage jobs, others isolated from economic opportunity. And as this type of regional inequality has increased, long-range geographic mobility, the kind of mobility that has always served as a way to allow Americans to take advantage of new opportunities in new places, has fallen, particularly for the less advantaged segments of the population: racial and ethnic minorities, people with less education.

This is the challenge that faces America's neighborhoods. Now how did we get to this point? As urban economies began to shift starting in the 1940s and 1950s and all the way through the 1980s, a set of social problems like joblessness, segregation, pollution, and poverty became concentrated in central cities.

Our response was not a sustained national project of investment to respond to these challenges. Instead, our response was to abandon central cities, to withdraw resources, and to provide ways for the most advantaged segments of the population to leave central cities and to head to the suburbs.

As the share of city budgets from Federal sources plummeted, public housing deteriorated, public schools crumbled, fiscal conditions worsened, neighborhoods emptied out, institutions like churches and community organizations withered away. This is what happens when communities are abandoned. If we want to build stronger communities, we need to shift from a model of abandonment to a model of community investment. In the American Enterprise Institute's Survey on Community and Society, a national sample of respondents was asked what makes a community successful? The responses are revealing.

The two top responses were: good local schools and having libraries and community centers nearby. A great deal of evidence suggests that the respondents are on the right track. The most effective way to build stronger communities is to invest in core public institutions like schools and libraries that bring people together in shared spaces, and in local organizations, including faith-based organizations, community development corporations, prisoner reentry programs, childcare providers, mentorship and after-school programs, organizations like the Mission Asset Fund that provide the foundation for every community making them less vulnerable to the next crisis to hit America's neighborhoods. Thank you for bringing us together. This is a great group of speakers, and I look forward to your questions.

[The prepared statement of Dr. Sharkey appears in the Submissions for the Record on page 52.]

Chairman Lee. Thank you very much. We will now begin the five-minute question rounds. I will go first, followed by Senator Hassan, and then we will alternate Republican and Democrat in order of arrival at the hearing.

Dr. Hendren, I will start with you. You mentioned my home town of Provo, Utah, in your testimony today, and you have listed Utah communities as among the most upwardly mobile in some of your writings.

Now in my experience, there's a Moscow in Idaho, there is a London in Kentucky, there is even a Newark in Delaware, but there is no other "Provo." Nonetheless, there are some communities like Provo where upward economic mobility is possible. What is it that you found in your research that differentiates Provo and communities like it from other communities where you do not see that kind of social capital and economic opportunity?

Dr. Hendren. Well thanks for the question. So I will preface this by saying I have not actually been to Provo, Utah, so I will——

Chairman Lee. That's a shame. You need to remedy that.

[Laughter.]

Dr. Hendren. But what I will say is, when we look broadly across the U.S. in places like Provo that have some of the highest rates of upward mobility, what we find is really the four characteristics that I mentioned in my testimony. It is places that have strong schools. It is places that have less residential segregation and less income inequality. Places that have stronger measures of social capital. And places with stronger family structures.

Now what is it about a place in particular that drives its high rates of upward mobility? That is a question to which we do not know the exact answer. But in a place like Utah, the ways of measuring social capital, two things sort of come to mind. It is a place where a wide range of social capital measures score highly. There is a high fraction of religious populations there, and in the U.S. more broadly we see that places that have a higher fraction of people who are religious, we do see higher rates of upward mobility.

We also see in places that have people that return their Census forms have higher rates of upward mobility—speaking to some of that civic engagement. And so I think you phrased it right, that what we see is something amorphous that is hard to really put a finger on what exactly is driving the high rates of upward mobility, but what we can say is there are these characteristics that do correlate more broadly across the U.S.

Chairman Lee. I found it interesting when you mentioned in your written testimony that there are some poor neighborhoods in Provo where children raised in those neighborhoods, by the time they are 35 earn $60,000–$65,000 a year. There are other neighborhoods where that is not the case.

Are these same correlators present or absent in one neighborhood or the other? Are those the same things that differentiate one neighborhood within the same town as one town from another?

Dr. Hendren. Yeah, exactly. And I think it comes back to the statements earlier. Across the U.S., metro areas that have a higher degree of things like residential segregation, or lower measures of social capital, have lower rates of upper mobility on average.

When you zoom in within a locality, what you find is the children growing up in the segregated neighborhoods tend to have lower rates of upward mobility. Or, in places where measures of social capital are lower, those are places that have lower rates of upward mobility even within cities, if that makes sense.

Chairman Lee. Thank you. That is helpful.

Dr. Streeter, in recent years there has been really rapid growth in technology. You know, we have seen the rise of the iPhone, Twitter, other social media platforms, and those are things that have in some ways enabled easier communication between people. It connects one person to a whole lot of other people.

But it has also been argued that the same technologies might degrade—might undermine people's ability to access an education, and also interfere with somebody's ability or inclination to have personal interactions with someone else.

I heard from one—the president of a large university recently. She told me that as people have become more accustomed to learning things by YouTube and through Google searches, students today, even highly performing students in terms of their entering test scores and high school GPA, sometimes do not like to memorize because they consider it useless. That is one of many ways in which it is changing the way people learn.

But what do you think about the potential effects of technology on social capital formation?

Dr. Streeter. Well I would start out by saying there is a lot that we still do not know about the effect of technology on social capital. And there is some evidence that increased screen time among younger people on their phones correlates pretty strongly with increased incidences of self-reported mood disorders, depression, and the like.

There is some evidence that that is the case. What I would say is that from our own survey work we found that people who regularly interact with people that they consider close friends and family are generally less lonely and happier. And the more friends that you have, the less lonely you are. That might seem to make sense.

What we found through our own survey research is that, when people use digital technology to communicate with friends on a regular basis, that is like interacting often face to face. Now there is nothing quite like joining together in a room and solving problems together. We all know from experience there is something very valuable there.

We know that when people are concentrated in well-functioning neighborhoods that social capital has benefits, for the reasons that have been articulated here. But I think one thing to help maybe mitigate some of our worry and concern about the increased screen time, when you walk into a room and your kids are there and they are all on their phones and they are not looking up at you, there is something wrong with that—and I think there is evidence to suggest that we are seeing problems, particularly among teenagers, that are related to that phenomenon.

However, I also think, from our own work, we see that, when people are in regular communication with people they are close to, whether that is texting, or on phone calls, or using other social media, it helps sustain those relationships and it helps people feel less lonely. So there is reason to be optimistic that some of this social media technology actually can help us do things together.

And if you actually just examine some of your own interactions, think about people you are close to and how you stay in touch with them—I have a daughter that is in school in the UK. I thought SnapChat was terrible when I heard about it, when it was invented, but now I love it. It is a way for me to have visibility into her life every day. I think a lot of people can identify with that.

I have a closeness that is enabled through that technology that I did not have before it existed. And our survey data shows that there is reason to be optimistic that that actually does help keep us more closely connected with people that we love and care about.

Chairman Lee. Thank you.

Senator Hassan.

Senator Hassan. Well thank you again, Mr. Chair, for convening this panel. And thank you again to the panelists for your testimony.

Dr. Hendren, I would like to ask you about the research you and your Harvard colleagues published in 2014 on the factors that impact the future economic mobility of children across the country. Because in my view, the defining aspect of the American Dream is the ability of parents to expect that their children will have a better future, a more prosperous future, than they had.

In your study, you single out social capital and you mention that some of the characteristics of social capital are somewhat amorphous. You also said that important factors in increasing a child's economic opportunities include school quality, income inequality, racial segregation, and family structure. And that those factors also impact future economic mobility, and I would suggest they are somewhat less amorphous. They are measurable. Can you tell the Committee about how these other major factors I just referenced, such as school quality, also impact a child's future economic opportunities? And also, do these factors mutually reinforce and interact with one another? For example, do neighborhoods with both higher-quality schooling and more social capital provide greater future economic mobility for children?

Dr. Hendren. Great. Thanks for the question. So you are correct that broadly we find five factors that correlate with upward mobility: school quality, income inequality, social capital, strength of the family structure, and poverty rates.

In terms of school quality in particular, the ways in which we measure school quality are broad and vast, and I agree there are many ways to measure it. So you can look at 3rd grade or 8th grade test scores of students on State exams in places or in neighborhoods that have stronger scores on those exams, and particular scores by low-income students you see higher rates of upward mobility.

In places that have less residential segregation, either on the race dimension or the income dimension, you see higher rates of upward mobility. And to get to your last question, it looks like these five factors are in a sense additive across the U.S. Each factor seems to correlate with higher rates of upward mobility conditionally on the other factors as well. And so in places that have both high—strong schools and more two-parent households, those neighborhoods tend to have higher rates of upward mobility.

Senator Hassan. Thank you. Mr. Quiñonez, I would like to ask you about an important issue you raise in your essay, "Latinos in the Financial Shadows." You point out that, as online banking becomes more mainstream, some families may lose access to bank representatives, such as tellers or other employees who help them navigate the financial system.

This is an especially important concern in New Hampshire where many of my constituents also lack access to quality, affordable broadband internet. So on the one hand you have fewer human beings to interact with and help navigate the financial system, and on the other hand you also have people who really do not have access to the online banking functions, as well. So fewer bank storefronts and inadequate broadband access can make building credit a real challenge. One way to fill this gap in service, as you say in your essay, is for community nonprofits to partner with financial institutions and to provide families with financial advice.

How do you think community relationships between nonprofits and financial institutions can help fill gaps between storefront and online banking services? And how can Congress support and encourage these relationships?

Mr. Quiñonez. Thank you so much for that question. I think it goes back to the question of being present, being there. Because as those bank branches are starting to close—and not just banks, but credit unions are beginning to close all over the country—they are not present in those communities anymore. So those institutions are going to be lacking.

And so I am just lifting up the fact that there are nonprofit organizations. There are faith-based organizations in those locations, as well. So there is another way for us to sort of interact and provide them with the tools and resources so that they can be the front facing relationship bridge between what people are experiencing in terms of the hardships, or even advice and suggestions, so that they can continue moving on with their economic lives.

So I believe the nonprofits could play a key role there, but that has not been part of the conversation just yet. So in that particular essay, I was just like here are the organizations that are already in those communities, we can figure out how to either provide them with resources or maybe connect them more closely with financial institutions, so that as they close those branches those nonprofits can actually step in and provide more of those services there.

Senator Hassan. Well thank you very much. And I appreciate all of you being here today very much. I had a question that I will ask for the record, in which I will ask you all to help us prioritize steps we could take to encourage and grow social capital in our communities, and address some of the issues you have all identified. Thank you all for your very important work.

Thank you, Mr. Chair.

Chairman Lee. Representative Marchant.

Representative Marchant. Thank you, Mr. Chairman.

Members of the House have a—we represent communities that unfortunately change every 10 years. So we have kind of artificially created districts that are many times kind of drawn together in a very interesting way.

My District has 15 communities that surround an airport. So you have an economic driver. Then you have 15 communities. Many of those communities share school districts. So you do not have 15 different school districts, but it has a great diversity of—racial diversity, and great economic diversity.

Over the period of 10 years, most people think that these kind of changes come over decades. But in our environment, the suburban environment that we live in, these districts evolved very quickly. So in our area, we have had a—because it's a corporate atmosphere around the airport, and because of the airport the population growth has tended to bring in a very high earner into the community, while the community stays pretty much the same. But it's making those that were there before the hirees arrived, actually pushing them into a lower economic strata.

And of course when the school districts grow at that level, it forces them to rezone the schools on a regular basis. So that when you begin to rezone the schools, you zone it more towards the neighborhood. The neighborhood then pretty much throws diversity kind of out the window because it's looking for proximities. So you end up with very stratified racial school district zones where you have less diversity among the students learning together.

And my question is: When you look at a situation like that, is the question of school choice more important? Is the question of a district evolving from 90 percent homeowners to 50 percent apartment dwellers now because the corporations are bringing in workers that are not going to live there long. They are staying in an apartment. They are not as connected to the community. So this is becoming, across the Nation, as big a problem as these old stratified neighborhoods that are slowly declining, but you have districts that are kind of exploding as far as these problems go.

Dr. Streeter? Dr. Hendren? Any of you that would like to comment on that, I would appreciate it.

Dr. Streeter. Just to one part of your remarks and question. I do think that what is driving this is an interrelation of a couple of complex things, right. And so I will not diagnose those all entirely, although I have some things to say there, and I know the others here are more qualified than I am to talk about that. But I do think in that environment, allowing flexibility with where families can send their children to school is an important thing. I think having options—that competitive pressure that happens when there is a competitive educational marketplace—is generally a good thing. I think it has been good just a few blocks from here. You can visit neighborhoods that have benefited where traditional schools and charters and et cetera have benefited from that kind of competition.

I do think that the challenges for this sort of sorting and segregation that happens by income at the regional level is driven very much by local choices. And I think the tools available to Federal policymakers on some of these things are actually quite limited.

I think that, when it comes to how zoning is done and the way that neighborhoods are sort of constructed, that is driven very much by local and State policy. And I think that right now is driving a lot of these factors that we see in terms of inequality by geography.

