

**INCREASING ECONOMIC OPPORTUNITY  
FOR AFRICAN AMERICANS: LOCAL INITIATIVES  
THAT ARE MAKING A DIFFERENCE**

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**HEARING**

BEFORE THE

**JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES**

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

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JULY 29, 2014  
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TUESDAY, JULY 29, 2014

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
*Washington, DC.*

The committee met, pursuant to call, at 2:31 p.m. in Room G-50 of the Dirksen Senate Office Building, the Honorable Amy Klobuchar, Vice Chair, presiding.

**Representatives present:** Paulsen, Hanna, Carolyn B. Maloney, Cummings, and Delaney.

**Senators present:** Klobuchar, Casey, and Murphy.

**Staff present:** Al Feizenberg, Connie Foster, Niles Godes, Colleen Healy, Christina King, and Robert O'Quinn.

**OPENING STATEMENT OF HON. AMY KLOBUCHAR, VICE  
CHAIR, A U.S. SENATOR FROM MINNESOTA**

**Vice Chair Klobuchar.** Okay, we are going to call the hearing to order. We are very glad we have a good number of people here in attendance, and thank you so much for coming, and thank you for this important conversation about increasing economic opportunity in the African American community.

I would like to thank Congressman Cummings, who has worked with us to put this hearing together. Also, the people from my hometown of Minneapolis who met with me. We had a really good discussion about this issue, and talked about how not only do we want to shed some light, continue to shed light on this issue, but also talked about what has been working across the country and some positive developments, as well.

I think we all know we have seen some positive developments in our economy, and that is a good thing. We have seen stability. I know in our State we are down to 4.6 percent unemployment. But we still have a lot of issues with long-term unemployed and people who, even though they have jobs, are not making enough money to really pay the bills and make ends meet.

Paul Wellstone, who we miss every day in Minnesota, always said: We all do better when we all do better. And that is really what this hearing is all about.

There is much work to be done. We know that the unemployment rate for African Americans has dropped significantly in the past six

months, but it still remains well above the overall unemployment rate of 6.1 percent.

In 2013, African Americans were 12 percent of the labor force but 24 percent of those unemployed for more than 6 months.

We are going to talk about some policy recommendations. I know we will hear about them from our witnesses, and those are improving workforce training. We did just pass a bill on that out of the Congress, but it is something we care a lot about. Education. Helping families build wealth. Revitalizing neighborhoods. And helping start their own businesses.

Harlem Children's Zone is obviously a good example when it comes to education. A birth-through-college pipeline of programs reaching more than 12,000 young people annually, and has become the gold standard for comprehensive education programs built on outcomes-based models.

We also are going to look at increasing the number of African Americans with STEM skills. We know that is important. I know there is a young man I just met out there—there he is in his blue shirt and orange tie—and asked him what his favorite subject is, and his first answer was, "Math." Very good. That was good.

And where's your grandma? You showed me where your grandma was.

(Nigel indicates where his Grandmother is sitting.)

**Vice Chair Klobuchar.** Okay, good. You should be very proud of him. That was a good answer.

I am going to actually, instead of going through everything, because I know that I want to give Representative Cummings time to speak as well and introduce our witnesses, so I am going to first turn it over to Representative Hanna who is our chair today on the House side, and then we are going to come back to Mr. Cummings and hear from him, a few comments from him as well as introducing our witnesses.

Mr. Hanna.

**OPENING STATEMENT OF HON. RICHARD L. HANNA, A U.S.  
REPRESENTATIVE FROM NEW YORK**

**Representative Hanna.** Thank you, Vice Chair Klobuchar, Members, distinguished witnesses, grandparents, parents, and scholars. Thank you for being here.

Let me begin by noting: Through the title of this hearing, Vice Chair Klobuchar and her Democratic colleagues acknowledge that Washington does not have a one-size-fits-all solution to every problem that Americans face.

Yesterday marked the 100th anniversary of the beginning of World War I when Austria-Hungary declared war on Serbia. The Great War disrupted the supply of immigrant labor to the American industries. In what became known as the Great Migration, hundreds of thousands of African Americans moved north to fill these positions.

July 2nd marked the 50th anniversary of the passage of the Civil Rights Act of 1964 which outlawed discrimination in public accommodations and employment based on race, color, religion, sex, or national origin. Through this Act, both Democrats and Republicans

sought to close the opportunity gap generated by racial prejudice and segregation.

Over the last half-century, there has been substantial progress in narrowing the opportunity gap for African Americans. Fifty years ago, less than 25 percent of African American adults had a high school diploma; today, more than 85 percent do.

And there has still been a five-fold increase in the percentage of college graduates. Inflation-adjusted median family income of African Americans has nearly doubled. The percentage of African Americans living in poverty today has fallen by more than a third, and the percentage of children living in poverty has fallen by nearly half—but much, much more needs to be and can be done.

Nevertheless, the opportunity gap for African Americans remains substantial. Much of what remains of the opportunity gap is caused by a lack of education and job skills needed to prosper in today's economy.

The surest route to prosperity for every American is a good education. For poor African American children raised by single mothers in rough inner city neighborhoods, a good education, as Thomas Sowell argues, is their greatest chance at a better life.

America has many great public schools with excellent teachers that provide them with outstanding education. Unfortunately, America also has failing public schools with struggling teachers, many of which are in inner cities serving poor children.

Economically prosperous families can avoid sending their children to failing public schools by either moving to a different neighborhood with good public schools or enrolling them in private schools. Prosperous families always have school choice.

Until recently, more families in inner cities had no choice. Their children were forced to enroll in the assigned public schools even if they failed to provide a good education. Over the past decade, however, the public school monopoly for the poor has begun to change.

Some governors and legislators working with parents have developed new and innovative approaches to provide all parents, regardless of their income or wealth, with choice for where their children are educated.

The choice movement has taken a number of different forms: charter schools, vouchers to attend private schools, and privately funded scholarships to attend private schools.

One of our witnesses today is Eva Moskowitz, the founder and Chief Executive Officer of Success Academy, a charter school system in my own State of New York. She has overseen the expansion from one school in 2006 to 22 schools serving 6,800 students—I understand soon to be 32 schools, serving many more students.

Her students are largely from the poor minority families. One of the interesting statistics is that these students score in the top 1 percent in math, and the top 7 percent in English Language Arts in state testing.

Americans are a generous people, willing to help the poor through government-funded assistance programs and providing charities. But Americans are also a practical people.

We want our safety nets to be temporary, helping able-bodied working-age people to move from poverty into the middle class, and

beyond. We do not want our safety net to trap the poor in a multi-generational cycle of dependency.

Another witness today is Dr. Aparna Mathur who has identified what local initiatives in social welfare programs can actually lift women, especially African American women, out of poverty and making economic growth even more inclusive for the poor.

She has argued for streamlining existing programs in order to improve transparency about the implicit tax penalties associated with each program. Ms. Mathur, Dr. Mathur, will offer Members important lessons on how to restructure our existing anti-poverty programs, improving the lives of current beneficiaries while providing a better value for the taxpayer.

I look forward to their testimony. Thank you all, again.

[The prepared statement of Representative Hanna appears in the Submissions for the Record on page 30.]

**Vice Chair Klobuchar.** Thank you, Representative Hanna. We have also been joined by Representative Paulsen of my home State of Minnesota. We are over represented on this Committee. And I will turn this over to Mr. Cummings.

**Representative Cummings.** Thank you very much, Vice Chair Klobuchar. And thank you for holding today's hearing to enable us to examine how we can increase economic opportunities in the African American community.

While the overall unemployment situation is improving, we must ensure that all Americans have the opportunity to live the American Dream. We must remember that minorities, particularly African Americans, have a long hard road to walk just to get back to where they were before the Great Recession.

In a recent report entitled "Beyond Broke," for example, the Center for Global Policy Solutions and its partners have revealed just how wide the gap between the net wealth of White households and Minority households is. And they have detailed how extensive the financial struggles of the Minority community really are.

Among other findings, this report explains that home equity accounts account for 58 percent of the wealth of Whites; but it accounts for more than 90 percent of the personal net worth of African Americans. And African Americans are more than twice as likely as Whites to hold no financial assets whatsoever, and to have no, or negative net balance.

When African Americans are able to find work, they are more likely to find themselves in minimum wage jobs in industries where their salaries barely allow them to make ends meet.

There is much that we in Congress can do to help. We can raise the minimum wage, which at the moment is not high enough to lift a single parent working full-time above the poverty line.

We can immediately extend unemployment benefits, which are a crucial lifeline for the millions of Americans who have lost their jobs and rely on this modest benefit to cover the cost of housing, food, health care, and child care.

And we can work with federal housing regulators to expand programs designed to help homeowners struggling with their mortgage payments, and preserve the home equity that is so critical for the African American community.

We can also shine a light on local programs that are achieving measurable economic results for Minority communities, including African Americans, and I thank you, Vice Chair Klobuchar, for holding this hearing to shine that light.

We must approach this with urgency, the task of lifting all Americans, including communities of color, out of poverty into economic opportunity. And any initiative that has succeeded in this effort demands our attention. And I say to you, we do not have the right to remain silent.

On the panel today to discuss these issues is Ms. Angela Glover Blackwell, the CEO and Founder of PolicyLink, a national research institute advancing economic and social equity. Ms. Blackwell previously served as a Senior Vice President at the Rockefeller Foundation. She also served as Vice Chair of the Board of Directors of the Children's Defense Fund; was a commissioner on the Robert Wood Johnson Foundation Commission to build a healthier America; and served on the President's Advisory Commission on Educational Excellence for African Americans. Earlier this year, Ms. Blackwell was named a National Honoree by the Center for Urban Families and the Fred and Rita Richmond Distinguished Fellow in Public Life by Brandeis University.

Also with us today is Dr. Eva Moskowitz, the CEO and Founder of Success Academy Charter Schools, a network of charter schools throughout New York City. From 1995 to 2002, Dr. Moskowitz served as a New York City Councilmember for the Upper East Side of Manhattan, and chaired the Council's Committee on Education from 2002 to 2005.

Mr. William Bynum is the founding CEO and President of Hope Enterprise Corporation and Hope Credit Union, a private, nonprofit community development financial institution that provides banking services and access to capital to 400,000 low-income residents of Arkansas, Louisiana, Mississippi, and Tennessee. Finally, he has advised Presidents Clinton, Bush, and Obama on community development, small businesses, and financial services matters, serving for 10 years as a Presidential appointee and Chairman of the Department's Community Development Advisory Board.

Finally, Dr. Aparna Mathur is a Resident Scholar at the American Enterprise Institute. She previously served as Adjunct Professor at Georgetown University, a consultant for the World Bank, and an instructor at the University of Maryland.

So I look forward to our testimony, and I thank you, Madam Vice Chair, for including children. I have often said the children are the living messages we send to the future we will never see. The question is, how will we send them?

Thank you.

**Vice Chair Klobuchar.** Thank you very much. And I know that Representative Cummings has another hearing, meeting that he will be going to shortly, and I am going to have to vote. But I will come back. Never fear. So I may have to turn over the gavel to Mr. Hanna, or whoever else is here. I want to also mention Senator Casey is with us from the Great State of Pennsylvania.

So let's start with you, Ms. Glover Blackwell. Thank you so much for being here.

**STATEMENT OF MS. ANGELA GLOVER BLACKWELL, FOUNDER  
AND CHIEF EXECUTIVE OFFICER, POLICYLINK, OAKLAND, CA**

**Ms. Glover Blackwell.** It is my honor to appear before this Committee to talk about increasing economic opportunity for African Americans.

The United States is on the cusp of a very important transformation that is being fueled by the rapidly shifting demographics, which show that by 2043 we will be a Nation which is majority people of color: Black, Latino, Native American, Asian. But already the majority of those under five are of color, and by the end of this decade the majority of all children under 18 will be of color.

So we find ourselves in the situation in which investing in those who too often have been left behind, while it continues to be a moral imperative, has become a national and economic imperative.

In making sure that African American and others can fully contribute to the Nation's growth and prosperity, we really have to focus as a Nation on work, place, and wealth.

In the context of work, certainly increasing the minimum wage, expanding unemployment benefits, increasing job training programs, getting more youth summer jobs, and aligning job training programs with real jobs are important, but Oakland actually has a wonderful example, the Oakland Army Base, that has been shuttered for 20 years and is now being turned into a logistics hub for the region.

And they are using this \$800 million public/private investment, which will cover a land base larger more than 200 football fields, to be able to lift up the population that is too often left behind.

First, they are making sure that they limit the temporary jobs, so that these are long-term jobs. Next, they are eliminating the box. They are banning the box on application forms that too often people who have been formerly incarcerated have had to check and which has put them out of the running for a job. They do not have to indicate that unless they are well into the process.

They are making sure that 25 percent of all the apprentice hours go to the vulnerable populations of Veterans, people formerly incarcerated, and those who have had difficulty getting work. And they are making sure that the jobs pay living wages and have benefits, a very exciting example.

In Baltimore, a bioscience hub, they are making sure that the jobs that are going to be available in bioscience get to those who need them the most, by having mentoring programs for high school students. They get mentored, and then they get moved into jobs, a seamless process. Very exciting.

But we know that in this Nation, where you live has so much to do with opportunity, particularly for African Americans, who live in communities where the schools are often failing them, suffering from disinvestment, in places where there are no jobs and little access to jobs. They are wonderful examples of being able to turn around this notion that place has become a proxy for opportunity.

The Promise Neighborhood Program is a wonderful example. Building on the extraordinary success of the Harlem Children's Zone, where 12,000 children have been surrounded by all the supports that they need. One hundred percent of those children start school ready to learn because of early childhood investments. Nine-

ty-five percent of those children will graduate from high school and have gone on and been accepted to college. And the schools are really providing for those children.

But we also know that there are other local examples that are important. Pennsylvania has really demonstrated to the Nation that we can solve the problem of lack of access to fresh fruits and vegetables, and the Healthy Food Financing Initiative is building on that, making resources available; 5,000 jobs have been created through this resource in Pennsylvania, and we are hoping for results beyond that magnitude across the country.

But we also know, in addition to work and place, that wealth also matters. And the drivers of wealth are housing, inheritance, income, but also education. And as we are thinking about creating wealth, it is so important to understand that education not only leads to being able to develop wealth because of employment. By 2020 47 percent of all jobs in this country will require at least an associates degree. Only 28 percent of African Americans have it.

Not only does education lead to wealth, it can also be the cause for wealth stripping, when so many students have to go into debt and stay in debt and have their wealth stripped away because of the financial crisis that comes from student loans.

Pennsylvania—I'm sorry, Tennessee has a wonderful example: Tennessee Promise. Governor Haslam actually has a program in which they guarantee—this program just started in May—that every single student who graduates from high school can have two years of free community college. Two years.

That means no loans for the first two years. That means they're well on their way to the kind of investment that they will need to do well in the future. We know what works. We need to lift it up, put policy behind it, and create greater opportunity for all, including African Americans.

Thank you.

[The prepared statement of Ms. Glover Blackwell appears in the Submissions for the Record on page 32.]

**Vice Chair Klobuchar.** Thank you very much.

Dr. Moskowitz, thank you for being here, and thank you for bringing your students from Success Academy with you.