Dr. Hendren. Yeah, I think that you raise tough questions. I think when it comes to zoning and other policies that are traditionally done at a local level, the only thing that I would be able to bring to that conversation is to note that it has national implications. Kind of the outcomes we see in adulthood for kids that grow up in those neighborhoods tend to be higher in places where kids from different backgrounds tend to grow up together.

And so thinking about the types of policies, the ways in which policy interacts with those incentives, is what I would say is important. But exactly how to turn that into local policy or regulations about local policy, I do not have a strong view at this time.

Dr. Sharkey. If I could just add one last comment on that, you are describing the growing phenomenon of economic segregation. High- and low-income people living nearby in the same area, but living in different communities. And the reason it becomes important is because, as neighborhoods become more and more segregated, investment in different communities becomes more and more unequal.

So, you know, there are steps to take. A, if there is affordable housing in every neighborhood around the airports and in every neighborhood within your district, then you will have some level of economic segregation and schools will become more integrated as well. But the key is that if there are investments, if there are core organizations in every single neighborhood, then the consequences of that kind of economic segregation become less severe.

Chairman Lee. Representative Heck.

Representative Heck. Thank you, Mr. Chairman. This is my inaugural meeting of the JEC. I just want to signal, it is a privilege and an honor to join the Committee, and I am very pleased to be here. I also want to express my appreciation to the Chair for selecting this topic. I think it is an important and very worthwhile use of our time. Although my concern is that we would devolve down the track of either/or, either social investment or social capital, which frankly I think, (a) reminds me of the old beer commercial where two people bark at each other, "less filling," "tastes great," to no end.

And, frankly, and unfortunately, is emblematic of everything that is wrong with this town, the "either/or" stuff. But having said all that, it seems to me that we have got a couple of kinds of communities that are relevant to this conversation: those for whom there has been an absence of opportunity for quite some time, it is structural, it is associated with all the factors that have been researched. Dr. Sharkey, Dr. Hendren, racial discrimination and others. And then you have other communities where it did not used to be that case, but then there is traumatic job loss and it becomes the case.

Everybody has that perspective, whether it is the mining community in Appalachia, or the factory town in the Midwest, or in the part of the country that Congresswoman Herrera Beutler and I live in, the closure of the sawmill where there's just been this precipitous loss.

We have some counties in Washington State, for example, that have had double-digit unemployment literally for 25 years because of the closure of the timber industry, double digit for 25 years.

And so to me it kind of begs the question, however, with respect to social capital. Is it destroyed, demeaned, deluded, by traumatic job loss? Dr. Sharkey? Let's go down the line.

Dr. Sharkey. Thank you, Representative Heck, for the question. It is a great question. I think in sections of the country that have gone through this kind of economic dislocation, then it set the stage for a whole set of additional problems. It sets the stage for the loss of social capital that we have all been discussing.

It is not inevitable, however. I think what destroys communities is when there is a combination of this kind of economic shock, or long-term economic distress, combined with the absence of a foundation of strong community institutions that are unable to absorb people who are unemployed, people who need additional training, people who need to go back to school, or who need short-term support in order to get back on their feet and reintegrate into the labor market.

So it is really this interaction between economic distress and the absence of a strong foundation of community institutions that creates the kind of——

Representative Heck. But they affect one another.

Dr. Sharkey. I think they interact together, exactly.

Representative Heck. My time is limited, so I guess I want to get to my second and last question, Dr. Hendren. A lot of your really informative research relates to upward mobility and going from one income bracket to another. But I am curious as to your reaction about the context here.

The truth of the matter is, for 40 years about 88 percent of this country has been within an income bracket which has not budged. Wage stagnation. That is the context. Your research is how do I get from here to here, but the fact of the matter is wherever "here" is has been flatlined for 40 years. And you did not say anything in your testimony, nor am I aware of anything in your research, that says how does that context bear upon the upward mobility.

Dr. Hendren. I thank you for the question, and it is a delight to be able to answer that. You are absolutely right that the statistics I quoted on the 7.5 percent of kids from low-income families that reached the top of the income distribution is sort of a comparative statistic within the income distribution.

In terms of statistics that capture exactly that phenomenon——

Representative Heck. If I may interrupt, as it relates to social investment, it is much higher in countries that have greater social investment. But I interrupt. Go ahead.

Dr. Hendren. That is true. When you look across cohorts, people who are born in 1940, 90 percent of them grew up to earn more than their parents. The reason that is is because we experienced broad-based equal growth across the income distribution.

Today, 50 percent of kids grow up to earn more than their parents. And the exact reason for that, statistically, is exactly the phenomenon you mention, which is that there has not been real wage growth at the median of the income distribution. That is simply kind of a mathematical restatement of exactly the phenomenon you are mentioning.

So in terms of whether or not kids earn more than their parents, that is a direct implication of the statistics you are describing.

Representative Heck. And if I had more time, we would talk a little bit about the importance of the Fed's monetary policy on that fact, and how it is that their over-concern about over-heating of the economy has caused them to tap the brakes too rapidly, thus suppressing wage growth. Thank you, sir.

Chairman Lee. Thank you. Representative Herrera Beutler.

Representative Herrera Beutler. Thank you, Mr. Chair.

This is the busy season here in D.C., but I feel like this is one of those conversations that could go over several days, and should, quite frankly. Because when I think about the issues at home—you know, Representative Heck mentioned West Coast has been decimated in certain areas by the timber industry, and Federal policy, quite frankly, but how do we grow back? I am sandwiched between Seattle and Portland. I am the great sandwich part in the middle, with bones on either ends, but they are struggling with housing policy, and it is impacting all of us.

There is some incredible tragedy taking place because of the impacts on people's lives, people who are losing their lives. And I think this conversation directly relates to how we change that.

I found it really interesting that you mentioned—you were talking about—and I have heard it several times now, and Dr. Sharkey was talking about, the difference in the strength of the schools, and the community foundations, and institutions, the strength of the family, and what I keep coming back to is: Well what does that actually mean?

You know, I have an idea in my mind. I can tell you, my family—my father is of Hispanic heritage, and they grew up very poor and had very little; 10 kids in one room, and here I get to sit before you today. And it is not because my parents did anything more than work hard. And I know that these elements were there, but I cannot define it.

So how do we define it? Is it—it is not always money, and schools, you can compare Utah schools to D.C. schools, to other schools, and in Washington State we have a lot of school choice, believe it or not. There are a lot of people who choose—and I think this is critical—choose to, whether, we have public home schools in Washington State. So there are all these different choices, and I think that contributes. But what does it look like? How do we find a definition for this? How do we put a more concrete—some concrete examples, because I think it is kind of open to everybody, because I think everybody had a piece, but I would like to hear thoughts.

Mr. Quiñonez. Thank you for having a broader perspective, or any question about that, because I would caution us in trying to define "social capital" very narrowly, of only thinking about institutions, because sometimes even those institutions are just vessels where relationships actually happen.

And if anything from my story and the story of MAF, is that poor people also have social capital, because they also have relationships. It is based on those relationships that we rely on to survive to weather any economic shock, or any political sort of antagonism against people. And it is those relationships that really are central to the human condition.

So this is not new, right? This is why people left Africa to start migrating out and conquering the world, right, because we had those relationships to base it on. So this is not anything new. But if we only think of them as being very specific to a very specific type of folk, then I think we miss the bigger picture.

And so I think once we start realizing and validating that the relationships that people have to bear, and start doing away with policies that actually try to break down families—I mean, you know, I mentioned our current political climate. That actually deteriorates the social capital within very specific groups of individuals.

And so it is kind of acknowledging the broader sense of what the capital is, and trying to not put up policies that could break up families in that process.

Dr. Streeter. I would also just add to those good comments two quick things. From our own work, it is really important that people feel like they belong. And I think that is one big element here.

If you actually have people that you can point to in your lives that you can rely on in times of need when things are tough, that helps against a whole range of other types of problems.

So truly lonely people are people not who just have feelings of loneliness from time to time, but people who actually do not have someone to turn to when they have real needs. We see that pretty clearly in our data.

Secondly, I would say—and thank you, Dr. Sharkey, for referring to this earlier in our survey work on community institutions, we have another study coming out on this in a few weeks, which I am happy to share with your staff, that really does show that when you have access to libraries, good schools, the way a community is designed, even gyms, even if you do not use the gyms, it turns out, when you are close to a range of things that create cohesiveness in a community, it is predictable of a lot of things: lower levels of loneliness, higher trust in institutions, and the like.

And I realize that is not a panacea. That is not a response to a major economic shock. If a factory closes, or an entire industry evaporates from a community, you cannot then say after the fact we are going to build these institutions. But it is an argument for investing in those institutions in those types of communities now.

We find this to be true whether it is large cities, suburbs, or rural areas. It does not matter what type of municipality you live in. It is when you have a density and proximity to those kinds of community institutions that actually make a community a community that are predictive of a whole bunch of very good things.

Representative Herrera Beutler. Thank you, Mr. Chair.

Chairman Lee. Representative Beatty.

Representative Beatty. Thank you, Mr. Chairman. And thank you to our panel. And let me also say what an honor it is for me to serve on this Committee, not only for a personal reason, but I also think it is a good marriage for me, serving on the House Financial Services Committee and being Chairwoman of the Diversity and Inclusion Subcommittee, because much of what we are doing here is talking about how can we be more inclusive as we look at expanding opportunities and making families and communities in a better position and place to thrive economically.

I have a great appreciation for all of your research, your writings, and your comments today, and can actually say that I liked just about everything that you said. But it gives me pause to ask a few questions.

Dr. Hendren, in your testimony you state that current data limitations prevent us from identifying the best policies for improving upward mobility. Can you be, quickly, a little more specific about what that means?

Dr. Hendren. Sure. So that is a reference to the fact that, frankly, the way in which the Census is constructed is a repeated cross-section survey of people in the population. And at present it is actually quite difficult to link people over time in that data.

So as we look at the historical policies that have been implemented in our neighborhoods over the last 50 years, it is actually quite difficult to understand the extent to which those policies have improved the lives of people in those neighborhoods versus simply changed where people live.

So that was the particular reference I was providing there.

Representative Beatty. Thank you. All of you presented data and information, but it made me, sitting here as an African American female who was not born quite in the 1940s, as you talked about the wonderful opportunities of children making more, living better than their families. And you all talked about whether it was schools, or neighborhoods, or housing. It made me feel like we needed a little history lesson to remind us of *Brown* v. *the Board of Education* in 1950s, Ruby Bridges in 1960, and in some of those Southern states in 1964 and 1965, during my lifetime, you could not even vote because of the color of your skin and there was something called “red lining.” You could not live in communities.

So here we are today in 2019 basically talking about the same things that I heard my parents talking about in the late 1940s and in the early 1950s. So here we are. What are your thoughts on the effect of the growing income/opportunity gaps? Do you think it presents a national emergency? We are talking about it here in the wonderful Senate on this Committee, but what is the resolve? Are we in an emergency nationally? And what should this Committee do? Quickly, we are going to go right down the line with you, Dr. Sharkey.

Dr. Sharkey. Sure. It is a great question. Thank you for the question, Congresswoman. I think there is a hard answer, okay?

Representative Beatty. Is it a national emergency? Yes, or no? Only so I get through——

Dr. Sharkey. The growth in income inequality I think is a national trend that has very——

Representative Beatty. Is it a national emergency?

Dr. Sharkey. I would say close to yes.

Representative Beatty. Okay. We’re going to go here, only because I only have a minute left.

Mr. Quiñonez. I say also it is a national emergency, and I also brought up the IRCA in 1986 clause as a way of history.

Representative Beatty. Sure.

Mr. Quiñonez. My social capital was realized because of that particular legislation. I was able to adjust my status, and I think if we do that to the millions of people that are in similar situations we can also allow for the social——

Representative Beatty. I hate to interrupt again. So that is a “yes”?

Mr. Quiñonez. That is a hard “yes.”

Representative Beatty. Dr. Streeter.

Dr. Streeter. It is an emergency in some places, and it is not an emergency in other places. But it is an emergency in enough places across the country that I do think it is an emergency. And I don't know that that then justifies one sort of national policy response. I think in——

Representative Beatty. Okay, we are going to get to the next part of that after him.

Dr. Hendren. If calling it a national emergency leads to change, I am all for it.

Representative Beatty. And what should that change be? Three seconds each. Is it legislation? Is it money?

[Laughter.]

Only because I have 30 seconds to go.

Dr. Sharkey. They have got more time than me to prepare.

Representative Beatty. Come on.

Dr. Sharkey. I would say invest in communities. Invest in community institutions.

Mr. Quiñonez. I would start with a comprehensive immigration reform.

Dr. Streeter. Subject our workforce development policies to the same creativity and reform-mindedness that we have with K–12 and other forms of higher ed.

Dr. Hendren. I would take a life course approach across all ages of children and think about where in places where a particular age of kids are falling behind, target programs at those ages.

Representative Beatty. Let me just say thank you very much, and I yield back my one second.

[Laughter.]

Chairman Lee. A very good use of time. Representative Schweikert.

Representative Schweikert. One second early, one second wasted. Okay, as you know there are dozens of questions here. But if I was to—if I came to you and said give me the one or two top priorities, if I cared a lot about velocity, the movement in particularly upward mobility and stratas, as you know right now there is some very interesting noise in some of the data that has come in over the last 12 months, still too early to—but there seems to be, particularly in wage and employment stability, those things, some really interesting numbers happening in our lower quartiles of some real health—you know, we have a fairly robust economy.

But if I was to look at that in the longer term, if I came to you and said, hey, over the next 20 years I want to maximize this upward velocity, what would you do?

Dr. Hendren. So I think the surprising thing is I would say focus on children. Even though you are looking at wages you see today, those were produced 20 years ago, at least. So I think going back into the schools and realizing that the kind of economic statistics we read every day were formed a long time ago.

Representative Schweikert. Okay. So when you say "children," is it the way we train children in the household formation? What is that?

Dr. Hendren. So that comes back to the factors we were discussing. So things like the quality of the schools. So I think investing in children. I do think some of the other factors we have been discussing that are, frankly, more amorphous, like the strength of the family structure, measures of social capital. I do not have a good solution for how—what types of policies are best suited to address those issues. But what I can tell you is that they look like they are important.

Representative Schweikert. Doctor, what would you do for velocity?

Dr. Streeter. I agree with Dr. Hendren that the younger the age of the person when you make the investment the better that velocity will show itself out over time.

I think that making it possible for people to move around, even just within regions, I think is important. I think portability of benefits, but also more flexibility in the way we do workforce development training, so that when people are living on the east side of town and the best school for what they want to do is on the west side of town, making it possible for them to actually go to school over there and finish. And if the car breaks down, to have resources to fix the car.

I think some of the very real——

Representative Schweikert. So a transportation barrier——

Dr. Streeter. Yeah, just greater geographic mobility even within regions I think is something that would help a lot of people, if we thought more creatively about that.

Representative Schweikert. When you look at your community, what creates success? What creates that mobility, that velocity?

Mr. Quiñonez. So a great question. Most of the people can't even get on a plane to fly from the East Coast to the West Coast. And I think we have a lot of people, again, in this country that cannot—that are barred from doing that, or even barred from having the notion of being, you know, that they belong in this country. So I think we need to address those big questions, you know, nonetheless. And of course financial inclusion, having more direct ways of having people being banked and being included in the credit system is very important.

Representative Schweikert. Dr. Sharkey.

Dr. Sharkey. Well I would agree with my colleagues here. And I would say let's make sure that inequality in the country as a whole does not translate into more and more unequal communities. So that every kid has equivalent opportunity. That is unrealistic, but close to equivalent opportunities, no matter where that child grows up. Okay? So if the schools are functioning well, if there are community centers, after-school programs, then that child has a better chance of rising up. And that happens when there is affordable housing in every neighborhood across a city and a metro area, and opportunities are more equally——

Representative Schweikert. So in the House when we look at some of the housing statistics, you know, the Phoenix area is having wonderful growth right now, but it is also putting quite a squeeze on affordable housing. So in that case it's a local zoning issue.

Can I ask, and I am going to sort of say something and then ask you if you have a suggestion for what I can read to absorb. I think there are some very creative ideas out there. As you have written about, libraries, and those things, we are seeing some communities that are now setting up sort of a community page. I have a 3½-year-old daughter, and my wife went on this community page and was getting the playpen and those things from a neighbor I never knew.

It turns out, we are seeing—there are some writings out there using that type of social relationship through one of these. There are patterns. And being bankable. We had an situation in Arizona maybe 20-some years ago where someone cashing a check was paying a 20 percent fee. They were literally giving up one day of labor.

So there was an experiment allowing a number of churches and others to actually have a functioning ACH certificate through the banking department and so the Catholic Church over here was cashing checks, and it crashed the price. So there are creativities out there.

On the transportation side, it turns out that some organizations, these ride-sharing platforms, will actually do a discounted. So waiting for the bus in Phoenix when it is 110 out when you can hit the button on a phone and get that ride sharing. We are working on an experiment right now with our local homeless campus where they have lots of jobs, but transportation was our barrier. It turns out, once again, technology may be that solution. And, you know, the choice that's now coming through where we are starting to have to rethink education, is education sitting in a room with bricks and a ceiling and this and that? Or is part of my education coming through a screen? Part of it a neighborhood working group, a neighborhood robotics club?

I guess what I am throwing out, Mr. Chairman, is everything here is quite real but yet we seem to approach it from 20-year-old solutions instead of understanding we are living in a digital revolution around us. And with that, I yield back.

Chairman Lee. Thank you. Representative Beyer.

Representative Beyer. Thank you, Mr. Chairman. And, Senator, thank you for doing this. I talk to my four children all the time about the need to build as much social capital as they can, loneliness, happiness, their progress in life.

Dr. Sharkey, you talked about the positive level and decreased levels of "violence," how violent crime has really come down a lot since 1990, but we are still in the dilemma that we have 4.4 percent of the population and 22 percent of the world's prisoners. Although I just read that the incarceration rate is the lowest it has been in 20 years.

You talk about increased investment in the re-entry programs, things like offender aid and restoration. But what are the other strategies we can use, recognizing that locking up mom, dad, sister, uncle, whatever, destroys the family.

Dr. Sharkey. It's a great question. Thank you for the question. So the decline in violence has brought enormous benefits that have been experienced by the most disadvantaged segments of the population. But the methods that we have relied too heavily on for the last 50 years, which is intensive policing and mass incarceration, have generated these just staggering costs that you mentioned.

So what's next? What's the next model? I think we have models in place. For instance, the incarceration rate has plummeted in

New York. There is no increase in violence. Okay? We know that this—we can reduce the incarcerated population without consequences on violent crime.

I would argue for an investment in law enforcement that allows law enforcement to do their job differently, to build trust, to regain trust, and build relationships particularly with low-income communities of color. I would argue that local community organizations played a central role in contributing to the drop in violence. They expanded on a large scale in the 1990s and took back parks, and playgrounds, and city streets, and communities. This contributed. We have causal evidence. This contributed to the crime drop.

If we invest in those organizations that run re-entry programs, that work to try to re-integrate people coming out of the prison system into jobs, into homes, back into their family life, then the best evidence we have suggests that that is the right approach. That is the next model moving forward.

Representative Beyer. Thank you very much. In Northern Virginia that I represent we have very strong community policing. And not accidentally, all four sheriffs tell me they have the lowest number of people in their jails in a couple of decades.

Representative Beyer. Mr. Quiñonez, I was fascinated by the increase in credit scores. I wonder if you could help me on that. But I am also a car dealer in real life, and it is amazing how many of the customers we see have terrible credit scores. And I would love to connect you later with some of the national NADA and others about providing—we sold 17 million new cars last year, 40 million used cars. That is an enormous impact. If you could do the kind of financial training that you do with your folks to help Americans.

Mr. Quiñonez. That's right. Thank you for pointing that out. Credit reports nowadays, I see them as sort of like passports to the marketplace, to the financial marketplace, that without that passport you are really denied everything. And so that is why we put so much emphasis on helping people become visible in the credit marketplace.

And one of the ideas that we are pushing is the idea of having a credit system have more visibility of the totality of people's financial lives. And so the idea of including rental payments, or the idea of including even telecom, or even paying their cellphones, to be included in the credit reports is actually something that could actually make them become much more visible by really having a fuller description of what they are doing with their money.

Recently Experian, the company Experian, has started a program called "Boost." And I have a personal story to share here, because one of my—my nephew, I actually told him about this product, and he went online and he signed up to Boost, and then within a minute his FICO score went up by 29 points. Nothing happened, nothing changed with him, all he did was just say, yes, you look at my transactional information on his checking account, and through that the credit system was able to sort of recognize him better. Whereas before, they thought he was more risky, but now he is less risky, and it is all because the logarithms included more data about him that increased his credit score by 29 points. So there's a lot of different things we could be doing to get him——

Representative Beyer. Let me interrupt you because I only have three seconds left. I will sign up for Boost tonight, though, thank you.

And, Dr. Hendren, I want to have two more graphs on your opening chart, which is the poverty rate and also the rate of increase in income, just to really understand why the mobility isn't happening.

But the elephant in the room is income inequality. What would be the impact of doubling the earned income tax credit?

Dr. Hendren. I guess it would depend on how you pay for it, but I think there is evidence to suggest that it would increase labor force participation. It would increase after-tax incomes for a lot of Americans. And so I think, you know, that would probably be the impact.

But again, I think the key thing for creating intergenerational change is whether or not it has spillover effects on children. And there I think there's some interesting work suggesting that it might, but I think there's a lot of interesting work that needs to be done.

Representative Beyer. Okay, thank you.

Chairman Lee. Representative Trone.

Representative Trone. We are now seeing a new type of segregation in some of the school districts, gerrymandered school borders that fence out students, which often means segregating students along racial lines.

The 2016 GAO report found the public schools are more segregated today by race and class than every before since the 1960s. In many ways, a child's zip code determines their economic prospects. A few weeks ago we had Secretary of Education DeVos and we asked her—and she was very evasive—a question regarding racial segregation posing a threat to the educational opportunities of children of color.

Mr. Sharkey, can you speak about the long-lasting consequences of segregation as they relate to social capital, and also the lack of social capital impeding upward mobility in communities of color?

Dr. Sharkey. Yes, thank you for the question. So there is very strong evidence that—well, first off, we know that segregation gets worse for families with school-age kids. So segregation is not an accident, okay? It is intentional. We have set up policies that allow people to sort into different communities, and then to set up barricades that make sure that their kids go to schools with resources and the other kids do not. This is opportunity hoarding. It is very explicit. It is very intentional. It has gone on for decades.

We also know, with very strong evidence, that when kids get the opportunity to go to more economically diverse schools, they do better. Okay? Heather Schwartz has done excellent research on this based on data from Montgomery County, which has a very strong inclusionary zoning program, where kids were randomly assigned to housing developments. Some were in more economically integrated schools than others.

The low-income kids who went to more integrated schools did better. Those improvements in academic achievement lasted for several years following. Okay? So we know that segregation harms the academic achievement of low-income kids. We know that economic segregation is particularly severe among families with children, and we know that the consequences extend into later in life.

Representative Trone. Mr. Quiñonez, studies indicate 80 percent of jobs are found through social capital through connections, relationships. What government actions have historically prevented communities of color from accessing social capital needed for that economic mobility?

Mr. Quiñonez. I mean I will speak on that from an immigrant perspective. And so one of the realities is that immigrant communities, because of the different types of legal statuses that we may have and we may live in mixed-status families, some may have legal documentation, others may not. And that is a huge impediment from really realizing the economic potential.

So to some extent even like my own family, I mean we were able to help each other because we were family, we were helping each other, and so that was the essence of our social capital, through friends that we were in a similar situation. So the idea of linking—and I hope I am being clear about this—that when we think about economic mobility, we have to think about the broken immigration system because that in and of itself is really causing a lot of people from like not really reaching their economic potential.

Representative Trone. Mr. Sharkey, given that persistence of neighborhood segregation and the inequality of social capital, what investments need to be made to ensure every community has the opportunity to succeed, and our children can succeed?

Dr. Sharkey. Thank you for the question. So there are two sets of investments we can think about, and Dr. Streeter mentioned one of them. One, we can give people more chance to move to areas of opportunity. And the types of moves that typically lead people to opportunity are long-range moves, moves that bring people into new parts of the country that offer greater opportunities. Okay? Those types of moves have become less common over time. So that is one strategy. And there are a whole bunch of approaches—housing mobility approaches, but also just funding a mobility bank that lets people take risky moves, bringing them to different parts of the country. So that has to be one part of the strategy.

And then the second part is making sure that in areas that have struggled, in areas where economic opportunities have become more sparse, that we have investments in the core institutions, public schools, libraries, community organizations that prop up a neighborhood, that make sure that if economic conditions go downhill, that the community doesn't fall apart, that kids have a place to go that the public schools don't deteriorate, that churches don't dry out and people stop coming. Okay? These types of investments, which are taken for granted in most communities across the country, have been absent particularly in low-income communities of color.

So we need to make sure that every community across the country has these basic investments that provide the foundation for community life.

Representative Trone. Thank you, Mr. Chairman.

Chairman Lee. Senator Peters.

Senator Peters. Thank you, Mr. Chairman.

I want to—Dr. Sharkey, I want to pick up on some of those comments, because the issue that I think is incredibly important for our country is to make sure, as you have all addressed, that economic opportunity is everywhere in the country. We are not seeing that now.

In fact, the numbers are pretty dramatic. I think, Dr. Sharkey, you mentioned in your testimony as well that if you look at just a few geographic areas, most all of the economic growth—I think a 2016 study from the Economic Innovation Group showed that New York City, Miami, Los Angles, Houston, and Dallas have as large an increase of business as the rest of the Nation combined, just those few urban areas are growing whereas the rest is being left behind. And we are finding in rural areas, in particular, as people leave.

You mentioned in terms of mobility one of it is to allow long-range moves, which is true. And I think it is hard for folks who are seeing it very difficult to move to those areas that are very expensive. There isn't the social safety net for them, so they stay home.