**STATEMENT OF DR. EVA MOSKOWITZ, FOUNDER AND CHIEF EXECUTIVE OFFICER, SUCCESS ACADEMY CHARTER SCHOOLS, NEW YORK, NY**

**Dr. Moskowitz.** Good afternoon, Senator Klobuchar and members of the Committee. Thank you for your attention to this critical topic. I am also honored to be here.

I am Eva Moskowitz, the Founder and CEO of Success Academies. We started August 20th, 2006, with 155 students. Today we have 32 schools K through 12. Our first high school we are opening in a couple of weeks. We have just shy of 10,000 students; 3 out of 4 of our students live below the poverty line; 94 percent are kids of color; 15 percent of our children are special needs; and about 10 percent are English-language-learners.

And yet our students are in the top one percent in math and in science for the past five years, even with the new addition of the higher Common Core standards. And our kids are in the top seven

percent in reading and writing. And we have been asked: Well how are you doing this?

And I would argue that great schooling, world-class schooling is terribly complex. It is also terribly hard. But there are some elements that are key, and I would say that in order to have a great school, or set of schools, you really have to not only teach reading and writing, but you really need to go beyond that. We have chess as a fundamental and signature element. The amount of strategic thinking you teach children through chess is actually quite profound. Our kids competed in Dallas this year with 5,000 other children from around the country, and they took home 1st place, 3rd place, 4th, and 7th place.

Our kids are on the Math Team. We have 40 percent of our children who are on the Math Team. That is unheard of in America. It is usually a few kids. And what we really try and do is have kids fall in love with mathematics. Our kids compete internationally on the Math Olympiad and do exceedingly well.

We are also tremendous believers in science education. Our kids start science in kindergarten 5 days a week. It is not a second-class subject. We believe in inquiry-based science. Our kids do about 135 experiments every year starting in kindergarten. And if you want to try and figure out how we make this country more globally competitive and how we help our most vulnerable children, low-income children in neighborhoods like Harlem and Bed Sty and the South Bronx, it is a robust STEM education.

We also do coding starting in kindergarten, believe it or not, with devices called BBOTs, which are little robots that the kids can program in a single direction. And by the time they get to middle school, they are doing JAVA SCRIPT. And by the time they graduate from high school, our kids will be able to program and earn roughly \$90 bucks an hour as programmers. We want them to go to college and graduate first, but they will have that access to economic opportunity.

It was mentioned that we have a number of students with us here today. Our scholars are incredibly passionate about learning, and our goal in schooling is to help children fall in love with school.

If you love learning, you can teach yourself anything. Part of our success has to do with a robust teacher and principal training program. Unfortunately, schools can either, as was mentioned, either can be engines of opportunity or they can actually trap children and they can be poverty traps. And unfortunately in America, we have far too many failing schools.

We have far too many mediocre schools. And what we need to do is to make sure that schools are really engines of opportunity. And when we do that, we will provide a foundation for economic success. Thank you, very much.

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

**Vice Chair Klobuchar.** Thank you, very much.

Mr. Bynum is next, and I will be turning the gavel over to Representative Maloney while we have a vote, and then I will return.  
Mr. Bynum.

**STATEMENT OF MR. WILLIAM BYNUM, CHIEF EXECUTIVE OFFICER OF HOPE (HOPE ENTERPRISE CORPORATION/HOPE CREDIT UNION), JACKSON, MI**

**Mr. Bynum.** Good afternoon. Thank you, Vice Chair Klobuchar, for the opportunity to speak before this Committee.

It is very encouraging that you are taking the time to focus on opportunities and challenges related to African Americans because as the Nation grows more diverse it is increasingly clear that all of our interests, our common interests, are tied to the fact that we equip these growing segments of the population with the capacity to prosper, to support their families, and to contribute to our Nation's economy.

Over the past 20 years, HOPE, which is a community development financial institution, has worked to accomplish this by undertaking a range of asset development strategies in Mississippi, Arkansas, Louisiana, and Tennessee.

During this period, we have generated over \$2 billion in financing that has assisted over a half a million people. My comments will focus on our core elements of work: That is, providing retail financial services in what are becoming bank deserts across the country; affordable home ownership; and support for entrepreneurs.

Our primary financial service vehicle is a credit union with 29,000 members, federally regulated; 7 out of 10 of our members are people of Color. Over half of them earn less than \$35,000 a year. And 37 percent were unbanked before they joined HOPE.

Since the financial crisis in 2008, we have more than tripled our presence in low-income communities, often in communities that have recently lost a bank. We have gone from 6 to 23 service locations at a time when 1,800 bank branches have closed across the country; 93 percent in low-income census tracts. Of the 1,679 Zip Codes in my service area, 61 percent, 1,031, have zero or one branch; 723 have no bank branches.

Regarding home ownership, we expand access to home ownership by offering mortgage products that emphasize the applicant's ability to pay, not how much we can make in fees. We take the time to understand their situation, what they can afford, and help them develop a plan to succeed.

In 2013, 82 percent of our mortgages were to Minority borrowers; 52 percent were low-income; over half were female; and 86 percent were to first-time home buyers. An annual survey of mortgage borrowers indicates that 41 percent reported improved education outcomes for their children since their families purchased the home.

We also focus on small business lending. We've been doing this since we started, and nearly half of our commercial loans last year were to Minority or women-owned businesses. The average wages at these businesses that we finance was approximately \$28,000, significantly above the \$23,000 poverty threshold for a family of 4, or the \$15,000 minimum wage. And 80 percent of the employees at the companies we finance report that they have health insurance.

I hope this gives you a sense of what is possible when African Americans and other under-served populations have access to a financial institution that is committed to providing affordable and responsible structured services.

Related to this, I would like to make three—a few recommendations:

First, I really urge you to increase the amount and the focus of federal resources that benefit persistently impoverished areas and under-served populations. A quarter of the Nation's persistently impoverished counties are in my service area. A disproportionate share of the residents are people of Color.

Increase the long-term investments in institutions like community development financial institutions, cooperatively structured institutions like credit unions that have a track record in fostering opportunity among African Americans that will produce the kind of outcomes that I described earlier.

Second, I would support strong federal consumer protection against products that target the under-banked and other vulnerable populations, and support increased accountability by banks.

The mid-South has the highest concentration of payday lenders in the country. Subprime lending is higher than it is anywhere else. And combined with the bank closures in low-income and Minority communities, this is a recipe for disaster.

It is vital that you support strong rules preventing abusive financial practices and enforce laws that require banks to invest in communities from which they derive profits.

These steps are essential for ensuring that Americans and families can participate in the economic system in a viable manner.

I will close by quoting Dr. King, nearly five decades ago when he gave his final speech to the Southern Christian Leadership Conference. He put out a passionate call for economic justice. In that speech, he emphasized the importance of well capitalized, locally owned banks in Chicago and Cleveland as a critical part of the economic success of African Americans in those communities.

We cannot allow financial services to become an extraction industry in low-income, rural, and Minority communities only taking revenue, while leaving large holes in those economies.

Community development, credit unions, community development financial institutions like HOPE, have shown how a locally owned, locally accountable financial institution can foster economic opportunities for historically underserved people and places.

Thank you.

[The prepared statement of Mr. William Bynum appears in the Submissions for the Record on page 50.]

**STATEMENT OF DR. APARNA MATHUR, RESIDENT SCHOLAR,  
AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC**

**Dr. Mathur.** Vice Chair Klobuchar, and other members of the Committee, thank you for inviting me to testify on the very important issue of economic mobility and opportunity for African Americans.

Economic mobility refers to the ability of an individual or a family to improve their economic status, either within a lifetime or across generations. It is a reflection of economic opportunities available to parents and their children as they attempt to move up the income ladder.

Amongst all races, economic mobility is of particular concern for African Americans. Forty-four percent of African Americans in the

bottom quintile stay there into adulthood, compared to just 25 percent of comparable Whites. Therefore, from a policy perspective understanding the correlates of opportunity and mobility is extremely important.

Segregation, both by race and income, is an important factor influencing mobility. Many studies find that African Americans who live in segregated metropolitan areas have lower educational attainment and lower earnings than their counterparts who live in more integrated areas.

There are several approaches to alleviate these issues. Studies advocate using community betterment projects in these neighborhoods such as improving school building, reducing crime rates, or investing in neighborhood infrastructure to encourage integration.

Other policies help individual home buyers or renters gain access to existing neighborhoods. This approach is typified by the Community Reinvestment Act of 1977 which was moderately successful in reducing residential segregation.

Also, empirical economic studies suggest that housing vouchers which moved African American children out of public housing and into less distressed homes as part of the Moving To Opportunity Project helped, as well, in reducing segregation.

In a paper from earlier this year, my AEI colleague Abby McCloskey and I propose improving the human capital of disadvantaged city residents by introducing a greater degree of school choice.

Studies focusing on charter and public schools in districts comprised mainly of Minority and low-income children suggest that school choice has significant and positive impacts on student test scores and attendance rates.

Some examples of the successes, as have already been cited, are the Harlem Children's Zone Program in Harlem, New York, which combined charter schools with a web of community services designed to ensure that the social environment outside of school is supportive for children from birth to college graduation.

Another example is the Public School Choice Lottery in North Carolina which ended the 30-year-old practice of busing students across a district to achieve racial desegregation.

A few studies suggest that the more years of schooling African American children attain the more likely they are to move out of the bottom quintile. However, African Americans have a high school dropout rate that is double that of Whites.

There is a growing body of research on using financial incentives to motivate educational goals. The accelerated study and associate programs granted full tuition waiver for full-time college at the City University of New York, which was found to increase graduation rates. Roland Freyer of Howard has found that financial incentives can be a cost effective strategy for raising achievement among even the poorest Minority students in the lowest performing schools if properly structured.

In our study, my colleagues and I propose a milestone credit where low-income teenagers receive a cash bonus upon receiving the high school diploma to realign the incentives to stay in school. The milestone credit should begin as a pilot program to test its effi-

cacy in improving graduation rates, the size of the credit required, and the impact on lifetime earnings.

The next challenge is labor markets. African American unemployment rates have been double that of Whites consistently over the last 50 years. Recent studies suggest that this is the result of racial mismatch rather than spatial mismatch.

In other words, unemployment is not a result of African Americans living in areas with fewer jobs; but that even if they reside in areas that are dense with jobs, these jobs are more likely to be held by Whites.

One approach would be to allow employers to develop customized job training and job placement programs based on their needs. A current experiment along these lines is the Wisconsin Fast Forward Initiative.

This program allows employers to apply for state grants for worker training, provided the employers hire the workers after they are trained. Such programs can be targeted more specifically at disadvantaged groups such as African Americans.

Certain federal and state government programs such as the Earned Income Tax Credit have been shown to have a positive effect on the employment of single mothers and economically disadvantaged populations.

A possible improvement to the ITC would be to expand the credit and extend the credit to childless individuals. About 33 percent of African American teenagers, and 25 percent of African American youth between the ages of 16 and 24, are unemployed.

Since teenage and youth unemployment leads to lower incomes and fewer life opportunities, this is an urgent issue that needs to be addressed. Apprenticeship and training programs for youth have been shown to be effective at easing transitions of teenagers and disadvantaged youth to jobs.

Since the 1960s, marriage rates have fallen more sharply for blacks than for whites. One of the reasons for changes in family structure is that increases in teen pregnancy rates mean more single motherhood at very young ages.

Among all racial and ethnic groups, the teen pregnancy rate is highest for Black teens. Traditional prevention methods have included more birth control and sex education in schools. However, nontraditional methods are also worth exploring.

A recent study finds that MTV's "16 and Pregnant" show was responsible for one-third of the reduction in teen pregnancy rates in an 18-month period.

As the cost of child care increases, many mothers with young children may also decide to leave the labor force to care for children, or scale back the hours they work, to balance household responsibilities.

In our paper, my colleague and I propose streamlining the current child care subsidies and tax credits which are needlessly confusing, have low recipient rates, and leave out many low-income women who need them the most.

The core of our proposal is to substantially increase the amount of the child care tax credit and make it refundable. The system of tax credits and means-tested transfers, such as the EITC, TANF,

SNAP, impose high marginal tax rates of up to 30 percent on low-income households which discourages the workforce participation.

At the very least, combining some of these programs into a single program could improve take-up rates and allow policymakers to obtain a clearer understanding of the marginal tax rates faced by low-income individuals.

To conclude, the most important challenges going forward are the creation of stable family structure that will invest sufficiently in the education and upbringing of the children, as well as providing the right kind of high quality education.

In addition, improving labor market outcomes through the expansion of the EITC and other programs is important. I have proposed seven reforms to existing welfare and workfare programs, as well as incentives for teenagers and youth to attain higher education.

Thank you. If you can address some of these challenges, America may remain the land of opportunity for generations to come. Thank you.

[The prepared statement of Dr. Aparna Mathur appears in the Submissions for the Record on page 57.]

**Representative Maloney** [presiding]. Thank you. And I want to thank all of the witnesses for being here today, and for their insightful testimony.

In particular, I would like to welcome Dr. Eva Moskowitz and thank her for travelling here from my home City of New York to tell us about her organization and experience with working with low-income children.

Her testimony mentioned an important point: the large skills gap in our country that is keeping too many Americans from landing stable, well-paying jobs.

Even younger Americans who just graduated from college, whose school sets should be up-to-date, are finding it difficult to land good jobs. And it is one of the highest unemployment rates for youth that I have seen in my lifetime. And what is so sad about it is that it just is cumulative. If you cannot find a job, then it gets harder and harder going forward.

According to the Economic Policy Institute, over 25 percent of young college graduates are unemployed or underemployed. And this issue is a particular concern for Minorities and women, groups that have been under-represented in the growing science and the technology fields.

Currently, Minorities make up only one-quarter of the STEM workforce, and African Americans only comprise 6 percent. I have introduced legislation, the Minorities and Women In STEM Booster Act to encourage more Americans from these sets and these communities to think about a career in science and technology.

And Chairlady Klobuchar has a bill in to create 100 STEM high schools across this country.

It is a priority of President Obama to encourage more young people to go into STEM, particularly Minorities and women, and there is a huge focus in this Administration on it.

So I would like to hear from our panelists about how we can encourage greater interest in STEM education and boost Minority participation. And if you have an experience, direct experience that

you have had successfully in working with Minorities to get them into STEM.

And I am going to begin with the hometown girl, Dr. Eva Moskowitz. Good to see you again, Eva.

**Dr. Moskowitz.** Good to see you, Congresswoman Maloney. Yes, I think part of the barrier here is that we also have a teacher shortage in this area, and it is very, very hard to find math and science teachers, particularly at the high school level.

**Representative Maloney.** That is true. What do we do about it? I have been to some of the high schools in my District, and the teachers are literally from foreign countries in math and science. So what do we do about it to get the teachers in those fields?

**Dr. Moskowitz.** Well longer term, these young men and women behind me will be able to do that job. So it is sort of short-term. If we do not train the kids, then we will not have the teachers later on.

But I think short term what we have had to do is to become a school of education. We have to teach our teachers the math and the science in order to be able to teach the kids. It is hard, and it takes resources, but it is doable.

You know, it is even harder in the field, frankly, of coding, because people obviously can make much more money in the private sector. But there are actually ways to train teachers that are on-line. Coding is something that, you know, people who have a knack for it can learn pretty quickly.

There is an organization called TreeHouse that has 72,000 students online, and is really providing training for the job market. We need to use some of those resources for the field of education.

**Representative Maloney.** Dr. Glover, Ms. Glover Blackwell?

**Ms. Glover Blackwell.** Thank you. It is so important that school boards adopt policies that make sure that STEM education is just a standard part of the primary and secondary curriculum.

These issues just get pushed to the side when it is not something that every child and every family is thinking about. In addition to making it a standard part, we really have to focus on training.

Coding is so important. There's the Black Girls CODE Program in San Francisco, and also Code 2040, taking young African Americans and Latinos and making sure that they have the skills that they need to have an advantage.

And we need to make sure that companies are providing internships with employment opportunities at the end of the internships. These kind of programs have been proven to make a difference.

The mentoring that things like Code 2040 provide is absolutely essential, because so many young Black men and women, girls and boys, do not see people who look like them in these jobs. So programs that connect engineers who are Black and coders who are Black with these children make a tremendous difference.

And then we just need to put more money into it so every school district has the resources they need.

**Representative Maloney.** I've got to tell you, the most successful programs I have seen in New York are when industry comes in and adopts a school—

**Ms. Glover Blackwell.** Yes.

**Representative Maloney** [continuing]. And literally trains the young people for the jobs that they have. IBM has done that. But also in Harlem, some of the hospitals have come in for technicians and things that they need.

In other words, where you really focus the education to what the job will be so that you are fitting the child with the job.

Doctor—Mr. Bynum, I really wanted to tell you that I have—I really appreciate and admire your work and HOPE brings financial services to many communities that have been underserved.

The FDIC has reported that 21 percent of Black households are unbanked, double the rate of other populations. Why do you think so many are unbanked? And what can we do to remove the barriers?

But I must tell you, I also serve on the Financial Services Committee. I was a little late because I was at that Committee meeting. And a lot of what we tried to correct in Dodd-Frank were really predatory abuse of policies towards the least fortunate in our society.

They were really aimed at selling products to people that could not afford it, so that they could get their fee and just let the chips fall where it may. But even the CARD Act, which I authored to protect from unfair, abusive practices in the credit card industry, very much targeted the low-income community.

So the low-income community is often targeted with these predatory practices and products, and I would like to hear your comments on it. And do you think that the fees are just too high, overdraft fees, ATM fees? Why are so many in the Minority community, or many communities, unbanked?

**Mr. Bynum.** Thank you. That is something that we live with and struggle with every day. We are a regulated depository, but we have found that there are prudent ways to provide financial services in low-income communities. As I've said, 40 percent of our members were unbanked before they joined our credit union.

We have tripled our presence in what we are calling "bank deserts." Since the Recession, as banks have left in record numbers, there is unfortunately little accountability when banks decide to leave these communities.

The Community Reinvestment Act, which is the law of the land, requires banks to reinvest in those communities from which they derive profits. It was based on a system when there were bank branches everywhere. Now most of us have not been into a bank branch in six months. We do everything electronically.

And when banks do not have branches, they do not have an assessment area and are not held accountable to reinvest in these bank deserts. They are leaving.

**Representative Maloney.** Oh, I did not realize that that had really affected the Community Reinvestment Act with the new technologies.

**Mr. Bynum.** It has changed the financial industry dramatically, as bank branches—you know, bricks and mortar and expensive. People are expensive. And banks are in the business to maximize profits for their shareholders.

As a credit union, our profits are used to reinvest in our members: offer them lower rates on their loans; higher rates on their

deposits. And so the business model exists that can benefit these communities.

And banks, even some credit unions—I get into trouble with my peers in the financial industry when I hear them have a knee-jerk reaction to too much regulation. There is smart regulation. We saw what happened in the absence of regulation—

**Representative Maloney.** Absolutely.

**Mr. Bynum** [continuing]. During the financial crisis, and that is why the Consumer Finance Protection Bureau is so important. It is great to have an agency that is actually looking out for the interests of consumers and is holding banks more accountable to offering products that are not deceptive and abusive; and that hopefully in the near future will put some brakes on the proliferation of payday lenders.

Because as banks leave these communities, payday lenders are going into them in record numbers. And those most vulnerable in our society can least afford to pay 400, 500 percent for small-dollar loans.

We have had so many people come into our doors where we had to restructure debt traps that they were caught in to get them back on their feet.

One woman in Memphis needed—she needed—she got accepted into trooper school, State Trooper School. She needed \$1,600 to buy the uniform. She didn't have the money because she had been in a payday lending situation, and had gotten so trapped down in debt. We were able to make the financing available to her. She's got—she's in the Trooper School. She is on her way to a better job and being able to support her family.

**Representative Maloney.** My time has long expired, but I appreciate so much your testimony and all of the panelists. Thank you.

**Mr. Bynum.** Thank you.

**Vice Chair Klobuchar** [presiding]. Thank you.

Representative Hanna.

**Representative Hanna.** Thank you.

Dr. Moskowitz, you mentioned in your testimony that schools need to be incubators of opportunity, not poverty traps. Yet Dr. Mathur, to that point, you mentioned—correct me if I am wrong—but if you are born in poverty, you have something like a 70 percent or so chance of, to be callous, dying in poverty.

And we know that education is that single best way around that. We have Nigel, and Ananda, and Aida back here, proof that you can break out of that with enthusiasm. I listened to them earlier and they are just excited about what they are doing and where they are at the Success Academy.

So, Dr. Moskowitz, I have a question for you that seems to me there is no reason to pit anyone against anyone when the outcome we're all looking for is the same. So my question is a simple one, I think.

How do you make children love education?

**Ms. Moskowitz.** It's a simple question. It's the \$64,000 question, and I would say that there are many ingredients. But I think with all the technical fixes, and expertise, we have forgotten something incredibly important in education, which I think all parents know.

But actually, schools have to love children. They have to know when they walk through the gate that the principal loves them, and that their teachers love them, and every adult in the building loves them.

Obviously you need more than love to run a great school, but I don't think that can be underestimated, the emotional bonds that we have with our students. At our schools, every principal greets every student every day, and says goodbye to them every day. And every adult in the building is expected to know every child's name.

Two of the three students behind me, Aida and Ananda, were my students when I was the principal of the first school. And having that relationship not only with the kids but, frankly, their parents and their grandparents is very powerful in terms of motivating kids to love school.

I also think when you think about school design—and I do think we have to think more about school design very, very deliberately—we often think about school design from the adult's point of view: what is convenient? What is the least amount of work?

My best example of this is when schools do not allow recess when it is cold out. I don't know about you, but I've never met a child who is cold when it's time to go outside. They usually—you're fighting with them to put on their winter jacket, not the other way around.

**Vice Chair Klobuchar.** Unless you're in Minnesota and it's 10 below zero.

**Dr. Moskowitz.** Yes.

**Vice Chair Klobuchar.** I just had to put that on the record.

**Dr. Moskowitz.** Fair point.

**Vice Chair Klobuchar.** Or 30 below.

**Dr. Moskowitz.** But at our schools, winter or not, kids like to put on their snow pants and, assuming it's safe of course, go outside and run around.

And so if you imagine all of schooling designed from the point of view of the kid and what do they like to do, and how do you make school really, really interesting. We say to our faculty and to our principals, if there were no laws mandating school and parents did not need child care—which is very hard to imagine; I say that as the mother of three—would the kids come to school?

And I think in many, many cases in America they would not. They would not choose to come to school. And we have to make sure that as educators we don't treat children as a captive audience.

**Representative Hanna.** How do you engage the—in what fashion do you engage the parents of these children? There must be something different about that. Go ahead.

**Dr. Moskowitz.** Well, we partner with parents. That doesn't mean that parents run the school, but we do have a very profound respect for our parents. They are their child's first teacher and last teacher. And no matter how many hours a day we have their children, respecting parents, but also demanding that parents can't see the school as the babysitting operation where they then check out.

It's got to be a true partnership between the school and the parents. The school can't do it alone. Parents can't do it alone. We together, their children join us. We call it a 13-year marriage. We're

in it together, and we've got to see their kids through thick and thin.

And we have some very concrete demands that we do make of our parents. And the most important is reading to their child every night K to 2. And then starting in 3rd grade, our kids must read 45 minutes a day.

**Representative Hanna.** My time has expired. Thank you, very much.

**Vice Chair Klobuchar.** Thank you, very much. We'll turn to Senator Casey.

**Senator Casey.** Thank you, Madam Chair. I want to thank Vice Chair Klobuchar for having this hearing on a very important set of topics to focus on. I want to thank our panel for your testimony and for your work in this area.

I will not get to each of you for a question, but I wanted to start with Angela Blackwell, not only because you mentioned Pennsylvania once in your testimony and you referred to a Pittsburgh program in your written testimony, but I might as well just start there.

But the real reason was that you did highlight the Pittsburgh Central Keystone Innovation Zone as a good example, and I wanted to—an example in terms of job creation and a real strategy that leads to that. And I just wanted to get your kind of summary of why you think that program is successful, and whether or not—I am assuming you would answer, yes, that we should scale up those programs like that, but whether you think it is possible and what we can learn from that example.

**Ms. Glover Blackwell.** Thank you for the question. And I have been so happy that I can lift up Pennsylvania as examples in more than one area.

I think that the Keystone Project actually demonstrates what we can do when we target and when we are deliberate. And it is so important that as we are talking about the plight of African Americans, how they have been marginalized in the economy, over-incarcerated, and pushed aside when it comes to so much that is essential for being able to reach your full potential, that as you are looking for strategies, you not start as if you have a blank slate and all that has not happened before.

It is so important to acknowledge the struggle, the impact of that struggle, and to target strategies. And so we are seeking examples around the country, and Keystone is just one of those examples, where in the creation of something that is going to be good for the region, good for the city, we think that we have to do multiple things at the same time.

The need is too great for us to have a special program to deal with every one of the things that has to be addressed. When we are thinking about the things that the economy needs, things that the region needs, that is how we are going to achieve equity and full inclusion: by targeting strategies, making sure that we are removing barriers, measuring outcomes, engaging partners, and doing this in a public/private way.

And I think that Maryland, Pennsylvania, California, so many places are learning this and solving our social problems as we solve our economic problems.

**Senator Casey.** And even as we look—and we do have in our State a number of good models—but even as we look at those, I cannot, nor can anyone in our State, be satisfied with these numbers when you consider that the African American population as a percent of the adult population in our State is 10.4 percent, yet the unemployment rate is 12.4.

The same holds true for long-term unemployment: 2.5 for all races, more than double that, 5.4, for African Americans. So we like a lot of places have a long way to go. But I was grateful you mentioned that.

I am also grateful for the Healthy Food Financing Initiative, which as you know is a national strategy, but it is being carried out in a lot of states. And we are grateful for that.

I know I am low on time, but I wanted to get to a question for Mr. Bynum. I note for the record that a lot of what has been talked about today in terms of strategies that work, I was particularly pleased that the JEC staff noted in the memo for the hearing on page 4 in terms of kind of efforts that can reduce these numbers that we highlight, expanding early childhood education—I am reading from the memo here, quote:

“Expanding access to quality, affordable preschool education can close the gap in school readiness between some African American children and their peers.” Unquote.

That is a passion of mine, and I know a lot of people here in both parties. We have not been able to get agreement on it, but I think all of us know if kids learn more now they are going to earn more later. That is not just a nice rhyme, but it happens to be true, and all the data shows it. So I know that many people here are focused on that as one of the strategic focuses.

Mr. Bynum, maybe I will submit it for the record and you can answer it for the record in a longer form, but in the world of financing and capital, if you could highlight one strategy or one effort that Congress could undertake that could actually pass, what would it be?

And if you want to answer that, you can, but you can add more in a written statement, if you would like.

**Mr. Bynum.** I would focus on—again, I appreciate the focus on strategies that work. And I think, while the Community Development Financial Institution Fund in the Department of the Treasury is relatively small, the results have been staggering.

It has been able to leverage capital from private investors into low-income distressed communities as these banks are leaving, and the results are targeted investments in communities that we all need, but low-income communities lack.

So I would say increasing investments in the CDFI Fund, and focusing those efforts and those resources in a more targeted way on persistently impoverished and underserved communities.

**Senator Casey.** Thank you, very much. Thank you, Madam Chair.

**Vice Chair Klobuchar.** Thank you very much. Representative Paulsen.

**Representative Paulsen.** Thank you, very much.

First of all, I have to say it is a real pleasure to see Dr. Moskowitz here. You and I have not had a chance to interact since

you and I were both in the Aspen Institute's first Rodel Fellowship Program.

I will start out by saying I think you are truly a hero to thousands of New Yorkers of modest means who have been able to see their children get a better education. And as a mathematics major myself, it is fun to see Nigel here talk about his enthusiasm for math down the road.

Let me follow up on what was mentioned earlier, because I also agree with the comments you made in your testimony about having engines of opportunity, incubators of opportunity, and not having poverty traps. That is the foundation of building success and skills in the future workforce that we will need to fill.

You talked a little bit about school design, interaction with parents, and teachers, and principals. Would you say that having equipped students with not only the skills they need but the confidence, the hope, and their treatment as adults motivates them to personally invest in themselves, and then hold themselves responsible to succeed?

**Dr. Moskowitz.** Yes. Confidence, you know, breeds—confidence generated by mastery, and that is a really important point, because I sometimes think schools pursue self esteem that is not connected to mastery. But in schools where mastery is driving the confidence, our kids just know how to tackle difficult problems.

It is really interesting. On the Math Olympiad, the kids really have to think. It's a problem, and when they are practicing for that, you know, it can go on an hour or two. And they're little. And so they have to be able to puzzle through it. They cannot solve the answer in 30 seconds.

Similarly, the chess games. The kids get two hours on the clock. So those games last four hours when they are competing. And they have to think for four hours. It's very funny. They are starving when they're done. They are very hungry. And we've learned the hard way that our snacks are insufficient for that amount of thinking.

But I think we are a little bit afraid to challenge kids and allow them to struggle intellectually, and we have to get over that. We have to allow them to struggle, and also allow them to experience, frankly, the pleasure of struggling intellectually, overcoming that, and succeeding.

**Representative Paulsen.** Unfortunately, I won't have a chance to ask everyone on the panel a question, but, Dr. Mathur, you mentioned earlier in your testimony that segregated areas in cities have lower economic opportunity and school choice equalling less positive results.

You spoke a little bit about the EITC and welfare reform. Now recently there was a little bit of attention in the news, because the House Budget Committee Chairman, Paul Ryan, put forth this discussion draft on a proposal suggesting the consolidation of different anti-poverty programs, I think 11 different anti-poverty programs, into one Opportunity Grant. So then states could participate and I guess incorporate work incentives into that safety net and reallocate welfare dollars where they are needed most.

Would you agree that program consolidation would help impoverished families get those specific needs met from one overall pro-

vider? And if you are familiar with the draft, maybe you can offer some insight.

I know this has just started that conversation.