But if we are encouraging people to move, they will move to these areas. And those areas continue to grow. And you have folks who have the ability to move, leaving other areas, you are actually accelerating the situation.

And I get your point about investing in these other areas, but it seems as if we actually accelerate it. What's your thought on that?

Dr. Sharkey. Yeah, so you have to balance—again, thank you for the question—you have to balance these two goals. One is making sure that every American has access to areas of high growth. So that partly involves encouraging moves, and even risky moves. It also involves transportation policy that brings people nearby those centers of growth that allows them to commute in quickly on high-speed rail and still live in affordable housing nearby.

Senator Peters. That only makes those few areas just bigger.

Dr. Sharkey. Well that's—so that's the second part of it. And this is the challenge that we haven't grappled with as a Nation right now, is that there are large sections of the country that are left behind. Okay? And so the policies that have to be oriented to those sections of the country left behind are very different.

This is not about purely focusing on economic growth; it is about making sure that those sections of the country left behind, those towns and cities, have functioning institutions that, as job opportunities become less common, people have access to retraining; people have access to education; people have access to child care; people have access to financial institutions; kids have access to community centers and after-school programs.

These are the types of investments that can get people back on their feet and that can make a community start to thrive again. But those investments have been absent. And there are several programs that it would be good to talk about because they are proofs of concept.

One was carried out in Milwaukee in the 1990s. That was the New Hope Program. What was unique about this program is that it was targeted toward people in low-income communities, and it guaranteed community service jobs for anyone who was willing to work 30-plus hours per week. It guaranteed them a job. It was available to people without families. It was available to single men, okay, unlike many similar programs.

It did not just reduce poverty among the people who took part—and there was a randomized control trial to evaluate—it did not just reduce poverty and increase work hours, it also affected the children. So it also improved academic performance of people who took part. It reduced behavioral problems of people who took part.

So this is a proof of concept, that if we provide these kinds of investments, (a) it gets people back into the workforce; but (b) it also supports families. It brings people back into the community.

Senator Peters. There's a minute left. Does anybody else want to take a stab at regional inequality? What do we need to do?

Dr. Hendren. So I would be happy to add one piece of data to that discussion, and I think we often talk about promoting jobs, and I don't want to downplay that by any stretch, but if you look across the United States at places that have the highest rates of upward mobility, they are not necessarily the places that have had the highest job growth over the last 30 years.

A couple of notable examples are places like Atlanta and Charlotte, two localities that have had some of the highest job growth, the highest income growth of any metropolitan area in the United States, but they have some of the lowest rates of upward mobility.

And intuitively what's going on there is that the economy today that is there is in a sense importing the talent from other areas of the country. And I think this sort of highlights a distinction when we talk about the role of educational investment, social capital investment, and we're talking about the production of that human capital for the next generation that will be in the labor market in whatever city they choose to live as an adult.

Senator Peters. Thank you.

Chairman Lee. Okay, it is now nearly 11:30. We have just completed our first round. We are going to go ahead and start a second round of questioning. We have the room until noon. That is when we get kicked out. We will go as far into the second round as we can before we are evicted.

Dr. Hendren, you have previously co-authored a paper in which you discuss racial inequalities in intergenerational mobility. And in that you cast some doubt on the viability of policies such as temporary cash transfers or minimum wage hikes, at least as far as providing a viable, sustainable solution.

Instead, as I understand it, you and your co-authors suggest that intra-neighborhood solutions such as mentorship for African-American boys, or efforts to facilitate interaction across racial groups, could provide for more effective solutions in the long run.

How should we as policy makers, as Federal lawmakers, specifically, be thinking about increasing access to social capital, not just for this generation but for future generations as well, looking at it from a sustainability standpoint.

Dr. Hendren. That's a great question, so thanks for the opportunity to talk about that. So you're absolutely right. What we found is that in every neighborhood in the United States upward mobility for low-income Black children is lower than the upward mobility for low-income White children. And so that suggests that in order to address the race gap in economic outcomes that we see in adulthood, you actually have to go within the neighborhood.

It is not just about across neighborhoods directly. So I think what to do on that front, we have some speculative solutions that you discussed, things like mentorship and things like promoting greater integration within neighborhoods and within schools.

I think it comes back to some of the earlier discussion about zoning, and to what extent people that might live fairly close together are actually growing up in the same community. I think, thinking about this as kind of a national issue, even though the decisions are being made locally, I think that is what is crucial here, that all of the local decisions that are going in in the local zoning board have national implications. And I think that makes, obviously, policymaking quite difficult. But I think it is the reality.

Chairman Lee. Thank you. Dr. Streeter, you cite the enduring connection between civic engagement in America and religion in America. In the past we have seen some attempts by the Federal Government to try to incorporate faith organizations into the provision of various services. For example, when George W. Bush was President, he had an Office of Faith-Based and Community Initiatives.

How else might public policy protect and perhaps even empower, or further the efforts of faith-based organizations in communities in their charity and their civic engagement work?

Dr. Streeter. Great question, and I think the first answer to that is to invite them in. And then to ensure that the barriers to entry are as low as possible while protecting these important distinctions that we have in the First Amendment.

I think the regulatory reform work that was done in the Bush Administration through that office was actually a good step in the right direction, kind of leveling the playing field, without requiring religious quotas or anything like that, but making it easier for organizations that are very missional, whether they are rooted in religion or not, to actually be involved as part of the solution.

I think that—and this just dovetails off of some comments I made earlier in my prepared remarks—I think that sort of one practical thing we can do as policymakers is look at the way in which our devolutionary policymaking gives incentives to municipal leaders and others to invest in institutions very broadly, those that are best equipped to solve problems that they are invited into the solution equation, whether they are religious groups or not.

I think that was one of the effects, whether it was superintended or not, I think it was partially intended by welfare reform. I think some of the community partnerships that we've seen in community policing where neighborhoods really have ownership over the safety of their parks and their streets. A lot of times when you get on the ground and you go to the communities where this is affected, you actually have houses of worship that are involved in those partnerships.

And so I think creating incentives without requirements is the best thing to do. And fortunately we have some things in our own policymaking history that serves as a guide.

Chairman Lee. Are there things in our own policymaking history that also serve as a guide of what not to do? Is there anything in particular that may be harmful?

Dr. Streeter. Yes, I think—well certainly erecting barriers that go beyond the case law with respect to religious organizations was a problem. This kind of crowding out effect that government programs had on religious organizations. I think a lot of that was corrected during those reforms in the early 2000s that you cited.

But I think providing an environment that is overly hostile to houses of worship disadvantages communities that need that help the most, here those institutions are super strong. We just have to acknowledge that. And when you look at the civic backbone of this country, you really can't disentangle it from the religiosity of people that are involved. I mean a lot of our civic activity in this country is fueled and driven by people that are motivated through their faith and through organizations that are faith-based.

And so we certainly don't want to crowd out their good efforts.

Chairman Lee. Thank you.

Representative Heck.

Representative Heck. Thank you, Mr. Chairman.

Dr. Hendren, let's talk housing. Did you study the relationship at all between long-term homeownership and either upward mobility or the factors supporting strong social capital?

Dr. Hendren. So homeownership in particular is not something that has popped out at us as one of the strongest correlates of upward mobility. We have done a lot of work looking at the rule of housing policy, though, in shaping upward mobility for low-income kids, most notably the impact of the Moving To Opportunity Experiment relating to some of the discussions we were having earlier about the negative impact of large-scale public housing investments that were disinvested in over the course of the years.

Representative Heck. But that is not a homeownership program.

Dr. Hendren. No, it is not a homeownership program.

Representative Heck. So you did not study homeownership?

Dr. Hendren. So we have looked the—if I recall correctly, and I could get the statistic for you exactly—we have looked at the relationship between upward mobility and the fraction of people who own a home. And my recollection is that that was not as strong of a correlate as some of the other things we found. But I could provide that for you afterwards.

Representative Heck. I would appreciate it very much. And let me lay out the facts and ask you to accept them as a given for at least now.

Dr. Hendren. Sure.

Representative Heck. The fact is that demand far exceeds supply right. An objective analysis suggests we are about 5 million homes short in this country. It is not uniformly concentrated. It's here, and it is there. We are not building enough homes. Construction is not keeping up with demand. Wages are not keeping up with prices.

And if you actually follow that through, here's what happens. Because we are especially not building new starter homes now. The profit margins in starter homes is just not there as it once was in this country. So people stay renting. People stay renting. Occupancies go up. If occupancies go up, rents go up. This is all verifiable.

If rents go up, more people become rent burdened. If more people become rent burdened, more people become subject to the need of publicly subsidized housing, and indeed more people become homeless.

The fact is, notwithstanding popular discussion, the single largest increase in household budgets in the last 15 years is not the cost of a college education, and not the cost of health care; it's the cost of shelter. Those of us who have been fortunate to be in our own home for longer than that don't have eyes on that, don't experience that, except insofar as, I'll just use the random example, our 27-year-old son is still living upstairs. Not quite sure who that would relate to. Oh, yes, it would relate to my household.

So this is all despite the fact that homeownership, which is now being deferred, and which is now still commonly aspired to by the average American, we have a situation where we are nonetheless one of the lower percentages of homeownership in modern history.

And we also know—these are all facts—that homeownership is the largest net worth building tool of the average American. So I cannot square that it is not a significant factor in upward mobility with that set of facts; that it is the largest increase in household budgets in the last 15 years; that homeownership is being deferred; and that it is the largest net worth building tool of the average American.

Can you square your conclusion with that set of facts?

Dr. Hendren. Yes. So what I would say is that when you look across the United States, what you are referring to is more of what I would argue is a factor that is affecting almost every family. And I think that is largely true.

Now I don't want to say for one second that the role of homeownership has no place in thinking about upward mobility, but what we can say is that when you look across the metropolitan areas of the United States that is not one of the strongest factors that jumped out to us in the data.

Now that doesn't mean that it is not playing a factor. This comes back to a lot of the discussion we were having at the beginning of the hearing about do we know exactly what the right policies are for promoting upward mobility? The answer is, no. And it very well could be homeownership. And I don't think any of us want to say that that's something that is or is not.

Representative Heck. Well thank you for that. And to say nothing of the fact that if you happened to be a person of color, the long-term pattern is you've been systematically shut out of buying in certain areas, and the manner in which credit is extended to low-income people of color is disproportionate and discriminatory over a long period of time and upward mobility, Dr. Hendren.

Dr. Hendren. And today in places that were historically redlined, you see lower rates of upward mobility.

Representative Heck. Thank you, sir. Yield back, Mr. Chairman.

Chairman Lee. Representative Herrera Beutler.

Representative Herrera Beutler. Thank you, Mr. Chair. It is interesting, I think it might have been Representative Schweikert's questions, that I kept hearing a theme about the next generation in children; if you want to change the trends, yes, you want to improve things for folks today, right now, but if we really want to change the—I think you were saying velocity, a little bit of Whitney Houston, which I loved—but it is true that if we want to change it, we have to look at where they're at. The formative years. You know, I'm thinking about girls in STEM, and by third grade if you're not encouraged in math and science you're going to opt out.

We have identified some of these more sensitive times. With that in mind, I think this is probably to Dr. Hendren. If better schools and neighborhoods, similar to the conversation I think you just had, improve upward mobility for children, it seems important that families have more choices about where they live and where to educate themselves.

Families in the study that you referenced used the Federal Housing Voucher Program to make this move, but there are a lot of families that do not fit into that mold and cannot access that for many reasons, so they are outside the Federal Housing Program and would like to duplicate this and move to different neighborhoods with greater opportunity, or greater flexibility to educate the kids how they want to.

What are some ways that we can affect policy to benefit that and loosen those reins a bit? Or, nudge locals, you know, local municipalities and so on? We can't tell them what to do, but we certainly—I'm thinking about CBDG funds, I'm thinking about Housing Funds, low-income tax credit, there's a lot of things that we do have some rein on.

Dr. Hendren. No, I think that is exactly right to think about. I think, you know, outside of the voucher program, thinking about the LYTEC program, where those investments are being made, and are they being made from the perspective of trying to improve upward mobility for children? I don't think that's the common lens that's used for guiding those investments today. And so how do we shape at a national level the incentives for those local decisions?

And within the voucher program, I do think there's an additional discussion about the ability to make opportunity moves to better neighborhoods for your children using a voucher. There's a lot of discrimination that is faced by voucher holders, by people of color, by people of different backgrounds. And I think policy at a national level that can help break down some of those barriers for families is important.

Representative Herrera Beutler. Alright, I yield back. Thank you.

Chairman Lee. Representative Beyer.

Representative Beyer. Senator, thank you very much. My friend, Congressman Heck, left. I wanted to pile on on the housing issue because I noticed one of the recommendations, I think maybe it was Dr. Sharkey's, about ending the mortgage interest deduction and reinvesting all of that. Obviously our realtor friends won't be very happy with that. But the whole notion I think of having the mortgage introduction in the first place was that the American Dream, that every American wants to own their own home, that this would stimulate homeownership.