**Dr. Mathur.** Right. I think in our own research we do suggest that. So we know we are spending about \$800 billion on anti-poverty programs that we have, these whole slew of programs that the problem is that people don't know about the eligibility for different programs. Their takeup rates are low because they just don't know if they will be eligible for multiple programs at the same time.

So there is a lot we can do to improve transparency. And I think the first step towards that is consolidating programs into a few programs that people can understand, that they know they are eligible for, and which would improve takeup rates, and particularly target low-income people.

So I think I agree with those proposals. I think there are a lot of programs that we could combine and make more effective, given that we have so many that exist today.

The other issue with these programs is also the phase-in rates, the phase-out rates, the fact that people are going off the program, you know, low-income people are going off the programs and facing really high marginal tax rates which affects their incentive to participate in the labor force.

So again, having transparency, reducing the number of programs into a few programs, and understanding what the tax rates are actually faced by these low-income people would really help.

**Representative Paulsen.** Thank you, Madam Vice Chair. I yield back.

**Vice Chair Klobuchar.** You have a minute left, or 20 seconds. I notice that Ms. Glover Blackwell wanted to answer, raised your hand up there. We'll give her a little time.

**Ms. Glover Blackwell.** Thank you. Thank you for the 20 seconds. I did want to say that I worry a lot about the consolidation of all those programs and pushing them to the states to make decisions.

Very important. We saw when we had the recent Great Recession that it is so important for the Federal Government to be able to increase food stamps and make sure that we are not hungry. We do not want to just leave that to the states. We have to have a floor below which we do not let people fall.

I don't think that we yet have gotten to the place as a Nation where we can abandon the federal responsibility to make sure that we always maintain a floor. I think that there is room for innovation and states should be encouraged to do that, but we cannot abandon the floor. That is a national responsibility.

Thank you.

**Vice Chair Klobuchar.** Senator Murphy, welcome.

**Senator Murphy.** Thank you, very much, Madam Chair. Thank you for all of you being here. I am sorry that I came a little late but I got the chance to read a lot of your testimony.

I wanted to maybe talk about two very diverse subjects, one that I will direct at you, Mr. Bynum, and am happy to have other people weigh in on this.

Last week, Bank of America announced that they were closing two branches in the north end of Hartford, which is the predomi-

nantly African American section of the city, leaving only one bank in the entire north end of the city. There are a lot of other ATMs, but there would only effectively be one, maybe, depending on your definition of the neighborhood, two retail banking locations.

And the excuse was that there wasn't enough traffic, and that people could just access banking online. The reality is that online connectivity in that neighborhood is pretty miserable as well, and there are plenty of alternatives to traditional banking—check cashing locations at the top of the list.

So I am hopeful that I am going to be able to prevail upon Bank of America to reconsider closing at least one of those two locations. But let me ask you about that question about how you convince banks to be located in economically distressed neighborhoods—which, you know, in my state often tend to be neighborhoods in which you do have a high concentration of African Americans living.

We have a real problem in Connecticut of people without banks. You know, there are thousands of people in New Haven and Hartford who have absolutely no bank that is attached to them and their money, and thus they spend lots and lots of additional dollars in alternatives to those banks.

It is not hard to understand when you walk around a neighborhood and cannot find a bank. So how do we convince banks to look on this question differently?

**Mr. Bynum.** I hope you are successful in convincing Bank of America to revisit that, because I think that we have seen many banks focus too much on profit maximization in the short term, rather than looking at the needs of the communities where they do extract tremendous profits.

The banks have had the most profitable year in history, \$154 billion in profits last year, which is a dramatic turnaround from where they were in 2008 or 2009.

There is a gentleman that was at the University of Michigan who wrote a book, "The Fortune At The Bottom of The Pyramid." He I think made a very compelling case that the people in low-income communities need the same things that everyone else needs. And there are large numbers of people in these markets. And if banks took the time to, and focused on serving them as opposed to moving to more affluent communities which we have seen in record numbers, I think they would find that there are ways to prudently structure financing, or as I mentioned in my testimony, 86 percent of our mortgages were to first-time home buyers. At a time when banks are focusing on refinancing, and very few new mortgage originations to first-time home buyers, but our losses have been at less than half a percent.

And so we know that with the proper structuring, with proper counseling, things that they make available to more affluent customers, people can succeed.

We also know that when there is a bank in a community, access to business financing is more likely to occur. The same thing with, as banks leave, you have a proliferation of payday lenders in those communities.

There is a significant tie-in with the education conversation that is going on, because communities cannot generate the revenue to

support schools if they do not have business, if the economies are not vibrant. And the economies cannot be vibrant without strong financial institutions.

The same thing. Kids don't live in schools, they live in families. They need households and communities. There are data that show that when kids move into a home, not only do they do better in school, but they have better recreation outcomes. Families report that they feel they are in safer neighborhoods and it stabilizes those communities. Increased tax revenue. Increased revenue to support schools and other investments to strengthen these communities.

So there is a strong economic case to make, but I think public policy has to hold banks accountable to staying in these communities and reinvesting in them.

**Senator Murphy.** Doctor—I'm not over my time, right?

**Vice Chair Klobuchar.** No.

**Senator Murphy.** Dr. Moskowitz, I assume that a lot of the conversation here has been centered around education, which is of course the key to unlock the prospect of economic opportunity for people throughout the country, African Americans of course included, but there's a barrier that happens in our schools for many African American children, and in particular African American boys. And that is, the school discipline process.

Many African American boys have their education interrupted, and often ceased, because of an unjustifiably disparate way in which we treat African Americans, particularly African American boys, when they get in trouble in schools. And we all know about the school-to-prison pipeline by which kids get suspended, and then expelled, and then are in the juvenile justice system.

That is the quickest way to keep yourself on the outside of the economy is to get yourself locked up. And the reality is that one of the reasons that you have a disparity in the number of African Americans versus the number of Caucasians in jail as adults is because you have a disparity starting in the schools as to how African Americans are treated when they just goof off. And 95 percent of school discipline is for nonviolent offenses, for kids that are just late for class, or who are just being rude to a teacher, and then ultimately they end up getting pushed out.

So what do you recommend that we do about this continuing lingering difference between the way in which African Americans, and Latinos, but it's really a problem more specifically to how African Americans are treated with respect to school discipline, so that that doesn't become an increased burden that hamstring individuals and families as they try to progress through the educational system into economic prosperity.

**Dr. Moskowitz.** Well often when there is disorder in schools, children bear the brunt of the consequences. And it is usually the adults who are not running the lunchroom properly, or not setting the expectations and teaching kids, you know, what the expectations are.

You know, we at Success Academies are somewhat old-fashioned in that regard. We think we need to teach kids to say "please" and "thank you," and we need to make sure that there is real civility and respect. And that is something we don't expect children to

come in automatically with, and particularly when you have a bunch of five-year-olds together it can get chaotic and you have to teach children how to interact in the school environment.

I liken it, you know, you act a certain way in a library. You don't act the same way when you're at the stadium. And that has to be taught. But unfortunately, in many of our schools adults are not taking responsibility for the behaviors that they are seeing, and they are blaming the children, which is really unfair.

**Senator Murphy.** I wholeheartedly agree. Do you track school discipline by the race of the student? And do you have any information about whether that disparity, which does exist writ large, exists in the Success Academy Charter Schools?

**Dr. Moskowitz.** Well the vast majority of our kids are kids of color, and there aren't significant differences between Latino and African American rates.

**Senator Murphy.** Thank you, Madam Chair.

**Vice Chair Klobuchar.** Thank you, very much.

I now have a few questions. We issued this report, and I thank the JEC staff today, "Economic Opportunity in The African American Community," and we did a state-by-state analysis and looked at it regionally as well.

I guess I will start with you, Ms. Glover Blackwell. It actually shows that the Midwest has the higher poverty—highest poverty and unemployment rate for African Americans, as well as the lowest median income for African Americans. And so African Americans over the age of 25 in the Midwest are less likely to have a post-secondary degree.

Why do you think they are worse than these other regions on the economic metrics?

**Ms. Glover Blackwell.** The work that has really been looking at social mobility in America has pointed out that the Midwest and the South really are the areas where we are seeing the worst outcomes across the board, particularly for African Americans.

In the Midwest we have a situation in which there was extraordinary dependence on manufacturing. And we have seen a complete shift from manufacturing to the service and knowledge economies, and the Midwest has not been fast in terms of making that adjustment.

So you have an area of the country that has really suffered devastation because of a reorganizing of the economy. In addition, African Americans suffered historical discrimination, and that historical discrimination often had them coming in to the workforce and making progress at a later point than others. And so when the recession hit, they were hit hardest. They were let go. We have not had an educational system that has been moving people into the new jobs. And so the combination of a bad economy, the impact of historical racism, and the impact of an educational system that has not prepared people, has left the Midwest hurting, and really hurting in the African American community.

If I could just take a moment to comment on the school discipline issue, too, because what we are seeing is that so many young Black men are not able to get into work, even when it is there, because of a criminal record. And it starts with the discipline in the school system.

California has really taken this up and started a Select Committee on Men and Boys of Color, and they have lifted this issue of school discipline up. They are tracking by race, what is going on, and they have eliminated schools being able to suspend children because of “willful defiance”, which is so nebulous: anything can come under it. This is forcing people in the schools to pay more attention. It starts there. It ends up with unemployment.

And I think the Midwest is suffering more from all of these things.

**Vice Chair Klobuchar.** Yes. Because what is interesting, and you and I talked about our situation in Minnesota where we have a gap with people of color, yet we have the lowest unemployment rate in the Twin Cities in the country. And I think part of this is that the manufacturing that we have now requires different manufacturing skills than the manufacturing you’re talking about that was traditionally in the Midwest. And that we similarly have not adjusted in our schools and through the way we approach workforce training to the new reality.

And we have, you know, two-thirds now of our manufacturers in our state who still have openings for people. And they are not all in the Twin Cities, so there are some mobility issues. But I think part of it is the workforce training issue.

And if you could comment on that, and also what we could be doing more. I know Secretary Duncan came out to Minnesota and some of our areas are doing some innovative things with businesses, and so the kids are actually getting degrees in high school while they are in high school that will be a one-year degree, a two-year degree, and they can then go on from there, or they can work for awhile with those degrees.

Do you want to talk about that?

**Ms. Glover Blackwell.** Thank you. The truth of the matter is that now the skills and education required to get the middle-skills jobs, the advanced manufacturing jobs, are the same kind of skills one needs to go on to college.

And so schools that are not preparing young people for a college education are also not preparing them for the manufacturing jobs that are coming online.

We also know that the job training programs too often are separated from where the jobs are.

**Vice Chair Klobuchar.** Um-hmm.

**Ms. Glover Blackwell.** The best job training programs are programs that are developed with employers, with the employers helping to design the curriculum and making arrangements for young people who come through the programs to be fully trained to be able to take those jobs.

California is actually taking advantage of the Workforce Innovation Act to be able to align its training programs with jobs, so that they are targeting the areas that are most vulnerable. They are targeting the areas that need work most. And they are making sure that the employers are working directly with the training programs so that we are targeting the jobs, and we are targeting the people, and we can make the connection.

For all of the things we are talking about, the good news is: You show me a problem, and I can show you a place in the United

States where communities together are solving the problems. What we have not done is figure out how to tease out the policy implications and take all this innovation and good work to scale.

**Vice Chair Klobuchar.** Okay. Dr. Mathur, I know you agree on some of this workforce training. Do you want to comment on that and how you believe we could take it to scale?

**Dr. Mathur.** Right. Absolutely. As I mentioned in my testimony, I think the programs that are going to work right now are where employers are taking on prospective—and this is a solution I discussed earlier when we were talking about the issue of long-term unemployed. In order to get those people back into the labor market, we need customized job training programs where the employers have an incentive to train the people so that they are ready to take on the jobs that are offered to them.

And in Wisconsin I think they are trying exactly that kind of initiative where the employers are getting state grants to train, out of the pool of unemployed, train people to fit the jobs that the employer eventually offers to them. So I agree completely with having more training programs that are customized to get people on the job and back into the labor market.

**Vice Chair Klobuchar.** And, Dr. Moskowitz, I know you commented about your students getting—being able to be trained in computer programming, which you said can pay like \$90,000 a year. So was part of the thought there that, one, you want them to go to college, obviously, but they also have this skill they could use immediately if they wanted to?

**Dr. Moskowitz.** Yes. We are just practical people and we want to make sure that they can economically navigate the twists and turns of life and having that practical skill, as well as it being intellectually challenging and interesting we thought would put them in good stead.

**Vice Chair Klobuchar.** Yes. And I think it is that kind of thinking, this idea that we work more with where the jobs are, and I've seen it work so well in places like Rochester, Minnesota, because the Mayo Clinic is there, and IBM has a major presence, and it is easier for the community colleges, and the high schools, to see exactly where there might be some immediate jobs, and then what those longer jobs are that require more advanced degrees so they can plan.

It is sometimes harder to do with the inner city because you do not have the employers right there, and you somehow have to match the way the education system is working with those employers. And I think to do it more broadly you have to look at what those job classes are that are looking for those immediate jobs that also pay well.

**Dr. Moskowitz.** And it is just challenging as the economy is changing so fast, and schools tend to be sort of ossified that it is hard for them to be agile and respond to the economic changes.

**Vice Chair Klobuchar.** And I think that is why in places like that Rochester, or in Thief River Falls, Minnesota, where we now have 200 job openings at one employer, they are able. They can go right to the school district, and right to the community college and say we're going to have 50 openings in this area. This is how much it is going to pay. The parents know how much it is going to pay.

And it is just easier to get the kids and the parents on board, I think, as part of this.

Because people understandably after what Ms. Glover Blackwell was pointing out, you know, after jobs have gone away and vanished that people thought they had, people get very cynical, especially in the manufacturing area, that that is going to be a job for their child. Yet there are openings, and there are some well-paying openings.

Mr. Bynum, I will just finish up with you. You have got clearly something good going, and how do you think people in other parts of the country can replicate the success you have had in the lower Mississippi Delta?

**Mr. Bynum.** I think that it is great that we have been able to help some people in the Delta, but we have clearly not helped as many as needs exist.

Since the Recession, we have seen, as these banks have closed and payday lenders have expanded, there is a need for accountability to require banks to reinvest in these communities. But when they don't, Community Development Financial Institutions have demonstrated that we know how to deploy capital into these areas.

We have taken a relatively small amount of funding from Treasury. We slowly gained access to other federal programs. The SBA and USDA have tools that are very important in I think prioritizing access to those tools by CDFIs is critically important.

The CDFI industry has grown over the country. There are some in most Congressional Districts. We are not nearly at a scale we need relative to the problem, and so I think investing significantly more in long-term capital to support the expansion. And as Angela said, there are models that work. They need to be taken to scale.

There also needs to be a continued focus on protections so that payday lenders do not have a free rein to extract capital from communities that can least afford it.

**Vice Chair Klobuchar.** Okay. Very good.

Do any of my colleagues have any additional questions?

**Representative Hanna.** Madam Chair?

**Vice Chair Klobuchar.** Okay.

**Representative Hanna.** There is a—Secretary Duncan has a, it's not universal, people, children 200 percent below the poverty line who are pre-K. And you spoke, Dr. Mathur, about the connection between being born in poverty.

And, Dr. Moskowitz, can you give me a quick notion of how important it is towards breaking that intergenerational poverty that pre-K is? In other words, going to school with that extra headstart? Just take a minute.

**Dr. Moskowitz.** It makes the education much easier if you have that early childhood foundation. I mean, it obviously can be done when you get the kids in kindergarten. We are doing it at Success Academies. But it is absolutely essential for worldclass schooling to be educating 3- and 4-year-olds. We just have to be careful that it is done well. Because if it is warehousing of children, that is not worldclass education. But what you can do is you can really do all the pre-reading work that needs to be done in terms of comprehension.

It will be much easier to teach a child to read if they have heard the same stories over and over again and can act them out. You can do that in pre-K. Kindergarten is actually quite academic these days, and we have to kind of rush kids into reading.

And so if you could do all that work, not to mention the social and emotional skills that kids need, you could do so much more in early childhood education if you could have the pre-K.

**Representative Hanna.** So the children who are not read to at home, who do not have access to books, whose parents are not engaged with them academically, pre-K can help equalize that opportunity of going to kindergarten?

**Dr. Moskowitz.** Yes. But I would also say it can support parents in reading to their children. And don't forget that that's what great schooling does: it inspires parents to be engaged in the academic development of their children.

And it is when the children are young that parents are inclined to. Everyone has a mama bear or a papa bear instinct; it's just that people aren't quite sure what exactly to do. And pre-K can be that community center where you involve parents from when their children are very, very young. And that investment in parents will carry you over the long haul.

So I think pre-K is seen as just about the kids. It is also about the adults and getting everyone inspired to be committed to their children's education over the long haul.

**Representative Hanna.** Thank you, very much.

Thank you for indulging me.

**Vice Chair Klobuchar.** That's okay. Anyone else have any questions?

(No response.)

**Vice Chair Klobuchar.** All right. Well I want to thank our witnesses today. These are great initiatives going on across the country. I think we all know there's a lot of work to be done, and we look forward to hearing from you again and working with you in the future.

The record will remain open for five days for any Member who wishes to put in some comments or additional questions. You can wait for those, our witnesses.

The hearing is adjourned. And thank you for our three students in the front row, and my interns that I think are in the back row, for all listening and staying awake through the entire hearing. Thank you, very much. The hearing is adjourned.

(Whereupon, at 4:00 p.m., Tuesday, July 29, 2014, the hearing in the above-entitled matter was adjourned.)

## **SUBMISSIONS FOR THE RECORD**

PREPARED STATEMENT OF HON. RICHARD L. HANNA ON BEHALF OF HON. KEVIN  
BRADY, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Vice Chair Klobuchar, Members, and distinguished witnesses:

Let me begin by noting that, through the title of this hearing, Vice Chair Klobuchar and her Democratic colleagues acknowledge that Washington does not have a one-size-fits-all solution to every problem that Americans face.

Yesterday marked the 100th anniversary of the beginning of World War I when Austria-Hungary declared war on Serbia. The Great War disrupted the supply of immigrant labor to American industries. In what became known as the Great Migration, hundreds of thousands of African Americans moved north to fill these jobs. There, African Americans enjoyed a level of economic freedom and prosperity that they had not previously known.

Also, July 2nd marked the 50th anniversary of the passage of the Civil Rights Act of 1964, which outlawed discrimination in public accommodations and employment based on race, color, religion, sex, or national origin. Through this Act, both Democrats and Republicans sought to close the opportunity gap, generated by racial prejudice and segregation, and provide African Americans with an equal opportunity to pursue the American Dream.

Over the last half-century, there has been substantial progress in narrowing the opportunity gap for African Americans. Fifty years ago, less than 25 percent of African American adults had a high school diploma; today, more than 85 percent do. And there has been a five-fold increase in the percent of college graduates. Inflation-adjusted median family income of African Americans has nearly doubled. The percent of African Americans living in poverty has fallen by more than a third, and the percent of children living in poverty has fallen by nearly half.

Nevertheless, the opportunity gap for African Americans has not been completely closed. Much of what remains of the opportunity gap is caused by the lack of education and job skills needed to prosper in today's economy, and the dependency on discordant government programs, which penalize personal advancement and work.

The surest route to prosperity for every American is a good education. For poor African American children raised by single mothers in rough inner city neighborhoods, a good education, as economist Thomas Sowell argues, is their one chance at a better life.

America has many great public schools with excellent teachers that provide students with an outstanding education. Unfortunately, America also has failing public schools with struggling teachers, many of which are in inner cities serving poor children.

Economically prosperous families can avoid sending their children to failing public schools by either moving to a different neighborhood with good public schools or enrolling their children in private schools. Prosperous families have always had school choice.

Until recently, most poor families in inner cities had no choice—their children were forced to enroll in the assigned public schools even if they failed to provide a good education. Over the last decade, however, the public school monopoly for the poor has begun to crack.

Republican governors and legislators working with parents have developed new and innovative approaches to provide all parents, regardless of their income or wealth, with choice for where their children are educated. The choice movement has taken a number of different forms—charter schools, vouchers to attend private schools, and privately funded scholarships to attend private schools.

One of our witnesses today is Dr. Eva Moskowitz, the founder and Chief Executive Officer of Success Academy, a charter school system in my own state of New York. She has overseen an expansion from one school in Harlem in 2006 to 22 schools serving 6,800 children. Her students, who are largely from poor minority families, score in the top 1 percent in math and the top 7 percent in English Language Arts in state testing.

Americans are a generous people, willing to help the poor through government-funded welfare programs and private charities. But Americans are also a practical people. We want our safety net to be a trampoline—helping able-bodied, working-age Americans to move from poverty into the middle class. We don't want our safety net to be fly paper—trapping the poor in a multigenerational cycle of dependency.

Another witness, Dr. Aparna Mathur, has identified what local initiatives in social welfare programs can actually lift women, especially African Americans, out of poverty, and making economic growth even more inclusive for the poor. She has argued for streamlining existing programs in order to improve transparency about the implicit tax penalties associated with each program. Dr. Mathur will offer Members important lessons on how to restructure our existing anti-poverty programs—im-

proving the lives of current beneficiaries, while providing a better value for taxpayers.

With that I look forward to hearing the testimony of today's witnesses.

# PolicyLink

Testimony

of

**Angela Glover Blackwell**  
**Founder and CEO, PolicyLink**

before the

**Joint Economic Committee**

**Tuesday, July 29, 2014**

**At a Hearing on**

**“Increasing Economic Opportunity for African Americans:  
Local Initiatives that Are Making a Difference”**

Good afternoon. I am Angela Glover Blackwell, founder and CEO of PolicyLink, a national research and action institute advancing economic and social equity by Lifting Up What Works®. In addition, I serve as Vice-Chair of the Board of Directors of the Children’s Defense Fund, I am a commissioner in The Robert Wood Johnson Foundation Commission to Build a Healthier America, and I also serve on the President’s Advisory Commission on Educational Excellence for African Americans. Thank you for this opportunity to speak about increasing economic opportunity for African Americans and the local initiatives that are making a difference in that regard.

## **The Nation’s Shifting Demographics**

America is in the midst of a demographic transformation in which people of color, including African Americans as well as Latinos, Asians, Native Americans, and people of other and mixed racial backgrounds, are rapidly becoming the majority. As America

continues to become more diverse, the nation's ability to achieve sustained growth and prosperity hinges on how quickly we can erase lingering racial and class divides and fully apply everyone's talents and creativity to building the next economy. Equity, inclusion, and fairness are no longer only moral imperatives—they are economic ones.

America's demographic shift is profound and unstoppable. In 1980, 80 percent of the population was white. Today, it is 63 percent white and by 2043, the United States will be majority people-of-color. Already, more than half of children under age five are people of color. This shift is happening not only in cities, the traditional bastions of diversity, but also in suburban and rural communities.

Latinos, Asians, African Americans, and other people of color are fueling population growth throughout the country. Projections show that African Americans will grow slightly from 12 to 13 percent of the population from 2010 to 2040, while Latinos will increase from 16 to 28 percent over that time period.

### **Place Matters**

This brisk pace of demographic change stands in stark contrast to the glacial pace America is making to erase its racial divides. Millions of people of color live in neighborhoods that lack the basic infrastructure – good schools, transportation, grocery stores, job opportunities – that everyone needs to be healthy and productive. African Americans go to the worst schools, face the highest rates of joblessness, are concentrated in the lowest-wage jobs, and have the fewest opportunities to move up and enter the middle class. Many historic African American neighborhoods have suffered from decades of disinvestment, and redevelopment efforts too often fail to address the needs of existing residents while making the neighborhood more attractive for newcomers.

Today, where you live is a proxy for opportunity. You are more likely to thrive if you live in a community with parks and playgrounds, grocery stores selling nutritious foods, access to good jobs, public transportation, clean air, safe streets, good schools, ample health care and social services. However, if you live in a neighborhood without these essentials, you are more likely to have poor health and lack the pathways needed to connect to the economy and manifest your full potential in the world of work.

Inequitable neighborhood environments that do not provide the ingredients needed for economic success are at the root of our nation's racial gaps in employment, wages, and opportunity. Eliminating them requires comprehensive policies and strategies that dismantle racial barriers to opportunity, and transform ailing communities into healthy places. These policies and strategies should be targeted to the people and places that need them the most. For example, boys and men of color often suffer the most from lack of opportunity due to structural racism and decades of disinvestment. Federal initiatives

like My Brother's Keeper, that focus on ensuring access to opportunity for African American young men and other young men of color, can go a long way toward connecting these young men to education, meaningful work and the skills they need to succeed.

### **What Can Congress Do?**

How do we ensure that African Americans are able to access what they need to be healthy and productive?

Policymakers and government officials should focus on three key areas:

- First, we need to **connect low-income African Americans to meaningful work**.
- Second, we need to make sure that the **places** where African Americans live are sustainable communities of opportunity that allow everyone to participate and prosper.
- Third, we need to pay attention to **wealth and its drivers**: housing, income, education and inheritance.

#### **1. Jobs: Connecting low-income African Americans to meaningful work**

Local, state and federal governments should also focus on improving the quality of existing jobs and connecting communities of color to these jobs. When new jobs are created, they should be accessible to all, including those who face barriers to employment, such as the long-term unemployed, disconnected youth, people with criminal records, and workers without advanced education or training. African Americans tend to be overrepresented amongst all of these groups.

New and existing jobs also need to be good jobs that pay family-supporting wages, offer benefits, and provide opportunities for upward mobility. A low-wage economy drags everyone down and hits people of color hardest since they make up a disproportionate share of the low-wage workforce.<sup>1</sup> Women of color and tipped workers are disproportionately affected. Women of color currently make up nearly one third of the workforce, are twice as likely as their white female counterparts to be employed in lower-wage sectors such as the service industry, and earn only 70 cents on the dollar earned by male workers in general. Tipped workers have a minimum wage of \$2.13, and are nearly twice as likely to be poor than are non-tipped workers.

One employment area worth noting is publicly funded construction jobs. As older buildings are retrofitted to meet local and state green standards, and new buildings are designed to comply, construction jobs are opening up in cities nation-wide. All federal

agencies have the opportunity to incentivize state and local governments to prioritize local and targeted hiring strategies in order to get more low-income African Americans into high-quality construction careers. These opportunities are available in other industries throughout the country as well: biotech, technology, healthcare and transportation are just a few.

### **Federal Initiatives that Are Making a Difference**

Indexing the minimum wage to inflation, and including tipped workers in the subsequent raise, would be a big step toward providing a living wage to low-income people of color. Raising the minimum wage is good for job growth: the District of Columbia and the 13 states that have raised their minimum wage since January 2014 have seen more job growth than those that have not raised their minimum wage.<sup>2</sup>

One federal initiative, the GROW AMERICA Act, the proposed transportation reauthorization bill submitted to Congress by the Obama Administration in April 2014, has bold, unprecedented provisions allowing for local hire on federal transportation construction projects, and allows for targeted hiring strategies to be implemented that can grow underrepresented groups in the construction trades. During the next 10 years, the transit industry will need to hire and re-train more than three-fourths of the current workforce.<sup>3</sup> GROW AMERICA would allow for the awarding of federally-funded highway or transit contracts,<sup>4</sup> partially on the basis of the extent to which the contractor guarantees that a portion of work hours would be performed by workers from low- and moderate-income households living in communities nearby the project, particularly where the unemployment rate exceeds the national rate. This would provide an important tool for communities that are struggling with high rates of unemployment among workers of color and low-income workers. Such a tool can be used to leverage transportation investments to employ these workers in quality, good-wage jobs in the transportation sector, including construction, operations, maintenance, and repair.

### **Local Initiatives that Are Making a Difference**

#### **Minneapolis, Minnesota: Summit Academy OIC (SAOIC)**

In North Minneapolis, SAOIC is a community-based vocational training and job placement program training local workers for the increasing pool of construction jobs in the region. Minneapolis' construction workforce is predominantly white and aging<sup>5</sup>. As the current workforce prepares to vacate construction jobs, SAOIC is training 450 students per year from low-income communities, to earn GEDs and certificates in construction, nursing assistance and community health work. SAOIC leverages its relationships and agreements with contractors, unions and state agencies to place more

than three-quarters of its graduates in positions immediately upon graduating from the twenty-week training program.

**Baltimore, Maryland: BioTechnical Institute of Maryland, Inc. (BTI)**

In Baltimore, Maryland, home to one of the largest bioscience clusters in the US, the BioTechnical Institute of Maryland, Inc. (BTI) is partnering with employers to give low-income residents an entry into the bioscience sector. BTI trains local high school graduates for technical positions that usually require college degrees, ending their participation in the program with a paid internship. More than three-quarters of their graduates to date have been employed in skilled entry level jobs with average starting salaries slightly higher than the city's median income. In addition, graduates of the program graduate with credits toward an associate degree, part of BTI's collaboration with a local community college, and 40% of graduates have gone on to earn an associate's degree. Some even go on to four-year colleges.

**Pittsburgh, Pennsylvania: The Pittsburgh Central Keystone Innovation Zone**

The Pittsburgh Central Keystone Innovation Zone (PCKIZ), a consortium of universities, businesses, government agencies and community organizations brought together by Duquesne University in 2007, is connecting underserved communities to meaningful work in the knowledge-driven and technology economies by increasing the number of startups and relocated firms in the zone. PCKIZ also leverages the economic activity stimulated by the arrival of these businesses to benefit residents of the African American Hill District community, which has not benefited from recent economic growth in the region. The PCKIZ focuses on information technology, advanced manufacturing, nanotechnology, biotechnology, energy, health care IT, and medical devices. The zone has been successful: since 2008, 41 startups have opened in the zone. At least 225 jobs have been created or retained, and 20 percent of the companies are owned by African Americans (versus 10 percent in the region). In 2011, together with community partners, the zone received a grant of almost \$2 million from the federal government through the Jobs and Innovation Accelerator Grant Competition to further this work, specifically in the local energy and health care industry clusters.<sup>6</sup>

**Oakland, California: Oakland Global Trade and Logistics Center (site of the former Oakland Army Base)**

A massive project to redevelop the shuttered army base in Oakland, California, will create hundreds of good jobs and training opportunities for local residents, under a

landmark agreement crafted jointly by the city, the community, unions, and the developers. A thirty-organization coalition called Revive Oakland led the community campaign to make sure this large-scale development strengthens the local economy and opens opportunities for the people who need them most.