And I had the advantage of living in Switzerland for four years where homeownership was 30 percent only, relatively low, but 80 percent of the people lived in apartments. And with the increased urbanization of America, what we are seeing in so many places is increased urbanization and people moving into apartments, condos, things like that.

By the way, the net worth of the average family in Switzerland is much higher than it is here, as is the life span and the happiness. Can you dive, either, any of you, dive a little deeper into—yes, right now homeownership is an essential part of our net worth. Does it need to be? And is this now the time in an urbanized America to rethink homeownership and the stimulus that we put to it?

Dr. Sharkey. Well let me start. Thank you for the question, Representative. So I think the question, the broader question that I think about is how do we invest in housing? And that is where my critique of the mortgage interest deduction comes in. This is a regressive policy. This is a policy that overwhelmingly benefits the highest income Americans and encourages people to buy the most expensive home they can. Okay?

So when we think about how we want to invest our Federal resources in housing, I would prefer a policy that does not encourage people to buy the most expensive home in the most exclusive neighborhood they can, and then to do whatever possible to make sure that property values are stable, or that they increase by keeping other people out, by building fewer homes around them.

And so that is the pattern of development that we have seen, that there are strong incentives for people to invest heavily so that their home is their main source of assets. And then they have the very strong incentives to reduce development around them, to make sure that affordable housing is not built because people are concerned about property values.

So my broader approach is, if we are going to invest in housing, I think we should invest in affordable housing. I think we should try to give the opportunity for homeownership or for affordable rental housing to a larger segment of the population.

Representative Beyer. Mr. Quiñonez, you talked about the Mission Asset Fund. How participatory have the community banks, the credit unions, and the big banks been with you in terms of providing the capital necessary to grow that?

Mr. Quiñonez. Yeah, we've got a lot of backing from financial institutions to do our work, frankly. You know, Chase, Citibank, you know, Bank of America, all those institutions have supported our work, because ultimately they are the ones that actually are benefiting from this work. Which is, you know, we are expanding the pool of eligible borrowers so that they can go into those institutions and get those loans to buy those homes, or get loans to buy cars, or invest in their businesses.

And so I make sure to remind them of that, that they are there to—and it is a good thing, because we actually want our clients to engage with those mainstream financial institutions. But we also want them to support the actual work that goes behind it.

But to your prior question about homeownership, I also would love to sort of—for us to sort of think about renters, to sort of say how can we elevate renters and how they manage, because right now there's a lot of benefit that we accrue to homeowners, and by way of the interest deductions and so forth, but by renters themselves have very little benefit. And so even making the rent payments don't get recognized.

So I mentioned, you know, the idea of including rental payments in credit reports could be one of those other ways of incentivizing or supporting that as a housing strategy.

Representative Beyer. You had a couple of bullet points about Congress should clarify that U.S. citizenship is not a prerequisite for a bank account. Do banks think it is a prerequisite now?

Mr. Quiñonez. So right now, you know, we have heard from some of our clients, some of our colleague organizations where some banks are actually asking for proof of their legal status, either proof that they're U.S. citizens, or proof that they are legal permanent residents. So even just to maintain their checking account.

There are a lot of other financial products that require a Social Security number, and because of that requirement that actually leaves out a lot of legal permanent residents. Others may not have that. They may have an ITIN number, they have other things, but the idea that to create a financial product with a requirement of a Social Security number actually does leave out a lot of—millions of people in America from accessing those services.

Representative Beyer. Thank you very much. Mr. Chairman, I yield back.

Chairman Lee. Thank you.

Mr. Schweikert.

Representative Schweikert. Thank you, Mr. Chairman. I will do this quick.

Mr. Quiñonez, there are actually data analytics out there that actually do create sort of an A–B alternative credit score, a lot of alternative lenders already use that——

Mr. Quiñonez. Yes.

Representative Schweikert. Where some of the barriers, actually can Fannie, Freddie, others, also look at an A–B type credit score system. So the person that's traditionally not been bankable, but has always been really good on their cellphone payment, this and that, and those actually have existed for years now.

Mr. Quiñonez. That's right.

Representative Schweikert. We took a run at that a few years ago in the Financial Services Committee, but were not able to get it through.

There seems to be—and I know that it is a snapshot so it is hard for you all to do your analytics. In the last particularly 12–18 months, you know, being someone—and the staff right behind me, she is incredibly smart. We have been trying to do digging into the U–6 data, some of the other things that we've seen, the employment data, and the populations that all of a sudden are gaining work, and some of the change in wages.

Are you actually seeing right now this economic growth cycle, this employment cycle, is starting to create some real opportunities, or some movement with populations that, as economists or demographers, if it were just a couple of years ago we were saying this population is probably part of our permanent underclass? You know, I obviously have an intense interest in economic mobility.

Dr. Hendren, are we starting to see anything at least as a snapshot in this current cycle?

Dr. Hendren. So I think the improvement in median wages recently suggests that there are more children in these current years that are earning more than their parents than there were several years ago. I think that is likely true. And so I think that is obviously a good thing.

As we think about coming back to the homeownership question, the role of these financial products, I think the idea of creating pathways for people to grow up—climb up the formal credit system is one way to continue to make that broad-based.

Representative Schweikert. Well, and I know I am jumping on my own question, but the homeownership housing policy is something I have always been very interested in, is more complicated. If it is 2009–10, all of a sudden the fact we bought a house, it becomes crushing to mobility because you can't sell it, or you are upside down on the mortgage.

So we have to sort of understand that a vibrant housing market does also create the ability to I can sell and move, I can chase a job, and those things.

So it turns out it is more complicated than just the fact it is a forced bank account. Does anyone else see actually some interesting things in the data runs of the last 12 months?

Mr. Quiñonez. I will share just one quick bit. What we have seen with our clients is that there has been some improvements on their incomes. But what was most interesting is how they managed to couple their wages with government programs, or how they managed the money within their family to make ends meet.

And so the idea that the more choice, or the people that have more strategies for managing income, those are the ones that are better off, rather than people that have just very limited or one strategy.

Representative Schweikert. Mr. Chairman, he may have said the magic word, "creating options and choice," instead of a sort of bureaucratic command/control may be the solution for that optionality that everyone should have. With that, I yield back. Thank you all.

Chairman Lee. Thank you, Congressman Schweikert. I want to thank each of our witnesses. You've been terrific, the testimony you've prepared, both in writing your prepared statements today and your answers to our questions have been enormously helpful. And I thank you for coming. This hearing stands adjourned.

[Whereupon at 11:52 a.m., Tuesday, April 30, 2019, the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. MIKE LEE, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Good morning, and welcome to this hearing of the Joint Economic Committee.

To begin, I'd like to welcome back the members of this committee from the previous Congress, as well as our new members, and I'd like to congratulate Representative Maloney on her return as Vice Chair this Congress. I look forward to working with all of you.

The topic of this hearing—expanding opportunity—is in many ways a quintessentially American topic. As Abraham Lincoln put so eloquently, the leading object of our government has been to "elevate the condition of men—to lift artificial weights from all shoulders—to clear the paths of laudable pursuit for all—to afford all, an unfettered start, and a fair chance in the race of life." In other words, to remove barriers to opportunity.

Often, however, policymakers have a limited understanding of what opportunity is. We sometimes see opportunity purely in terms of economic outcomes—namely, educational or financial success. And moreover, we can view financial capital as the only important source of wealth on which opportunity depends.

Economic wealth is no doubt important, and it is right that the Federal Government should seek to remove barriers to it. But to see opportunity exclusively in those terms fails to capture an invaluable source of wealth on which human beings draw, and one that is in fact key to expanding opportunity: social capital.

Social capital is the wealth produced from our associational life—what we do together. It inheres in the web of social relationships through which we pursue joint endeavors, and it comes from our families, communities, workplaces, churches, rotary clubs, and little leagues. And it is through these institutions of civil society that we make a happy and productive life with other people. They shape our characters and capacities, help us address the challenges we face in life, and provide us with meaning and purpose.

For the past two years, the "Social Capital Project" of the Joint Economic Committee has documented trends in our associational life and its distribution across the country. It has studied the evolving nature, quality, and the importance of our associational life and the relationship it has to different problems our Nation is facing.

The Joint Economic Committee has recently undertaken the work of exploring the connection between opportunity and social capital. And it is has found that opportunity is largely dependent on social capital, available to us through the relationships we have with our families, friends, neighbors, fellow congregants, and coworkers. These relationships are crucial for both our economic opportunities and our opportunity for producing and sustaining a vibrant, healthy, and meaningful community life.

And so the goal of the JEC is now to craft policies rooted in social capital—policies that will expand opportunity for all Americans by strengthening families, communities, and civil society.

This undertaking will not be without its challenges. After all, social capital is not something we can see, touch, or directly measure. In addition to difficulties of measurement, there are also difficulties in establishing its causal importance. And while policy can certainly help promote the bases for a flourishing civil society, we must also inevitably confront its limits, and determine when and to what extent the Federal Government has a part to play in this project and the extent to which it is inflicting harm.

To bound the types of policies under consideration, and based on the past two years of its research, the Project has identified five broad goals related to opportunity: making it more affordable to raise a family, increasing how many children are raised by happily married parents, connecting more people to work, improving the effectiveness of investments in youth and young adults, and rebuilding civil society.

Our distinguished panelists will help us to shed light on these issues and questions today. I look forward to hearing their testimony, and to seeing the fruits of our discussion going forward.

I now recognize Senator Hassan for opening remarks.

PREPARED STATEMENT OF HON. MARGARET WOOD HASSAN, A U.S. SENATOR FROM NEW HAMPSHIRE

Thank you, Chairman Lee, and thank you for holding a hearing in which we can examine innovative ways to increase economic opportunity in all of our communities.

And I want to thank all of the witnesses for being with us today.

I want to focus today on how we can create opportunity for entrepreneurs by increasing their access to social connections and personal networks—or, in other words, by helping build their "social capital."

Entrepreneurs frequently use their personal connections to identify business opportunities, find community mentors, and secure the capital that they need to launch and grow their startups.

However, not everyone starts off with connections to the business community, and entrepreneurs outside these informal networks can find it harder to access vital resources like financial counseling and capital investment.

This presents particular challenges for women entrepreneurs.

Last year, the National Women's Business Council issued a report that found that women's personal networks have fewer connections with ties to resources like financial capital.

This is also an acutely important issue for entrepreneurs in rural areas of my State.

In rural areas, there is often extremely limited access to high quality, affordable broadband internet, which is an absolute necessity for any business hoping to compete in the modern economy.

Limited broadband access slows entrepreneurship and contributes to the so-called "brain drain"—a problem for rural areas that I know, Mr. Chairman, you focused on in a report on social capital released just last week by this Committee.

Fortunately, there are successful initiatives that Congress can build on.

In New Hampshire, we have many non-profit organizations and business incubators that are leveraging community interest and Federal investments to build social capital for entrepreneurs from all walks of life.

New Hampshire's Small Business Development Center provides business advertising and mentorship, for example.

Our Regional Development Corporations provide business gap financing, and we have startup accelerators that tailor their services in innovative ways.

So there are many programs already underway in the Granite State that can serve as models for our efforts to expand opportunity for entrepreneurs, and I expect there are models in lots of other states as well.

In my view, having the opportunity to start and grow a business shouldn't be all about "who you know."

Equality of opportunity for entrepreneurs should be predicated on a willingness to work hard to transform an innovative idea into a reality.

The bottom line is that we must do more to level the playing field and help aspiring business owners build social capital.

Our country was founded on the idea that nurturing the talent and the energy of every person promotes human dignity and ignites a vibrant and competitive economy, and government certainly has a role in ensuring that we do just that.

When we bring people in from the margins, our communities, our democracy, and our economy all benefit; we thrive and we build a strong future for our children.

So, I look forward to our witnesses' testimony today on how we can help all Americans build social capital. Thank you, Mr. Chairman.

HARVARD UNIVERSITY
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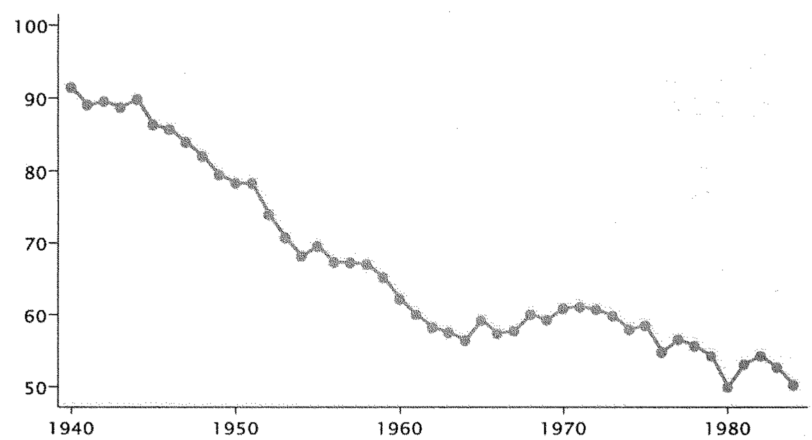
April 2019

Upward Mobility in the United States
Nathaniel Hendren

I grew up inspired by the notion of The American Dream; I believe that every child should have the opportunity to climb the income ladder. In my research with a broad set of collaborators, we try to measure the extent to which we live up to this ideal. Unfortunately, our research shows that this dream is out of reach for too many children.