The \$800 million public-private venture is Oakland’s biggest development project in decades. It will transform public land the size of 200 football fields into an international trade and logistics center serving the Port of Oakland and supporting the development of a stronger, more globally-connected regional economy. The first, \$500 million phase of the project is expected to create more than 1,500 construction-related jobs over the next seven years, and 1,500 permanent jobs in operations. The agreement, which covers this first phase of the project, guarantees that half the jobs will go to Oakland residents.

The agreement sets the most far-reaching job standards yet for Oakland and for the warehouse industry nationwide. For the first time anywhere, the use of temporary employment agencies to fill warehouse jobs will be strongly limited. This puts the brakes on a growing practice that has reduced wages and job security industry-wide.

The agreement sets several other important standards:

- Formerly incarcerated residents will have better employment prospects, because job applications must “ban-the-box,” meaning that they may not ask about prior convictions. The provision recognizes that local-hire targets must be coupled with rules to “ban-the-box,” or too many people will continue to be left behind.
- Every worker will earn a living wage—currently a minimum of \$11.70 an hour plus benefits in Oakland.
- Twenty-five percent of apprenticeship hours are designated for veterans, ex-offenders, the long-term unemployed, and others facing barriers to employment, and all new apprenticeships will go to Oakland residents.
- A city-run jobs resource center in West Oakland—the low-income community of color adjacent to the project, where unemployment rates run as high as 45 percent—will connect residents to training, pre-apprentice programs, and jobs.

The project also brings environmental gains for West Oakland, including freight rail service to reduce truck traffic and pollution, and the relocation of two recycling plants from the neighborhood onto the site. A community oversight board will monitor compliance.

Coalition members worked with city officials to develop the good jobs framework. What began as a contentious debate painstakingly led to a consensus package of policies adopted unanimously by the city council and used as a framework in negotiations with the developers.

### **Cleveland, Ohio: The Evergreen Cooperatives**

The PolicyLink report *America's Tomorrow: Equity is the Superior Growth Model*<sup>7</sup> highlights the good jobs being created by Cleveland's Evergreen Cooperatives: "Evergreen Cooperatives is an ambitious, community-based enterprise development model that launches new employee-owned businesses (three to date: Evergreen Cooperative Laundry, Ohio Cooperative Solar, and Green City Growers Cooperative) to supply goods and services to several large anchor institutions in University Circle. The businesses have created dozens of good jobs with benefits and ownership opportunities for local residents, over half of whom have felony records. Richmond (California), Pittsburgh, and other communities are seeking to replicate the 'Cleveland Model.'"

## **2. Place: Building sustainable communities of opportunity**

Place-based initiatives get at the heart of these issues by targeting the problems that are specific to local places, harnessing the expertise that already exists on the ground and involving the whole community to invest in its success. Local initiatives are being designed to involve the community as a whole, recognizing that issues in education, transportation, criminal justice and food access, for example, cannot be solved in a vacuum. Meanwhile, the federal government is scaling that approach by funding programs that incentivize this cooperation within communities and regions.

### **Federal Initiatives that Are Making a Difference**

- Inspired by the remarkable success of the Harlem Children's Zone in New York, where 10,000 black children are receiving the wrap around services, delivered at the neighborhood level, that they need to succeed, the federal **Promise Neighborhoods program**, begun in 2010 by President Obama, works to create communities of opportunity, centered around strong schools, that allow children to learn, grow, and succeed. Promise Neighborhoods wrap children in high-quality, coordinated health, social, community, and educational support from the cradle to college to career.
- The **Choice Neighborhoods program** supports locally driven strategies to address struggling neighborhoods with distressed public or HUD-assisted housing through a comprehensive approach to neighborhood transformation. Local leaders, residents, and stakeholders, such as public housing authorities, cities, schools, police, business owners, nonprofits, and private developers, come together to

create and implement a plan that transforms distressed HUD housing and addresses the challenges in the surrounding neighborhood.

- **The Healthy Food Financing Initiative (HFFI)** supports projects that increase access to healthy, affordable food in underserved communities. Through a range of programs at the U.S. Departments of Agriculture (USDA), Treasury, and Health and Human Services (HHS), HFFI expands the availability of nutritious food by developing and equipping grocery stores, small retailers, corner stores, and farmers' markets selling healthy food. Residents of these communities, which are sometimes called "food deserts," typically rely on fast-food restaurants and convenience stores that offer little or no fresh food. Healthy food options are hard to find in these communities or are unaffordable.
- Through the **Promise Zones initiative**, the federal government will revitalize high-poverty communities across the country by attracting private investment, improving affordable housing, improving educational opportunities, providing tax incentives for hiring workers and investing in the Promise Zones, reducing violent crime, and assisting local leaders in navigating federal programs and cutting through red tape. The areas selected as Promise Zones have a data-proven record of effectiveness, and will benefit from priority access to already-existing programs and initiatives to strengthen their efforts.

#### **Local Initiatives that Are Making a Difference**

##### **Minneapolis, Minnesota: The Northside Achievement Zone**

In 2003, the Peace Foundation started a grassroots movement to reduce violence in North Minneapolis. Several years later, that group had evolved into a coalition of community entities and applied for a Promise Neighborhoods Implementation Grant as the Northside Achievement Zone (NAZ). In 2012, the Northside Achievement Zone received the grant and now nine local schools, 27 nonprofit "anchor partners," and other organizations work in concert to support families from before birth through college. The Northside Achievement Zone Promise Neighborhood (NAZ) in North Minneapolis targets the families that have been most left behind and that have not participated in their community's education structure. All of the NAZ partners track their work and success online together via a common system. In addition, NAZ shares barriers and opportunities with funders and policymakers to ensure the best possible policy environment for their work. NAZ's results-focused approach has paid off: housing instability for participating families has been reduced by one-third, and reading and math proficiency for students in the NAZ has improved by 52 percent.

Best Academy (Boys in Engineering, Science, and Technology) Charter School in the NAZ was developed in 2008 in response to the high rate of academic failure of African Americans in the Minneapolis Public Schools, and has produced results: in the 2012-2013 school year, per its annual report, “Best Academy outperformed the Minneapolis Public Schools in math, reading, and science. Best Academy students, which are comprised of about 99% African American students, significantly outperformed African Americans in the city. Best’s performance was almost 100% better in math, reading, and science as compared to other African Americans in MPS schools.”<sup>8</sup> One significant factor is class time: students at Best Academy go to school 195 days out of the year, while Minneapolis Public schools have a 176 day calendar.

#### **Oakland, California: Mandela Marketplace (MMPlace)**

The West Oakland neighborhood in Oakland, home to a large African American community, suffers from a lack of supermarkets and places to purchase healthy food. A group of mothers in the neighborhood began to organize to find solutions, and with other partners, eventually created Mandela Marketplace (MMPlace), a nonprofit incorporated to support a community grocery store project. In 2009, Mandela Foods Collective (MFC) opened. This worker-owned enterprise is West Oakland’s only full-service grocery store. Five years later, about 250 customers shop at Mandela Foods Collective daily and it projects \$950,000 in sales by the end of the year. In 2013, MMPlace received a \$400,000 Healthy Food Financing Initiative (HFFI) grant to expand their social enterprise incubation services and develop a revolving loan fund for local food enterprises. Through this grant, MMPlace has funded Mandela Foods Collective to increase sales and consumption of healthy foods in West Oakland, as well as their distribution enterprise, Earth’s Produce Distribution (EPD), to offer an innovative, early-season “Harvest to Market Financing” loan product for small family farmers who have faced challenges in accessing capital in traditional lending markets.

### **3. Wealth and its drivers: housing, income, education and inheritance**

The average difference in net worth between a white household and an African American or Latino household has nearly tripled over the past three decades, reaching \$500,000 in 2010. As the nation’s population moves toward becoming majority people of color, we must create policies that close the racial wealth gap in order to ensure prosperity for all. Understanding the factors that drive the wealth gap<sup>9</sup>—length of time of homeownership, income, education and inheritance—is important.

The key role of homeownership as a driver of wealth for African Americans cannot be overstated. A report by the Institute on Assets and Social Policy at Brandeis University’s

Heller School for Social Policy and Management found that “[o]verall, *half* the collective wealth of African-American families was stripped away during the Great Recession due to the dominant role of home equity in their wealth portfolios and the prevalence of predatory high-risk loans in communities of color.” (Emphasis added.)<sup>10</sup>

Similarly, educational attainment plays a large role in the eligibility of African Americans for the jobs of the future. By 2020, 47 percent of all jobs will require an associate’s degree or higher, but only 28 percent of African Americans have this level of education.<sup>11</sup> Yet African Americans that do go on to higher education find themselves saddled with much more student debt than their white counterparts, are more likely to drop out of a college degree program due to the high cost of tuition and are more likely to take out unregulated private student loans, which carry high interest rates and put these students at higher risk of default once they come due.<sup>12</sup>

The importance of meaningful work with fair wages and benefits is discussed earlier in this testimony, but one model that bears mention as both a source of income and a wealth generator for low-income worker is the worker cooperative. In a cooperative, workers hold all or most of the shares in the company, and almost every worker holds at least one share. Often, decisions are made collectively, and profits are shared, a model that increases the incentive for efficiency and collaboration.

#### **Federal Initiatives That Can Make a Difference**

One tool available to federal lawmakers who seek to close the racial wealth gap is the Tax Code. Low-income households and households of color benefit the least from tax incentives for homeownership and higher education.<sup>13</sup> For example, in 2013, the wealthiest 20 percent of households got 70 percent of tax incentives for homeownership and the bottom 40 percent got almost none. Similarly, higher education tax benefits are the largest form of federal student aid and, except for the American Opportunity Tax Credit (AOTC), they disproportionately benefit high-income students.<sup>14</sup> Opportunities for improvement include: converting the home mortgage deduction to a tax credit, so that households could claim it whether they itemize their expenses or not, and expanding the AOTC to reach more low-income students.

Additionally, Congress can support bills that would allow holders of older student debt to refinance their student loans to 3.86%—the same interest rate set in 2010 for federal student loans.

## Local Initiatives that Are Making a Difference

### Tennessee Promise

In Tennessee, Governor Bill Haslam has signed into law a bill that makes two years of community college free for graduating high school seniors.<sup>15</sup> Those who complete two years of community college and would like to go on to four-year school can then participate in Tennessee's transfer pathways program and start as a junior—essentially halving the cost of a four-year degree. Governor Haslam will finance an endowment for this initiative with the state's lottery earnings. Tennessee is currently the only state to offer this benefit to students. Following this model in other states would make an associate's degree more accessible to low-income students of color—thus allowing them to be competitive in the job market.

Thank you again for this opportunity. Please do not hesitate to contact me if you have any questions or need further information.

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<sup>1</sup> Doug Hall and David Cooper. Issue Brief #341: *How Raising the Federal Minimum Wage Would Help Working Families and Give the Economy a Boost* (Economic Policy Institute, August 4 2012), <http://www.epi.org/files/2012/ib341-raising-federal-minimum-wage.pdf>.

<sup>2</sup> Christopher S. Rugaber, "US states with higher minimum wages gain more jobs," *Bloomberg BusinessWeek*, July 19, 2014. <http://www.businessweek.com/ap/2014-07-19/us-states-with-higher-minimum-wages-gain-more-jobs> (last accessed July 25, 2014.)

<sup>3</sup> According to data from the Transportation Learning Center, which tracks worker demand due to expected transit system expansion and worker retirements.

<sup>4</sup> The local and targeted hire provisions for highways contracts are described in Sections 2301 of the legislation. The local and targeted hire provisions for transit contracts are described in Sections 3007 of the legislation.

<sup>5</sup> "Louis King: Prepare the underemployed for jobs that will emerge as workforce ages," *Twin Cities Daily Planet*, February 5, 2013, <http://www.tcdailyplanet.net/news/2013/02/05/louis-king-prepare-underemployed-jobs-will-emerge-workforce-ages>

<sup>6</sup> United States Department of Commerce Press Release, "New Obama Administration Initiative to Spur Job Creation and Accelerate Economic Growth in 20 Regions across the Country," September 22, 2011 (last accessed on July 24, 2014.)

<sup>7</sup> Sarah Treuhaff, Angela Glover Blackwell, and Manuel Pastor, *America's Tomorrow: Equity is the Superior Growth Model*, (Oakland, CA: PolicyLink, 2011), page 23.

<sup>8</sup> Best Academy Charter School 2012-2013 Annual Report. <http://www.thebestacademy.org/download.axd?file=2b0a4b28-0153-4b2f-be29-5fda091bf8c7&dndType=Resource>.

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<sup>9</sup> Thomas Shapiro and Tatjana Meschede, "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide," February 2013.

<sup>10</sup> *Ibid.*

<sup>11</sup> Sarah Treuhaft, Angela Glover Blackwell, and Manuel Pastor, *America's Tomorrow: Equity is the Superior Growth Model*, (Oakland, CA: PolicyLink, 2011).

<sup>12</sup> Sophia Kerby, *Borrowers of Color Need More Options to Reduce Their Student-Loan Debt*, (Washington, DC: Center for American Progress, May 16, 2013, <http://www.americanprogress.org/issues/race/news/2013/05/16/63533/borrowers-of-color-need-more-options-to-reduce-their-student-loan-debt/>) (last accessed July 24, 2014).

<sup>13</sup> Heather McCulloch, *Reforming the Tax Code to Build an Equitable Economy*, 2013, <http://accessfinancialsecurity.org/content/reforming-tax-code-build-equitable-economy> (last accessed July 24, 2014.)

<sup>14</sup> *Ibid.*

<sup>15</sup> Tennessee State Government press release, "Haslam Signs 'Tennessee Promise' Into Law," May 13, 2014, <https://news.tn.gov/node/12398> (last accessed July 24, 2014), and Richard Pérez-Peña, "Tennessee Governor Urges 2 Free Years of Community College and Technical School", *The New York Times*, February 4, 2014, <http://www.nytimes.com/2014/02/05/education/tennessee-governor-urges-2-free-years-of-community-college-and-technical-school.html>.

**Testimony of Eva Moskowitz,**  
Founder & CEO, Success Academy Charter Schools  
Before the Joint Economic Committee for the United States Congress  
July 29, 2014

**Increasing Economic Opportunity for African Americans:  
Schools Can Be Lifelines Out Poverty**

Chairman Brady, Vice Chair Klobuchar, and Members of the Committee:

Good afternoon, I am Eva Moskowitz, founder and CEO of Success Academy Charter Schools. Thank you for this opportunity to speak about how Success Academy is making a difference in increasing economic opportunities for low-income and minority students in New York City.

Education is an issue of utmost importance to increasing economic opportunity for disadvantaged children, the future members of our workforce. There is clear evidence that American students are losing academic ground globally. On the most recent international PISA exams, more than 30 countries outperformed the United States in math. We ranked 17<sup>th</sup> in reading and 20<sup>th</sup> in science. Only 9% of American students were top scorers in math, compared to 55% in Shanghai and 31% in Korea.<sup>1</sup>

The United States has the fourth highest income disparity in the world, and that inequality is rising faster than in most countries.<sup>2</sup> Our most disadvantaged citizens are being left behind because they are not receiving adequate educations, and this only weakens our nation's economic strength. Each month, 3 million U.S. jobs go unfilled due to lack of skilled labor.<sup>3</sup> We have the jobs, but we don't have qualified workers with the skills to perform them.

African American males are twice as likely to be unemployed,<sup>4</sup> compared to white males, and half as likely to earn a college degree.<sup>5</sup> Only 15% of African American students attend well-resourced, high performing schools<sup>6</sup> — and the effects are clear: White students are three times more likely to be proficient in math.<sup>7</sup> In New York City, less than 13% of African American students graduate from high school prepared to do college-level work.<sup>8</sup>

For the majority of African American public school children in this country the odds for success are daunting. Without the skills and training to become employable, they remain stuck in poverty, unable to support themselves and their families, unable to expect a different future for their children.

Children in disadvantaged neighborhoods often suffer from educational negligence, and the consequences follow them into adulthood. In too many inner city neighborhoods, schools are dead-ends. Instead of equipping poor children with the skills they need to escape poverty, bad schools lower their expectations and sink their hopes. Schools *can* be lifelines out of poverty, but they can also be lifeless houses of detention.

There is a myth in this country that poverty and race are overwhelming barriers to a child's ability to learn. This is simply not the case. At Success Academy, our scholars have proven that they can overcome these disadvantages. They not only can catch up, but in many instances they overtake their more affluent peers.

Success Academies are free, K-12 public schools, open to all children. In a few weeks we will open 10 new schools – making 32 in all – and welcome 9,000 scholars from all across New York City. Anyone in New York can apply and because we have so many applications, students are admitted by lottery. Three out of four of our scholars live at or below the poverty level; 94 percent are minorities, 14 percent have disabilities, and 8 percent are English language learners. The demographics of our scholars reflect the neighborhoods where we open schools, yet the disadvantages our children face do not hold them back.

Success Academy is the highest performing charter school network in New York City, but more importantly, its schools are at the top of all public schools in the state. For the past five years – since the first scholars were old enough to be tested by the state for math and English Language Arts proficiencies – SA scholars have consistently ranked in the top 10 percent of all New York State schools. On last year's test, which for the first time was aligned to the more rigorous Common Core standards, our scholars outscored New York City students by 52 percentage points in math and 32 points in English Language Arts.<sup>9</sup>

Nearly all the SA scholars tested are children of color, and they dramatically outperformed their peers across the state: 82% passed math and 58% passed ELA exams – compared to 15% of African American students and 18% of Hispanic students for math, and 16% of African American students and 17% of Hispanic students for ELA.<sup>10</sup> On the state science exam, 100% of our 4<sup>th</sup> and 8<sup>th</sup> grade scholars passed, with 99% of 4<sup>th</sup> graders and 91% of 8<sup>th</sup> graders attaining the highest score. Significantly, our most economically and educationally challenged children – English language learners, children with disabilities, and those receiving free or reduced price lunch – also outperformed their counterparts across the city and state by wide margins.

Achieving proficiency in math and English is essential, but it is not enough to fully prepare children for college. When we opened Success Academy in 2006, we knew our kids needed to be ready for careers in science and technology, so we designed our curriculum to include science five days a week, beginning in kindergarten. In the first year, our kids perform more than 100 experiments. In middle school, they take two years of computer science; about 30% of them are on the math team and compete internationally in the Math Olympiad. By high school, they can choose a STEM-track program, with courses in applied science, engineering, and advanced math, culminating in a related internship and senior thesis.

We know our scholars must be critical thinkers to succeed in today's economy, so we teach chess as part of our curriculum, also starting in kindergarten. We believe deeply in the importance of chess and hold dozens of our own tournaments as well as send scholars to compete in state and national playoffs. This spring, seven Success Academy chess teams qualified to compete in the United States Chess Federation National

Championship in Dallas. Four of our teams placed in the top ten within their divisions, and individually, five scholars placed in the top 10 in their sections.

To prepare children to become accomplished adults, schools must offer a wide range of experiences. We teach art, dance, theater, and yoga, and next year we will unveil our first string orchestra. Our scholars compete at soccer, track and field, basketball, debate, even ballroom dancing. In one middle school elective, Young Entrepreneurs research and write business plans for start up ventures, which they then present to a panel of experts. We have field studies and assemblies, which connect classroom curriculum to the real world and expose our scholars to cultural experiences and institutions that they may not otherwise access. Not all field studies are off campus; last year, novelist Salman Rushdie, journalist Carl Bernstein, civil rights legend Claudette Colvin, and Olympic athletes visited our schools, as did musicians, jugglers, and artists.

We also believe that great schools must make parents their partners in the success of their children. We never ask our parents to hold bake sales or school fundraisers, but we do ask them to read to their scholars every night and to participate in family events that celebrate their child's accomplishments. Our schools have an open-door policy allowing parents to visit the classroom at any time, and parents are given the cell phone number and email address of every adult in the building.

The Success Academy school design has many aspects, which together support world-class teaching and learning. Key to our ability to help all children achieve at high levels is the emphasis we place on the professional development of our staff, especially our principals and teachers, who receive the equivalent of 13 weeks of training each year. We provide exceptional support from a central instructional management team, which oversees curriculum, student assessment, and teacher development. Over the last eight years, we have expanded and refined the immersive summer training we give teachers before they even walk into their classrooms. Throughout the year, we continue to support teachers' professional development through daily coaching and weekly workshops.

Strong management expertise and operational best practices, while less often recognized, are also essential to creating and sustaining excellent schools. To be effective, schools must operate efficiently. Our staffing model differs dramatically from that of traditional public schools. Freed from administrative duties, our principals concentrate entirely on motivating and inspiring teachers, scholars, and parents to meet and exceed the high standards we set. They are the academic leaders in their buildings, coaching and preparing every teacher, in the classroom and in professional development sessions. Each school has a business operations manager who works closely with the principal to ensure that parent communications, facilities, budget and other non-instructional concerns are handled efficiently and cost-effectively.

#### **Strong Impact on Local Community and Beyond**

As Success Academy has grown to serve more families, our impact has spread throughout the city. In 2002, there was not one school in Harlem, the Bronx, or Central Brooklyn where kids scored in the top 10% of New York City schools. Today, there are 11 schools in these areas that rank in the top 10% – 10 of those are charter schools, and of those, 9 are Success Academies. In the south Bronx, the nation's poorest

Congressional district, Success Academy has four elementary schools and two middle schools. Last year, SA Bronx 2 was the second highest scoring elementary school in math in the state of New York – 97% of scholars met or exceeded math proficiency standards, compared to 13% at the local school district.

Parent demand for high-quality schools is overwhelming. Last year, Success Academy received more than 16,200 unique applications for fewer than 2,900 open places – about five applications for every open seat. There were more than 7,600 applications for kindergarten alone – half of all Central Harlem’s kindergarteners applied. Across the city there are almost 50,000 families on wait lists, hoping to escape the failing schools in their neighborhoods. More than 1 million children are on charter school wait lists across the country.

The Success Academy school model has attracted the interest of educators from across the country (as well as from around the world). Last year, we hosted 275 educators from 70 different organizations for tours and workshops. Attendees represented 19 states as well as Barcelona, Indonesia, and South Africa.

Success Academy is eager to share its best practices, but each year we have more requests than we can handle. In response to these requests, Arin Lavinia, Senior Managing Director of Academic Excellence, and I wrote *Mission Possible: How the Secrets of Success Academies Can Work in Any School*, which details the curriculum, philosophy, and key aspects of our results-driven school model.

#### **Personal Impact: Futures of our Children**

Success Academy’s most profound impact, of course, is on our scholars – scholars who have not only reversed the achievement gap, but also overturned it: 80% of our African American scholars passed math last year, compared to 50% of the city’s White students. With me today, representing Success Academy are:

**Nigel Webb** Nigel is in the 7<sup>th</sup> grade and loves science, math and English. He’s also a great soccer player and passionate about dance. Nigel will tell you that he hasn’t always been a top student, but he’s worked hard to master and exceed grade-level standards. “I like my school because they treat us like adults,” say Nigel, whose grandmother, **Merlene Jarrett**, is also with us today.

**Ananda Shannon** Ananda is in the 8th grade and science is her favorite subject. She loves robotics and the performing arts, and says that what she likes best about Success Academy is “that we learn something new every day, and we learn some things that even my parents don’t know.” Ananda plans to attend a performing arts college. Her mother **Natasha Shannon** says, “I’m especially proud that all students are expected to do well.”

**Aida Bathily** Aida is in 9<sup>th</sup> grade and will be attending our first high school. Aida is a passionate debater and went to California this spring with her team to the national debate tournament. Aida wants to attend either Princeton or Yale, and when she says, “I know I would be able to make it there,” her mother, **Michelle Thiam**, and I also know that her excellent work and study habits back up that confidence.

Success Academy is now spread out all over New York City, from the Bronx and Manhattan to Brooklyn and Queens. Many of our families face incredible challenges. Some work two jobs, others don't have a job. About 6 percent of our families are homeless. We have single parents, parents who struggle with difficult economic realities, parents who commute from Staten Island to Harlem – they had to move from Manhattan, but they refused to give up on their child's education. These parents will tell you they did not have anything close to the education their children are getting, and they are united in their commitment to our schools and to their children's futures.

### **Return on Investment**

Success Academy scholars have benefitted from federal support. In particular, the Charter School Program has helped us to start up new schools and to develop the innovative teacher-training program we call "T School." I encourage Members of the Committee to support more well-run, high-quality public schools like Success Academies – schools where teachers and students are held accountable, where all children are expected to achieve and are prepared and equipped with the skills they need for the 21<sup>st</sup> century. It's possibly the best return on investment our country can make.

With 1 million students on wait lists for U.S. charter schools, we have an obligation to rapidly develop more high-quality school options for families. Congress can help meet that constituent demand by passing S. 2304, the Expanding Opportunity through Quality Charter Schools Act, which would authorize an increase of funds to the Charter School Program and codify into law a grant competition that enables high-performing charter schools to grow. While this bill is a good start, more must be done to support schools helping children achieve at extraordinary levels. With key supports like S. 2304 and others, public charter schools like ours can continue to make a positive and critically needed difference in the lives of disadvantaged children.

We as a nation can't fix poverty unless we fix education, and we can't fix education if we keep telling ourselves our schools are "good enough." If we sell low-income, minority children short, because we believe their poverty prevents them from learning, then indeed, they won't learn. If we want to help our children of color to rise out of poverty, we must give them schools on par with what their more affluent peers have.

We don't have an achievement gap in America — we have an *opportunity* gap. With access to great schools, African American students – indeed, all students – can and do achieve tremendous academic success. If we give all children a fair start, then the race is theirs to win. We do not need so much to "lift" children from poverty as to equip them with the skills and self-confidence to achieve their dreams. We must choose to make schools incubators of opportunity, not poverty traps.

I am optimistic that our nation can do this, that opportunities can be extended to all children and that they will gain the skills and training to fill our jobs and fuel our economy, to become our greatest resource and to realize their own dreams. But we must act with urgency. Lives are in the balance and global competition is becoming stronger and moving with greater velocity than ever before. To bring about meaningful change, we need new thinking and a new approach. Education needs to move as rapidly and dramatically as the rest of our economy.

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- <sup>1</sup> OECD, PISA 2012 Results, "Snapshot of performance in mathematics, reading, and science," *available at*
- <sup>2</sup> <http://www.oecd.org/unitedstates/Tackling-high-inequalities.pdf>
- <sup>3</sup> U.S. Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey," *available at:*  
<http://www.bls.gov/news.release/jolts.toc.htm> (last visited July 27, 2014)
- <sup>4</sup> W.K. Kellogg Foundation, "The Business Case for Racial Equality," *available at:*  
<http://www.wkkf.org/resource-directory/resource/2013/10/the-business-case-for-racial-equity> (last visited July 22, 2014)
- <sup>5</sup> Congressional Black Caucus Foundation Center for Policy Analysis and Research, "Challenge the Status Quo," *available at:* <http://www.cbcfinc.org/oUploadedFiles/CTSQ.pdf> (last visited July 27, 2014)
- <sup>6</sup> *Id.*
- <sup>7</sup> Results from National Assessment of Educational Progress Math Assessment (2013) in both fourth and eighth grade. *Available at:* <http://nces.ed.gov/nationsreportcard/mathematics> (last visited July 28, 2014)
- <sup>8</sup> [http://www.p12.nysed.gov/irs/ela-math/2013/2013-08-06FINALELAandMathPRESENTATIONDECK\\_v2.pdf](http://www.p12.nysed.gov/irs/ela-math/2013/2013-08-06FINALELAandMathPRESENTATIONDECK_v2.pdf)
- <sup>9</sup> New York State Education Department – Information and Reporting Services, *Release of Data – August 7, 2013*, *available at* <http://www.p12.nysed.gov/irs/pressRelease/20130807/home.htm> (last visited Nov. 3, 2013).
- <sup>10</sup> *Id.*

Written Testimony of Bill Bynum  
Hope Enterprise Corporation  
Hope Federal Credit Union

Before the Joint Economic Committee  
United States Congress

“Increasing Economic Opportunity in the African American Community”<sup>ii</sup>

July 29, 2014

Chairman Brady, Vice Chair Klobuchar, thank you for holding this hearing on the important topic: “Increasing Economic Opportunity in the African American Community.” I appreciate the opportunity to speak before this committee. I serve as the Chief Executive Officer of the Hope Enterprise Corporation / Hope Federal Credit Union (HOPE) [www.hope-ec.org](http://www.hope-ec.org). For twenty years, HOPE has worked to break the cycle of poverty throughout the Mid-South by undertaking a range of income and asset development strategies to improve the quality of life for the region’s low- and moderate-income residents. Over that time period, HOPE has generated \$2 billion in investments that have touched the lives of 500,000 individuals.

**Introduction**

Over the past several years, communities around the country and particularly in our region have taken the time to pay tribute to, and reflect on, seminal events from America’s civil rights era. Fifty years after the assassination of Medgar Evers in Mississippi and nearly 60 years after the integration of Little Rock Central High School too many of us are faced with the sober acknowledgement that the work of the movement remains unfinished – particularly around issues of economic justice. In the areas of poverty, housing and access to affordable financial services, the gap between African Americans and whites is far too wide.

This testimony is broken into three parts. First, it provides framing comments around issues of persistent poverty, access to affordable financial services, capital to start and expand small businesses and homeownership. It follows with an overview of HOPE’s approach and track record in serving low-income people and communities of color. Finally, it concludes with policy recommendations to buttress high capacity community development finance institutions in efforts to create economic opportunity for underserved populations and places.