There are many ways of quantifying the American Dream, but one way is to measure the fraction of children who grow up to earn more than their parents. We find that that for children born in 1940, the American Dream was nearly a guarantee: 90% of children grew up to earn more than their parents. But today, only half of children grow up to earn more than their parents.

Figure 1: Percent of Children Earning More Than Their Parents, by Child's Year of Birth



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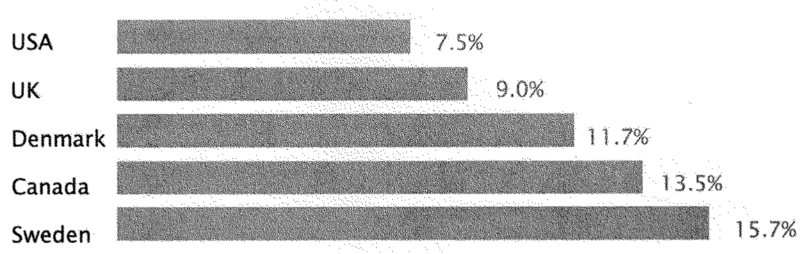
Another measure of The American Dream is the likelihood that a child born in the bottom of the income distribution reaches the top of the income distribution in adulthood – the ability to go from "rags to riches". If incomes in adulthood were independent of one's background, we would expect 20% of those with low-income parents to grow up to reach the top fifth of the income distribution. But, in the US, only 7.5% of children whose parents are in the bottom fifth of the income distribution grow up to reach the top fifth of the income distribution as adults.

Perhaps perfect mobility is too high of a standard. Another benchmark is to compare across countries. Here again, the US lags behind. In Sweden, 16% of children from the bottom 20% of the income distribution reach the top 20% of the distribution in adulthood. In Canada 14% rise to the top; 13% in Denmark; and 9% in the U.K.. The US as a whole has lower rates of social mobility than nearly every developed country for which we can measure it.

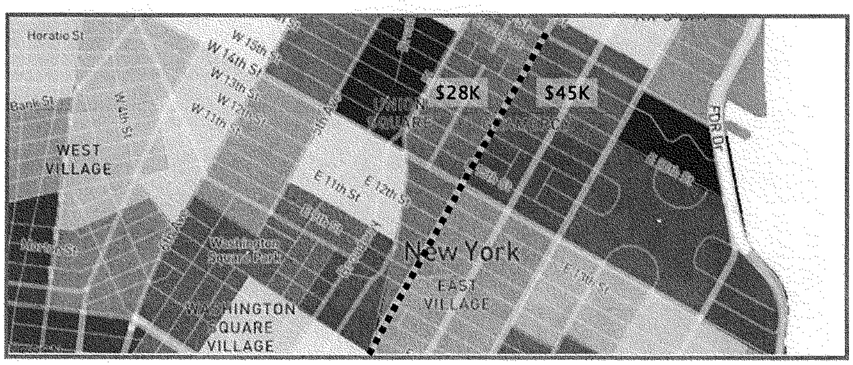
Figure 2: Chance that a Child Born to Parents in the Bottom Fifth of the Income Distribution Reaches the Top Fifth, by Country



This broad pattern masks the fact that there are places across the United States where the American Dream is alive and well. Rates of upward mobility vary dramatically across the country, and even within cities. In some neighborhoods in Provo, Utah, children from low-income families grow up to earn $66,000 on average at age 35. Contrastingly, low income children who grow up in parts of inner Baltimore grow up to earn, on average, only $16,000 in adulthood.

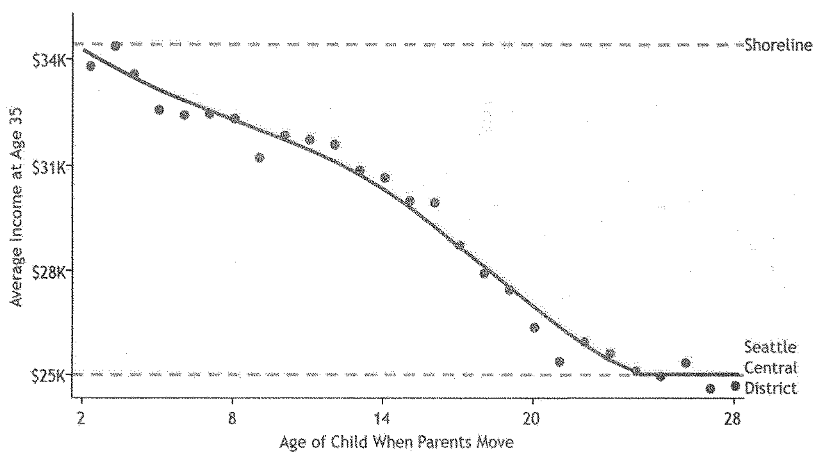
Upward mobility varies even more when we compare across neighborhoods within cities. As we've documented in the Opportunity Atlas, children who grow up a few miles apart in families with comparable incomes have very different life outcomes. Children who grow up in low income families in other areas in Provo earn $30,000 in adulthood on average, less than half of the income of their neighbors. Or, to take another example in Midtown, Manhattan, where poor children growing up in neighboring tracts grow up to earn $28,000 and $45,000, depending on which side of 3rd Avenue they grew up on.

Figure 3: Adult Incomes for Low-Income Children, by Childhood Tract



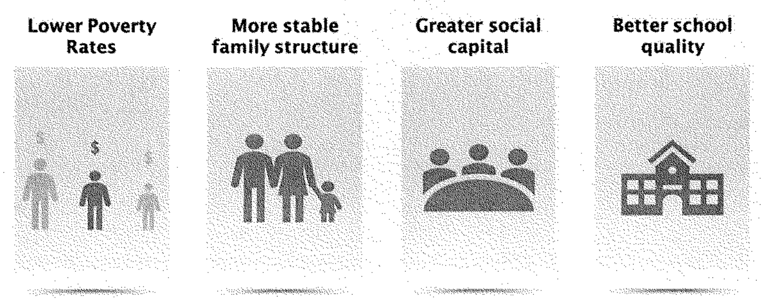
These striking disparities naturally raise the question: Why do outcomes differ so dramatically across places? Our results suggest that the economic outcomes we see today have their roots in the neighborhood environments in which we grew up. Every year a child spends growing up in a neighborhood with higher rates of upward mobility leads to higher incomes in adulthood.

Figure 4: Income Gain from Moving to a Better Neighborhood, by Child's Age at Move



The message is simple: neighborhoods matter. Where we grew up shapes our future outcomes. If we can improve these neighborhood environments for children, especially those who are most disadvantaged among us, we can increase upward mobility in the United States. The variation in the Atlas provides a learning opportunity that can inform such efforts; we can attempt to replicate the successes of high-mobility neighborhoods elsewhere. Across the US, we tend to see higher rates of upward mobility for children who grow up in places with lower poverty rates, better school quality, stronger family structures, and greater social capital.

Figure 5: Characteristics of High-Mobility Neighborhoods



I do want to be clear, however: While we can identify the characteristics of neighborhoods that tend to promote high rates of upward mobility, current data limitations prevent us from identifying the best policies for improving upward mobility. I am excited about our ongoing endeavors and collaborations with researchers at the Census Bureau and Treasury department to further understand these potential pathways to promoting upward mobility. Uncovering the "recipe for success" will not be easy, but thanks to the access to administrative data and support of government research, I believe we can make progress on this important question.

More generally, I am delighted to be here today to discuss how we might learn from evidence to inform policies that might improve upward mobility. While I know there is often considerable disagreement in politics, it is my hope that an evidence-based approach to improving economic opportunity for our children is a purpose that spans party lines and allows us to begin to restore the American Dream.

AMERICAN ENTERPRISE INSTITUTE

Statement before the Joint Economic Committee
On Expanding Opportunity by Strengthening Families, Communities, and Civil Society

On the Importance of Social Capital for Public Policymaking

Ryan Streeter
Director of Domestic Policy Studies

April 30, 2019

Chairman Lee, Vice Chair Maloney, Distinguished Members of the Committee, thank you for asking me to testify on the relationship between social capital and opportunity in American public life.

Through several decades of research, we know that social capital positively affects a wide range of things we all desire, such as good work, happy family lives, a good education, safety for our kids, and opportunity for us and others. Yet we do not utilize what we have learned about social capital very effectively in domestic policymaking anymore. I say "anymore" because there was a time when we were better at making communities and social capital central to our policy deliberations.

I will explain what I am referring to in what follows, but first, it is worth highlighting a few important points about social capital from a new survey that my colleagues and I at the American Enterprise Institute have conducted.

Consistent with other research, we found that people who know their neighbors, cooperate with them to solve community problems, and are involved in non-profit and other community organizations are less lonely, happier with the communities in which they live, and happier with their own lives.

The benefits of social capital are especially interesting when we look at how the informal elements of social capital – such talking with and getting together with friends and neighbors – and formal elements – such as volunteering in civic groups – relate to each other. Americans who are both highly civic and highly social typically rate highest on almost any measure we construct or issue we examine.

For instance, 46 percent of people who are both highly civic and highly social rate the communities where they live as excellent, compared to 36 percent of people who are highly social but not civically engaged. Only 24 percent of people who are neither social nor civic say the same. Additionally, people who are both highly civic and highly social are the least likely to say they would move away from their community if they could. This group is also much more likely to talk with their neighbors on regular basis than people who rate high on the social scale but low on the civic scale.

A strong sense of community at the local level is most prevalent among people who are engaged in their communities, not just people who are neighborly. One-third of people who are both civic and social derive a strong sense of community from their neighborhood, compared to 19 percent of highly civic people who are unsocial, and 24 percent of highly social people who are not civic. Perhaps unsurprisingly, civic people of all stripes, including those who are not social, are more likely to say they believe they can have a positive impact in their community than others, including highly social people who are not civic.

When it comes to happiness, 19 percent of highly social but civically unengaged people say they are "very happy," compared to 28 percent of highly social and civic people. Highly civic but unsocial people register at 17 percent. The combination of civic engagement and sociability produces a significant happiness effect. Conversely, civic involvement correlates with lower levels of loneliness, which is a topic of shared concern these days. Unsocial people with high levels of civic involvement are more likely to report "never" feeling lonely than highly social people who are not civically involved. That is, community engagement correlates with less loneliness more than talking frequently with friends.

Highly civic and social people are considerably more optimistic about their personal financial situation in a year relative to the economy as whole compared to other groups. There is not much difference in how people of all stripes expect the economy to be doing a year from now (slightly more than a quarter expect improvement while slightly less than half think it will be about the same), and a greater share of all of them expect to be doing better personally than they expect the nation as a whole to be doing – but not even close to the degree of highly civic and social people.

When it comes to issues of poverty and government's role in addressing it, Americans are pretty unified, regardless of their civic and social standing. Slightly more than half say that poverty is due to circumstances beyond people's control (as opposed to people not doing enough to better their situation) and that the fact that some people get rich while others are poor is a problem that needs addressing.

Civic-minded people, however, show slightly more tolerance for the rich-poor gap in America as an acceptable part of our economic system, and highly civic and social people are the most likely to rate as "extremely important" the government's responsibility to "increase the equality of opportunity for people to get ahead if they want to." It seems that civic-minded people have a greater optimism that efforts of self-betterment together with appropriate government assistance will pay off.

We cannot close out a discussion about civic and social groups without looking at the important role of religion. On average, 29 percent of highly civic people say religion is central to their lives, compared with 15 percent of civically unengaged people. In every civic group (i.e., those with low, moderate, and high social scores) a greater share of people say religion is central to their lives than say "not important." Exactly the opposite is the case for people who are not civically engaged, in which case about twice the share of respondents say religion is unimportant than rather than central to their lives. America's tradition of civic engagement continues to have strong religious underpinnings.

Having more people engaged in solving national problems in their own backyard is good for a number of reasons beyond the immediate problem being solved. Civic-minded Americans have more of almost everything we need more of in our country, so producing more of them and basing our policy decisions on this goal is critical.

It seems that when civically minded community leaders in and out of government are asked to solve problems, they accept the challenge – which brings me back to the topic with which I opened my remarks.

To think about the future of social capital in public policy, it is worth taking a look at the past. Oddly, we know so much more about the benefits of social capital today than we did in the mid-1990s, and yet we use incorporate it less when designing policy solutions. When Harvard's Robert Putnam was kicking off a large research project on the topic that spawned a social capital research cottage industry in the late 1990s, it came on the heels of a wave of policy reforms rooted in an understanding of the importance of local communities and networks.

For example, from 1991 to 1996, we saw four major domestic policy reforms at the federal and state levels that all presupposed the indispensable value of basic units of civil society – family, neighborhood, community – in their policy design. Each was in its own way a reaction against shortcomings of Great-Society-legacy programs that had concentrated too much authority for problem-solving in bureaucracies far from the communities they were – however well-intentioned – trying to serve.

The first reform was in school policy, which began at the state and local level, and rippled across the country. The first school voucher program began in Milwaukee in 1990, and the first public charter school law was passed in Minnesota in 1991. The premise of the school reform movement was to empower parents and families to either form their schools in cooperation with community leaders, or have the ultimate choice in where their kids went to school. The movement to expand charters and vouchers over the past 30 years reflects a Tocquevillian understanding of American civic life in which families, local officials, nonprofit organizations, and local foundations work together to achieve a public benefit. The research on the effects is mixed, but it does seem clear that the competitive pressures new entrants place on incumbent schools generally tends to produce improvement, and a diversity of options, in local school districts.

The second reform concerns public housing, which in city after city had become a symbol of a failed model, riddled with crime, drugs, and persistent poverty. HOPE VI, created by Congress in 1992, made the neighborhood rather than simple units of housing, the central focus of public housing assistance. Housing projects were torn down and replaced with mixed-income, sometimes mixed-use, developments that gave families in public housing a greater stake in their neighborhood. Over time, the program has produced about as many units of subsidized housing as were demolished. I should also mention that the Moving to Opportunity demonstration program, from which we have learned so much in the research of Nathaniel Hendren, Raj Chetty, and their colleagues, was created concurrently in 1992 to test whether helping low-income families move to different neighborhoods would generate better outcomes.

The third reform is community policing, which has a history predating the 1990s. But it was a 1994 federal law aimed at helping cities implement community policing that effectively made it a nationwide practice. In the ten years after the law passed, the share of municipal police departments practicing community policing grew from about 20 percent to 68 percent. Today, more than 80 percent of police departments practice community policing. Instead of the top-down, crime-response practices of a previous era, community policing focuses on forming partnerships with neighborhoods and communities with a focus on preventing crime, rather than just responding to it.

Fourth, and perhaps best-known, is welfare reform, which was created in 1996 amidst quite a bit of public debate. Most of the debate then, as now, was focused on the merits of work requirements and time limits on welfare recipients. Less-debated, but just as important in my view, was the fact that states and municipalities had to take responsibility for ensuring that welfare recipients successfully moved into the labor market. States that practiced second-order devolution – that is, devolved the responsibility for employment outcomes to counties and municipalities – typically saw better labor market outcomes among former welfare recipients. Reliance on local networks through chambers of commerce, vocational schools' employer partnerships, and so on, was a way of situating social capital at the heart of the policy objective to move people from welfare into work.

The idea that communities and the relationships that exist within them should be central to policymaking was "in the air" in the 1990s. Even the party platforms in 1996 reflected this reality. I have documented this phenomenon in a recent National Affairs essay and will not recount it here, but suffice it to say that both parties in 1996 saw families, neighborhoods, and communities as important elements in combatting domestic policy problems; and in 2016, that language is almost entirely absent.

If we hope to continue to make progress in serving individuals and families who are on the outside of American prosperity staring in, we should pull a few pages from the 1990s playbook and make community relationships central again. It is well and good to have debates about policies such as expanded wage subsidies and retooled safety net programs that help people make progress in the labor market. But if we fail to recognize the important role that networks play at the local and regional levels in people's upward mobility prospects, our national debates about these former types of policy will achieve limited impact. Our workforce development systems at the state and local levels, for starters, could benefit greatly from a renewed focus on how networks and relationships at the community level could help low-income aspiring workers fare far better in the labor market than they currently are.

Thank you.

Congressional Hearing on Economic Mobility and Social Capital: Expanding Opportunity by Strengthening Families, Communities and Civil Society

Tuesday, April 30, 2019

Statement of José Quiñonez, Founder and CEO
Mission Asset Fund

Thank you, Chairman Lee, Vice Chair Maloney, and members of the Joint Economic Committee for having this important hearing.

My name is José Quiñonez.

I am an immigrant, came to this country in the dark of night as a nine-year old, adjusted my status through the Immigration Reform and Control Act of 1986, became a U.S. citizen, and now I'm living my American Dream of helping low-income people become visible, active and successful in the financial marketplace.

As CEO of the Mission Asset Fund, a nonprofit organization based in San Francisco, California, I have first-hand experience addressing the daunting financial challenges our clients face every day.

And what I've learned is this: being poor in America is expensive, particularly for people living outside of the financial mainstream.

Nationally, one-in-seven Latinos are unbanked, meaning they do not have checking or savings accounts. While researchers point to various reasons why people go without accounts, we know banks exclude people based on immigration status or by requiring narrow forms of IDs. Consequently, many of our clients are left unbanked and without a choice but to rely on alternative providers that charge more to cash checks or pay bills. The average underserved household that earns $25,500 annually pays about 10% of their income on fees and interest for financial services that those of us with bank accounts often get for free.

Lacking access to credit is a challenge. Nationally, nearly one-in-three Latinos are credit invisible, meaning they do not have credit scores or credit reports. Given the nature of our economy, there is little anyone can do without credit—people cannot get loans to buy homes or start businesses, they cannot rent apartments, and, in some states, they cannot even get jobs without employers checking their credit reports. Without access to affordable credit, people turn to high cost lenders—some paying 100% APRs on small-dollar loans, and significantly more for short-term payday loans.

Barriers to economic mobility are not just financial. People are also burdened with uncertainty from the current anti-immigrant political environment, fearing losing their families and draining their savings. Many worry of being detained for lack of documentation—igniting a financial crisis. Bail alone could strip them of $5,000; obtaining legal representation, up to $20,000; and the costs mount from there.

So, how can we help people realize their economic potential when they are financially invisible and facing enormous challenges in their lives?

We found answers in how our clients leverage social capital—their relationships with family and friends to survive and thrive.

Our clients practice a time-honored tradition of lending and saving money together; it's an activity known by hundreds of different names throughout the world but which is essentially the same. A group of people come together and agree to pool their money so that one member of the group can take the lump sum, and they do it again on a weekly or monthly basis until everyone in the group has had the chance of getting the lump sum. When people don't have access to loans, this is how they create their own, using only their word and trust.

We built our Lending Circles Program on this tradition. We formalized loans by having participants sign promissory notes, which MAF then services and reports to credit bureaus.

Since launching the program in 2008, we have made 11,223 loans to help participants build credit—in fact, they see an average score increase of 168 points, opening a world of possibilities for them in the credit market. And the repayment rate is 99.3 percent—an unheard-of rate in the microlending world.

Lending Circles is an example of what we could do with—and for—people if we design programs and policies for success, based on people's strengths and social capital to create real lasting change.

Despite the promise from this approach, it is not enough to help the millions of people trapped by barriers that diminish their economic potential.

We need better data to understand people's challenges. Research reports based on national datasets often ignore those who are financially invisible, thereby missing critical segments of our society.

Congress can remove asset limits to public benefit programs like SNAP that are a lifeline for families not earning enough to make ends meet.

Congress can provide clarity that US citizenship is not a prerequisite for accessing financial services, and allow for more government-issued IDs when opening accounts.

Congress can significantly reduce the number of credit invisible by allowing positive payment data from utilities, rent, and telecoms to be included in credit reports.

And Congress can require "ability to repay" underwriting standards and longer repayment terms for small-dollar and payday loans.

I believe these reforms can go a long way to unlock people's economic potential, and help them realize their American Dreams too.

Thank you for holding this hearing and I look forward to continuing this important conversation.

A Hearing of the Joint Economic Committee of the U.S. Congress

"Expanding Opportunity by Strengthening Families, Communities, and Civil Society"

April 30th, 2019

Statement of Patrick Sharkey, Ph.D.
Department of Sociology and Robert F. Wagner School for Public Service, New York University

"Building Stronger Communities"

Thank you Chairman Lee, Vice Chair Maloney and members of the Committee for the chance to address you today. I'll focus my comments on a basic question: How do we create stronger communities? My answer to that question is based not on my own opinions on how I think the world works or how it should work; it's based on my reading of the best evidence that has been generated over the past few decades of social science.

First let me provide a sense of the problem. Thirty years of evidence from policy experiments, from careful quantitative studies comparing children raised in different residential settings, and from rich qualitative studies following families over long periods of time, leads to a similar conclusion: the neighborhoods in which children are raised play a central role in influencing their academic achievement, cognitive development, physical and mental wellbeing, and economic mobility.[i] Labor market opportunities, social networks, environmental hazards, and the quality of institutions like schools, libraries, banks and police departments vary dramatically depending on where one lives, creating a rigid geography of vulnerability and opportunity.

Even as this evidence has become stronger over time, there is good reason to think that it understates the full impact of neighborhood inequality. The vast majority of children who currently reside in poor neighborhoods are from families that have lived in similarly poor neighborhoods for multiple generations, and the consequences of living in highly disadvantaged neighborhoods are cumulative.[ii] This is particularly true for African Americans. Roughly three out of four African American children currently living in the nation's poorest, segregated neighborhoods are from families that have lived in similarly poor neighborhoods for at least two generations.[iii] Growing up in a poor neighborhood with low-quality schools, high levels of violence, and few economic opportunities affects your early experiences in the labor market, your mental health, your wealth, and all of this affects the life chances of the next generation. The impact of neighborhood disadvantage on outcomes like cognitive skills and economic success is greatest for those from families that have lived in disadvantaged environments the longest.[iv]

Despite this sobering finding, it is important to bring attention to several positive developments that have taken place in urban neighborhoods over time. Segregation between black and white Americans has been falling, albeit gradually, since the 1980s.[v] The level of violence in American cities has plummeted since the early 1990s.[vi] And many major cities have thrived in the new global economy, becoming hubs of innovation and economic growth.[vii] These are tremendously important changes that have transformed many cities and neighborhoods all over the country.

But while it is important to recognize this progress, we must acknowledge the new challenges that continue to undermine strong communities. As income inequality in the nation has increased, rich and poor families have increasingly moved apart, sorting into separate communities. In 1970, about 15 percent of American families lived in neighborhoods that were either extremely affluent or extremely poor. By 2012, that figure had risen to 34 percent of families.[viii] While several coastal and Sunbelt cities like New York, Los Angeles, San Diego, Washington D.C., and Phoenix have attracted newcomers who have higher income and more education than those who are leaving the same cities, Rust Belt cities like Detroit, Columbus, Pittsburgh and Cleveland have seen higher-income, better-educated residents leave and lower-income residents move in.[ix] As a result, metropolitan areas have begun to look more and more different from each other, some with bustling economies offering relatively high-paid jobs, others depressed and isolated from economic opportunity.[x] This development means that as income and wealth inequality have continued to rise, economic opportunity is concentrated in some sections of the country and is mostly absent in others that have been left behind.

As regional inequality has increased, long-range geographic mobility has fallen. From the late 1940s through the 1970s, about 20 percent of Americans moved residences in a given year, over 6 percent made a residential move across county lines, and between 3 and 4 percent moved to a different state.[xi] Since the 1970s, year-to-year migration has declined steadily. Roughly 11 percent of Americans now move each year, less than 4 percent make longer range moves that bring them across county lines, and less than 2 percent move into a different state. Individuals who leave their home states to take advantage of opportunities elsewhere in the country do better on almost every measure of economic status compared to their peers who remain in the state in which they were born, but this form of long-range migration has become less common for more disadvantaged groups like racial and ethnic minorities and less-educated segments of the population.[xii] Throughout most of the 20th Century African Americans were substantially more likely than whites to make long range moves that cross-state lines, but this changed in the most recent generation. Since the 1970s, for the first time in a century, African Americans were much less likely than whites to make the type of long-distance moves that have always been a mechanism for economic mobility.[xiii]

Let me summarize the challenges facing America's communities. Children's neighborhoods have a powerful impact on their chances in life. Neighborhood inequality remains severe, it is multigenerational, and the consequences are cumulative. New gaps between thriving and struggling towns, cities, and commuting zones are growing. And the type of long-range migration that allows Americans to take advantage of new opportunities in new places is becoming less common, particularly among the least advantaged segments of the population.

How should we respond? Before considering options, it is useful to first consider what brought us here. As the manufacturing sector shrunk and urban labor markets began to change from the 1950s to the 1980s, a set of social problems like pollution, fiscal stress, segregation, joblessness, and poverty became concentrated in central cities. Our response was not a national project of investment in urban neighborhoods to respond to these challenges. Instead, our response was to abandon central cities, to withdraw resources, to expand the criminal justice system, and to provide incentives, through home mortgage provision, highway construction and other mechanisms, for advantaged segments of the population to leave central cities and head to the suburbs.[xiv] The share of federal funding going to city budgets plummeted.[xv] Public housing in central cities deteriorated, public schools crumbled, fiscal conditions worsened, neighborhoods emptied out, institutions like churches and community organizations withered away. This is what happens when communities are abandoned.