**Part 1 – Persistent Poverty, Access to Financial Services, Small Business Capital and Homeownership**

*Persistent Poverty*

Endemic to the Mid South includes high rates of persistent poverty. Counties and parishes that experience three consecutive decades of poverty rates above 20%, as defined by the U.S. Census Bureau, are classified as “Persistent Poverty Counties.”<sup>iii</sup> Twenty-five percent (25%) of the country’s persistently impoverished counties are located in the footprint served by HOPE. In

Mississippi, over half of the state's persistently poor counties are counties in which the majority of the population is African-American.<sup>iii</sup>

*Access to Financial Services*

The Mid South is home to the highest rates of unbanked and underbanked households in the country. Over 40 percent of Arkansas' households are unbanked or underbanked – more than in any other state.<sup>iv</sup> Racial disparities contribute heavily to this imbalance. Seventy-two percent (72%) of black households in Arkansas are unbanked and underbanked, in contrast to 55% of black households nationwide.<sup>v</sup> In Mississippi, 31% of African American households are unbanked, compared to 5% of white households.<sup>vi</sup> The gap is nearly nine percentage points wider than the gap between white and black unbanked households at the national level.<sup>vii</sup> Five of the 10 most unbanked counties and parishes in the country are located in Mississippi and Louisiana.<sup>viii</sup>

Despite robust profitability bank branches have closed at high levels – disproportionately in low-income areas.<sup>ix</sup> As a result, the country has experience an uptick in the emergence of bank deserts particularly in rural areas, inner cities and communities of color. A bank desert is defined as a ZIP code with fewer than two bank branches.<sup>x</sup> Within HOPE's target market, there are 1,031 bank deserts.

When banks leave low-income communities or avoid them altogether, residents in these underserved areas experience the negative effects of the alternative. Researchers suggest a correlation between the poverty of a neighborhood, a large population of minority residents, and the presence of payday lenders and other alternative financial service providers.<sup>xi</sup> Payday loans are short-term, small-dollar loans, typically less than \$500 and with a repayment period of less than 30 days. Repayment often coincides with a borrower's pay day, when the borrower's bank account is debited for the amount of the loan plus fees. Once an individual takes out one payday loan, the likelihood that he or she will become a repeat borrower is high. In a study of 15 million payday loans originated in 33 states, the Consumer Finance Protection Bureau found that the median borrower took out 10 loans over the course of 12 months, costing \$458 in fees, not including the principal of the loan.<sup>xii</sup>

Residents also suffer a substantial loss of reinvestment benefits when banks leave a community. In low-income neighborhoods, there is a strong relationship between the presence of a branch and the origination of mortgages. Likewise, as branch access increases, the cost of mortgages decreases.<sup>xiii</sup> In Appalachia, as the number of bank branches increased, the number of small business loans increased.<sup>xiv</sup>

Finally, a depository offers a gateway to a savings account and a way to build credit and wealth through asset development. When lower-income families have an account with a depository, they are more likely to own assets – such as a vehicle, a home or savings – which are some of the basic building blocks of economic security.<sup>xv</sup>

*Homeownership*

While homeownership levels in the Mid South could be considered middle of the road relative to other states, the manner in which individuals purchase homes in the region exacerbates the financial challenges facing area residents.<sup>xvi</sup> Among African Americans, the rate of high-cost mortgage lending in the Mid South significantly exceeds the national average and Mississippi and Louisiana had the highest percent of mortgage loans to African Americans that were high cost in the country.<sup>xvii</sup> While 12.4% of all mortgage originations in Mississippi were made to African Americans, 22.3% of all high cost loans were made to African American borrowers – a gap significantly wider than the gap seen nationally.<sup>xviii</sup> The high cost mortgages translate into less money available to save for college or an emergency.

High-cost loans are also more likely to result in foreclosure.<sup>xix</sup> When foreclosures occur, particularly in low-income communities, the spillover effects are stark. Nearby homes lose value, resulting in a loss of wealth for families. In minority communities, families lose, on average, \$37,000 simply for living close to a foreclosed home.<sup>xx</sup>

*Access to Capital to Start / Expand Small Business*

Nationally, the business ownership rate among whites is 1.5 times higher than that of people of color.<sup>xxi</sup> In Arkansas and Mississippi, the disparities were much higher where ownership rates among whites were 2.2 and 2.4 times higher than minorities. One of the major reasons for the gaps in ownership includes low levels of asset ownership among minorities. According to the U.S. Census Bureau, the Median Net Worth of whites was \$110,500 compared to \$6,314 for African Americans in 2011. Importantly, \$77,092 of the Median Net Worth calculation was home equity for whites compared to \$4,190 for African Americans.<sup>xxii</sup> For entrepreneurs with assets, access to capital is more open because the assets may be used to pledge as collateral when applying for a loan. A history of discrimination among lenders and low levels of ownership among the preceding generation also limit minority business ownership.<sup>xxiii</sup>

**Part 2 – Focusing on Solutions: HOPE and Community Development Finance**

For over 20 years, Hope Enterprise Corporation (HOPE) has taken a data-driven approach to building a sustainable organization that can meet the financial needs of underserved populations. HOPE started out as a \$1.5 million business loan fund that targeted distressed counties and parishes in the lower Mississippi River Delta region. Today it is a \$280 million community development organization whose affiliates include a highly respected center that conducts policy research, analysis and advocacy. Since its inception, HOPE has financed or leveraged over \$2 billion in projects that have affected the lives of more than 500,000 individuals. HOPE's three core areas of development finance include: 1) the provision of retail financial services in areas where little to no access would exist in the absence of HOPE; 2) affordable homeownership; 3) providing access to capital for historically underserved small business owners.

*Retail Financial Services*

HOPE's primary financial service vehicle is the 29,000-member Hope Federal Credit Union, a federally regulated depository. Thirty-seven percent (37%) of the credit union's members were

unbanked when they joined HOPE, and 7 out of 10 are minorities who are predominantly African American. Over half of HOPE's members earn less than \$35,000 a year. The high rate of unbanked members who join HOPE indicates a substantial market demand among families and communities that have been overlooked by the traditional banking sector and left with few options other than high-cost payday and subprime mortgage lenders.

Since 2008, HOPE has expanded its presence from six to 23 service locations – many in bank deserts. In two communities, HOPE preserved access to banking services by acquiring facilities left behind following the closure of the only bank in town. In the census tracts where these branches were located, the percentage of minority residents was 42 percent and 62 percent, respectively.

As indicated above, access to a financial institution matters tremendously in the calculus to move African American families ahead. In West Memphis, AR, HOPE had the opportunity to develop a relationship with a single, African American mother who worked as a cashier at a gas station. Looking to earn more money to provide for her family, she applied for a job with the state as a highway officer. She was accepted into the training program; however, the state did not have the resources to provide uniforms or supplies. Without savings, she had nowhere else to turn but HOPE. HOPE provided her with a loan to purchase the materials that she needed for the training program and for her new career. She graduated from the program, has a new career path with more money and advancement opportunities and is current on her loan.

#### *Homeownership*

In 2013, 82% of HOPE's mortgage loan customers were minorities, 57% were low-income and 56% were female. Additionally, 86% of HOPE's home mortgage loans went to first-time homebuyers. An annual survey of HOPE mortgage borrowers indicates that 49% report living in safer neighborhoods and 41% report improved outcomes for their children in school since purchasing a home.

HOPE is able to expand access to homeownership by developing relevant products for its member base that is ready for a mortgage, by developing plans to get ready for its member base that isn't ready and by hiring an experienced team that knows how to locate and package homeowner assistance funds.

For example, a married African American couple in Memphis, TN originally applied for a mortgage in 2012, however, their credit score was not at a level where HOPE could make the loan. Instead of just denying the couple, the HOPE mortgage originator worked with the couple to set up a plan to rebuild their credit. Throughout the course of the plan, the couple checked in with the originator to make sure that they were moving in the right direction. Upon completing the plan, the originator identified down payment assistance funds made available through the city of Memphis and the couple was able to purchase a home.

#### *Access to Capital*

Similarly, a high percentage of HOPE's commercial lending benefits historically underserved and economically distressed populations. During the year, 86% of all commercial loans closed, by dollar, went to businesses located in high-poverty areas. This rate was nearly 40 percentage

points higher than the regional bank average for lending was in economically distressed communities. The average annual wage at companies financed by HOPE is \$28,217, compared to the poverty wage for a four-person family of \$23,050 and the minimum wage salary of \$15,080. Additionally, 43% of HOPE's commercial loans are to minority or women owned businesses.

One of the businesses financed by HOPE included McMillan's First Steps – a private, African American owned child care center in New Orleans, LA. After completing the entrepreneurial training curriculum through DelGado Community College in New Orleans, McMillan's First Steps Community Development Corporation qualified for a loan from HOPE to add four additional classrooms, expand its playground and move its entrance off of a busy street. McMillan's employs 40 people in a high poverty community. Importantly, the child care center is one of only two five star centers – the highest quality rating in the state of Louisiana – located in Orleans Parish and the only one serving a high poverty community.

### **Part 3 – Policy Recommendations**

The presence of high capacity CDFIs with a track record of connecting minority populations to affordable financial services is critical for creating opportunity within African American communities throughout the country. To that end, HOPE recommends the following:

#### *Increase the availability and effectiveness of federal support targeted towards persistently impoverished areas and in the South*

Within most of the nation's persistently poor counties and particularly within those located in the Mid South, a disproportionate share of residents is people of color. Additionally, by state population levels, the South is home to the highest concentration of African Americans in the country. Investments that enhance the community development capacity to serve residents living in counties of persistent poverty and in the South will create opportunity for a significant portion of the nation's African Americans.

#### *Strengthen the Community Reinvestment Act to support community development institutions serving bank deserts*

When banks pull out of communities, the Community Reinvestment Act (CRA) does not always provide protections for underserved communities. Its color blind approach to regulation also does not allow examiners to factor race into their tests of the effects of branch closure decisions. Over the last year, HOPE has either experienced, or worked with other credit unions that have experienced a continuum of responses from banks when closing branches. On one end of the spectrum, one bank that left a community, donated a branch to a community development credit union, provided operating support during the transition period and assisted with transferring customers that lived in the community from the bank to the credit union. On the other end of the spectrum, the only bank in the community left and sold the facility to a federally qualified health center with a restrictive covenant prohibiting the leasing of space to another financial institution without permission from the bank that abandoned the community. The CRA should create more incentives for the first scenario and significant disincentives to prevent the second scenario from occurring.

*Support a Strong Payday Lending Rule by the Consumer Finance Protection Bureau*

Over the next several months, the Consumer Finance Protection Bureau will be releasing new regulations for comment on short term small dollar loan products. For the Mid South, the CFPB regulations represent the single best opportunity to end the debt trap and to create a space for responsible products. With high rates of underbanked populations, particularly within the African American community, a strong rule is essential to ensuring that individuals and families have the resources to get ahead rather than standing still.

**Conclusion**

Nearly five decades earlier, in his final presidential address to the Southern Christian Leadership Conference (titled "Where Do We Go From Here?"), Martin Luther King Jr. put forth this impassioned call for economic justice: "Let us be dissatisfied until the tragic walls that separate the outer city of wealth and comfort and the inner city of poverty and despair shall be crushed by the battering rams of the forces of justice. Let us be dissatisfied until slums are cast into the junk heaps of history, and every family is living in a decent sanitary home."<sup>xxiv</sup> Notably, in that speech, Dr. King lifted up the importance of well capitalized black owned banks in Chicago and Cleveland to the overall economic success of the African American community in those respective cities. As HOPE has shown in its own work, the presence of a locally owned financial institution that fosters financial inclusion offers numerous channels to move the historically underserved ahead in today's society.

<sup>i</sup> Testimony was excerpted significantly from the following article:

Bynum, Bill "Creating Financial Oases in Bank Deserts" *The Aspen Idea* Summer 2014:85-87. Print.

<sup>ii</sup> Public Law 112-74

<sup>iii</sup> U.S. Treasury CDFI Fund. Persistent Poverty Data by County. April 2, 2012.

[http://www.cdffund.gov/what\\_we\\_do/persistentpoverty.asp](http://www.cdffund.gov/what_we_do/persistentpoverty.asp) (accessed April 10, 2014).

<sup>iv</sup> FDIC. "2011 Household Banking Status by State." EconomicInclusion.gov Appendix. 2011.

<http://www.economicinclusion.gov/surveys/2011household/documents/appendix/2011-State-Summary-Unbanked.pdf>

<sup>v</sup> FDIC 2011

<sup>vi</sup> FDIC 2011

<sup>vii</sup> FDIC 2011

<sup>viii</sup> CFED. The Most Unbanked Places in America. 12 2011.

[http://cfed.org/assets/pdfs/Most\\_Unbanked\\_Places\\_in\\_America.pdf](http://cfed.org/assets/pdfs/Most_Unbanked_Places_in_America.pdf)

<sup>ix</sup> FDIC. (2014, February 26). Statement by FDIC Chairman Martin J. Gruenberg on the Fourth Quarter 2013 Quarterly Banking Profile: <http://www.fdic.gov/news/news/speeches/spfeb2614.html>

<sup>x</sup> U.S. Postal Service Office of Inspector General. Providing Non-Bank Financial Services for the Underserved. White Paper, Washington, DC: United States Post Office, 2014

<sup>xi</sup> Graves, Steven M. "Landscapes of Predation, Landscapes of Neglect: A Location Analysis of Payday Lenders and Banks." *the Professional Geographer* 55, no. 3 (2003): 303-317.

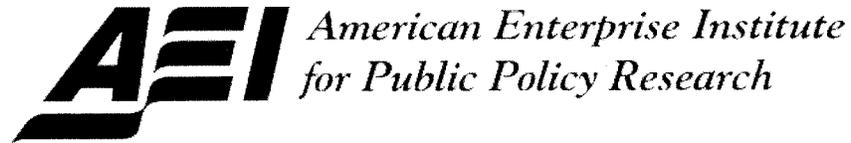
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Silver, Josh, and Archana Pradhan. "Why Branch Closures are Bad for Communities." *National Community Reinvestment Coalition*. April 2012.

<sup>xii</sup> CFPB. Payday Loans and Deposit Advance Products. White Paper, Washington, DC: Consumer Finance Protection Bureau, 2013

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- <sup>xiv</sup> NCRC. "Access to Capital and Credit for Small Businesses in Appalachia." National Community Reinvestment Coalition. April 2007.  
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- <sup>xvi</sup> CFED. Assets and Opportunity Scorecard Homeownership Rate. 2012.  
<http://scorecard.assetsandopportunity.org/2014/measure/homeownership-rate>.
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<http://scorecard.assetsandopportunity.org/2013/measure/business-ownership-by-race>
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Statement Prepared for the Joint Economic Committee Hearing on

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

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

## 1. Introduction

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

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

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

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

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

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

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

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

## II. Correlates of Mobility

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

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

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

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

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

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

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

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

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

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

### III. Challenges and Policy Suggestions

#### III.A. Addressing segregation issues

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### III.B. Labor Market Challenges

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

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

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

<sup>24</sup> Economic Policy Institute, The State of Working America, Poverty Fact Sheet

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

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

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

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

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

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

<sup>27</sup> From the Bureau of Labor Statistics.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### III.C. Good Quality Schooling

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

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

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

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

<sup>39</sup> Congressional Budget Office, "Effective Marginal Tax Rates for Low-and-Moderate Income Workers" (2012)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### III.D. Family Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### IV. Conclusion

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

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

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

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

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

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

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