If we want to build stronger communities, three approaches are possible. One approach is to dismantle or scale back the policies that have reinforced and exacerbated geographic inequality and limited the chance for all Americans to gain access to high-opportunity communities. Several options are available, including all of the following: scaling back land use restrictions that limit the development of affordable housing and implementing mandatory inclusionary zoning policies; ending the mortgage interest deduction and reinvesting government revenue lost to this regressive tax policy into affordable housing development and rental vouchers; providing incentives for coordinated metropolitan-wide plans for transportation, housing, education, and economic development; and taking aggressive steps to end discrimination in the housing and lending markets.[xvi]

A second approach is to take steps to allow families to make residential moves that lead them into areas with greater opportunity. Results from the many housing mobility programs that have been implemented and evaluated over time have been mixed, and suggest that the programs with the greatest capacity to generate sustained changes in families' environments are those that target families with young children and those who live in the most disadvantaged and most violent neighborhoods; programs with administrators committed to searching for and identifying housing units with responsible landlords in neighborhoods across the metropolitan area, or beyond, rather than leaving families to navigate the low-rent housing market on their own; and programs that have the resources to provide extensive supports to families to help them with transportation, school searches, child care, and employment, giving families a better chance to successfully integrate into and thrive in new communities.[xvii] Additionally, we should encourage policy reforms that reduce the barriers families face in making long-range moves, such as scaling back occupational licensing regulations that vary across states, and working to make all forms of housing assistance portable.[xviii]

The third and most promising approach, which has never been attempted over the last fifty years, is to shift from a model of community abandonment to a model of community investment. In the American Enterprise Institute's Survey on Community and Society, a national sample of respondents was asked what makes a community successful. The two top responses were "Good local schools" and "Having libraries and community centers nearby."[xix] A great deal of evidence suggests the respondents are right. The most effective way to build stronger communities is to invest in core public institutions like schools and libraries, and public amenities like parks and playgrounds, that bring people together in shared spaces. Let me provide examples. A large-scale program of investment in public libraries would allow these institutions to play an even larger role as centers of community life, providing crucial services to residents in shared spaces all over the country.[xx] Investment in law enforcement is needed to allow police officers to rebuild trust and legitimacy in places where the bond between the police and the community is broken.[xxi] Investment in nonprofit organizations, including religious congregations and faith-based organizations, business improvement districts, addiction treatment services, mental and physical health providers, prisoner reentry programs, child care providers, mentorship and after-school programs, would make every community less vulnerable to the next crisis to hit America's neighborhoods.

In short, the best way to create stronger communities is to invest in the people, the institutions, and the local organizations that provide the foundation for community life.

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QUESTION FOR THE RECORD FOR DR. HENDREN SUBMITTED BY SENATOR HASSAN

1. As I noted during the hearing, social connections are often critical for entrepreneurs seeking the counseling, investment, and other resources necessary to start and grow a small business.

Given the unique challenges faced by entrepreneurs with limited social capital—such as women entrepreneurs and entrepreneurs in rural areas lacking quality broadband internet—what are some specific steps that you would recommend Congress take in order to encourage the development of social capital and promote economic opportunity in disadvantaged communities?

Thank you for the opportunity to discuss this question. On the one hand, you can work to promote entrepreneurship of adults interested in pursuing such a career. However, our work would suggest one should also focus attention on cultivating the entrepreneurial opportunities and skills in the next generation. At this point, we don't know the best policies to do this, but we do know that the development of ideas, starting of a business, and creation of economic opportunity is rooted in childhood environments. I would consider the encouragement of more programs in schools to help promote entrepreneurship. I would also consider after-school programs to promote a greater understanding of how to start a business. I would also support programs that facilitate greater summer youth employment programs, perhaps helping youth work in small businesses, which would allow them to be exposed to the type of internship opportunities children from more affluent backgrounds use to develop social capital during childhood and succeed later in life. To be sure, these policy suggestions are speculative at best, and so I would also encourage implementing policies in this area that are rigorously tested (e.g., through randomized control trials). But nonetheless, I do believe a greater focus on growing the opportunities available for the next generation holds the most promise for addressing this important issue.

QUESTION FOR THE RECORD FOR DR. STREETER SUBMITTED BY SENATOR HASSAN

1. As I noted during the hearing, social connections are often critical for entrepreneurs seeking the counseling, investment, and other resources necessary to start and grow a small business.

Given the unique challenges faced by entrepreneurs with limited social capital—such as women entrepreneurs and entrepreneurs in rural areas lacking quality broadband internet—what are some specific steps that you would recommend Congress take in order to encourage the development of social capital and promote economic opportunity in disadvantaged communities?

Because it is difficult to jump-start economic activity in disadvantaged communities through traditional tactics such as luring a company with tax credits, it seems regional strategies are more promising. Finding ways to connect disadvantaged communities with growing areas within a distinct geographic region is more likely to help the former, rather than focusing on individual communities by themselves. This is typically how outlying areas around a central hub of economic activity, such as small towns outside a growing urban area, continue to remain economically viable themselves. Factoring this reality into our policymaking would be useful.

One example where this kind of thinking has been implemented as policy is in the Regional Cities Initiative in Indiana (*https://iedc.in.gov/programs/regional-cities-initiative/home*). By way of full disclosure, I was involved in the conception and design of the initiative under then-Governor Mike Pence. The reason we pursued the Regional Cities strategy was for the foregoing reasons above—namely, the uncomfortable but sober acknowledgement that some towns and counties simply would not bounce back on their own. The initiative provides matching funds to regional plans that connect disinvested areas with the regional city around which most of the economic activity in that part of the State occurs. This kind of structure gets people at the community level within a region thinking more broadly and strategically about what they have to offer the region, and forming relationships to that end.

These kinds of regional partnerships could flourish more broadly if incentives within our HUD-based and workforce (DOL) funds, for starters, pushed community leaders at the State level in this direction.

QUESTION FOR THE RECORD FOR MR. QUIÑONEZ SUBMITTED BY VICE CHAIR MALONEY

- **How would you address the problem of bank closings and the lack of banking services in low-income communities? How could financial institutions, nonprofits and governments work together to give residents access to those services?**

Banks are closing branches at record rates. Between 2009 and 2018, banks closed 111,251 branches all across the country, a drop of 11.4%, leaving low-income families in urban and rural communities in what is now known as "bank deserts."[1] While analysts attribute industry-wide market forces, consumer preferences, and technology as drivers of this trend, the loss of bank branches has been attributed to worse financial outcomes in the surrounding neighborhoods.[2]

There is an opportunity to reinvent bank branches into "Financial Community Centers" that can prevent the proliferation of bank deserts and preserve access to essential financial services.

The idea is simple: In neighborhoods with a dearth of financial services or where branch shutdowns are imminent, banks could partner with community-based organizations who are already present in the area to repurpose their branches into Financial Community Centers. Depending on the particular needs and limitations of each branch, Financial Community Centers could provide much-needed services like:

- Smart ATMs to allow consumers to access their accounts. In most cases, banks could simply leave their ATMs operational and agree to service them as they do with smaller branches in grocery stores.
- In-person bank tellers. Tellers employed by the bank could be present to assist consumers in person, or the bank could enable nonprofit staff members to help consumers open new accounts, apply for credit, and access money orders and other services from their existing accounts.
- Ongoing financial education and coaching services to consumers, including guidance about how best to leverage the financial and banking products they already have.
- International money transfer products, allowing clients to send remittances to family abroad.
- Business incubators programs, homeownership programs, and referrals to other critical services pertinent to that specific community. Banks could even fund some of this programming using dollars from the Community Reinvestment Act.

Partnerships like these leverage the unique strengths of nonprofits and financial institutions—giving community organizations the tools to better serve the clients with whom they already have built relationships and trust, and allowing banks to more profitably deliver high-quality products to a larger customer base.

Such partnerships are not out of the ordinary. In fact, some banks and communities have already struck partnerships, presenting viable models for what more that could be done with the right guidance and direction from Congress.

QUESTION FOR THE RECORD FOR MR. QUIÑONEZ SUBMITTED BY SENATOR HASSAN

1. As I noted during the hearing, social connections are often critical for entrepreneurs seeking the counseling, investment, and other resources necessary to start and grow a small business.

Given the unique challenges faced by entrepreneurs with limited social capital—such as women entrepreneurs and entrepreneurs in rural areas lacking quality broadband internet—what are some specific steps that you would recommend Congress take in order to encourage the development of social capital and promote economic opportunity in disadvantaged communities?

Traditional employment alone, it turns out, does not lead to financial security for the working poor. Infrequent hours and low, stagnant wages have made entrepreneurship an appealing alternative despite higher risks. Many entrepreneurs are

[1] Top Branch Trends for Banks and Credit Unions in 2019." *The Financial Brand*. Retrieved on 5–13–2019 from: <*https://thefinancialbrand.com/79277/bank-credit-union-branches-trends-strategies/*>

[2] Consider, for example, the evidence provided by the author of this paper, linking bank branch closings with loss of credit within a six-mile radius: Nguyen, HLQ. "Are Credit Markets Still Local? Evidence from Bank Branch Closings." *American Economic Journal: Applied Economics 2019*, 11(1): 1–32 Retrieved on 5–13–2019 from <*http://faculty.haas.berkeley.edu/hqn/nguyen__aej__201901.pdf*>

choosing to monetize their skills in solopreneurship, contract or gig work, side jobs, and other forms of self-employment. These "nano-ventures"—small, local, and often informal entrepreneurial endeavors—are an important, increasingly popular source of employment in the U.S.[1]

Nano-ventures face many of the same challenges as small business, including working with tight budgets, accessing capital, marketing and building connections, and managing high levels of risk and uncertainty in their personal and professional lives.

Many of these entrepreneurs struggle to navigate hurdles since existing services and policies are not designed for them. Much of the social services infrastructure is designed to provide safety nets for those who are traditionally employed, and business counseling and capital is geared towards larger-scale enterprises, leaving nano-ventures without the support they need to succeed. For example, groups like the Small Business Administration (SBA) provide small businesses (formally incorporated businesses with up to 500 employees and under $7.5 million annual receipts[2]) with high levels of support, including low-interest loans averaging over $100,000; however, the corresponding high bar to entry, including needing to submit detailed business plans and financial projections, makes them inaccessible to nano-ventures.

There is an opportunity to expand programs that are already helping small businesses,[3] to be inclusive of, and accessible to nano-ventures. This could include expanding the eligibility criteria to include those who are self-employed and just starting up, or offering smaller supports with easier application processes. These services could be delivered through local "Financial Community Centers,"[4] open to nano-ventures, micro businesses, and small businesses alike. These centers could create opportunities for human interaction where professional relationships can form, and be the focal point for Congress to support entrepreneurs in many ways:

- Dedicate space for members to network with each other, share resources, collectively address challenges particular to their industry or locality, and even use their numbers to purchase group insurance plans at lower rates.[5]
- Offer counseling and educational services to nano-ventures—for instance, in choosing the appropriate designation (contractor, LLC, corporation, etc.), separating personal and business finances, developing business plans and financial documents, and filing taxes
- Provide "nano-loans"—affordable, small-dollar capital with fewer application requirements and less stringent underwriting than the typical small business loan—to support the development of nano-ventures and close the gap in credit availability between the median $5,000 personal credit card limit and the minimum $50,000 SBA-backed small business loan.
- Extend tax incentives, such as the Qualified Business Income deduction and write-offs for allowable business expenses, to nano-ventures; eliminate disincentives like higher social security taxes on entrepreneurial income; and extend VITA tax preparation assistance to nano-ventures
- Offer alternatives to traditional work-based safety nets[6] like portable and entrepreneur-owned benefits, government-sponsored retirement accounts, and tax write-offs for healthcare and other insurance payments
- Amend means testing for public benefits to make it easier for nano-ventures to report their true personal income. Like small businesses, nano-ventures should be able to exclude business income and assets so that those who are self-employed don't have to worry about business ventures affecting their families' eligibility for social safety net programs.

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[1] See, for example, Gallup's estimate that over a third of U.S. workers participate in the Gig Economy: *<https://www.gallup.com/file/workplace/240878/Gig—Economy—Paper—2018.pdf>*

[2] See SBA's site for more nuance around this definition: *<https://www.sba.gov/blogs/how-and-why-determine-if-your-business-small>*

[3] For example, like the Small Business Administration, Community Development Financial Institution Fund, Community Development Block Grants, Workforce Investment Act, and Temporary Assistance for Needy Families, which most states already use to support small businesses: *<http://scorecard.prosperitynow.org/2016/measure/microbusiness-support>*

[4] For more details about Financial Community Centers, see the answer we provided to Vice Chair Maloney's question about access to banking services.

[5] Freelancer collectives that already exist tend to give their members many of these same benefits: See, as an example, "The Rise of the Freelance Class" *<http://www.people.hbs.edu/manteby/RiseoftheFreelanceClass.pdf>*

[6] An important part of supporting entrepreneurship is thinking about how entrepreneurs, especially those with nano-ventures, can access financial products that traditionally are made available through the workplace. See, for example: *<https://www.brookings.edu/blog/the-avenue/2018/03/29/rethinking-worker-benefits-for-an-economy-in-flux/>*

- Eliminate asset limits and benefit cliffs altogether, to encourage more people to pursue entrepreneurship.

Congress could also invest in research to better understand the role that nano-ventures play in expanding opportunities for financial empowerment, and the strengths and needs of these entrepreneurs. With the right action, we can support people in building economic opportunity through entrepreneurship and thriving in our rapidly evolving labor market.

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