

Senate Finance Committee Hearing
“Boosting Opportunities and Growth Through Tax Reform: Helping More Young People
Achieve The American Dream”
July 10, 2012
Questions for Dr. Miles Corak

Questions from Chairman Baucus

1. Education is one of the most important factors in providing every American with the opportunity to succeed. Our education system is one of the reasons that we have one of the most productive labor forces in the world, but not everyone seems to be benefiting. Why is our education system failing to achieve the same level of mobility that we see in other countries? How could the education system here in America do a better job of promoting mobility and opportunity?
2. The tax code has a number of provisions aimed at enhancing mobility. I mentioned a few in my opening statement, such as the Earned Income Tax Credit. Most of our programs to help mobility are targeted towards parents. Does it make sense to provide tax benefits to low-income families, which are claimed by parents, in order to increase opportunities for children? Or should we limit such help to in-kind benefits that can only be claimed by children? How can we make sure that programs intended to create opportunity are benefitting children?
3. There are provisions in the tax code to help children from working families to get ahead. For instance, the Earned Income Tax Credit gives families an incentive to work so they can provide for their children and help them succeed. But not every family takes advantage of provisions like the EITC. How can we make sure that even children from the hardest circumstances have a chance to succeed? Is there a role here for tax policy?
4. Mobility is about fairness, but it is also fundamental to economic growth. When everyone has an equal chance to succeed, then the ablest and hardest working Americans will rise to the top. How does the fact that we are lagging behind in mobility affect our economy? How does it affect our international competitiveness?

5. Most analysts seem to agree that the mobility between generations is lower in the United States than it is in other wealthy countries, but the trend over time is less clear. How has mobility changed over time in the United States? What can we do to make sure that mobility is higher in the future?
6. Most of the money that the United States spends to promote mobility is spent through the tax code. This is efficient because tax returns already provide information about income. However, these tax expenditures often help high income people even more than they help low income people. How can we make sure that tax policy helps mobility for people at the very bottom without giving tax breaks to people who don't need them? What provisions in the tax code are most effective at boosting intergenerational mobility?
7. Dr. Corak states that the intergenerational earnings elasticity is twice as high in the United States as it is in Canada. These differences in mobility levels can be attributed to both monetary and non-monetary resources. What specific tax policies has Canada enacted to encourage mobility? What can we learn from these policies about the best policy for the United States?

Questions from Senator Kerry

1. One of the most obvious ways that higher income parents can give their children an advantage in life is by giving them money. Wealthy parents can also help their children take risks and afford a quality education. What does the research say about the importance of wealth for intergenerational mobility? How important is wealth relative to other factors, like education? What role do wealth transfer taxes and the estate tax play in promoting or inhibiting intergenerational mobility?

Questions from Senator Hatch

1. In looking at data used to capture opportunities for upward mobility for Americans over time and mobility comparisons across countries, I wonder how you control for the many changes in the economic environment over time and differences in measures across countries. Surely, parents of children born in the 1960s or 1970s or 1980s faced far different economic policies, labor market dynamics, immigration dynamics, and global trade in labor and capital than those faced by their children. In the U.S., for example, it is difficult to deny that labor market experiences of females have changed markedly since the Second World War. Rewards to skill seem to have been changing due to technological changes. Entry of China and India into global trade has surely altered labor market dynamics and outcomes around the globe. And there is evidence that there has been growth in associative mating, with people marrying others who share similar occupations.

When looking at intergenerational mobility, we look at comparisons between outcomes of parents and children. Yet the environments facing parents were often far different from those facing their children. In looking at income measures in the U.S. over time, some studies, including ones by Pew, measure income exclusive of non-wage benefits and certain government benefits like food stamps. Yet, over time, Americans have increasingly taken compensation growth in the form of non-wage benefits. Excluding them seems, to me, to exclude a lot of what has been happening in labor markets over the past few decades.

How can we extrapolate from historical evidence on parents versus children when people are raised in far different economic environments and possibly receive income in far different forms over time, to craft federal mobility policies for today and the near future?

2. Currently in the U.S., debt and deficits are at levels we have not seen since the years surrounding World War II, when it was necessary to gather resources to defend democracy around the world. Currently in the U.S., we also have unsustainable promises embedded in our entitlement programs, such as Medicare and Social Security. We are observing, in real time in the euro zone, the consequences of failing to act to put fiscal

policies on sustainable courses. Young people today in the euro zone, because of the massive debt overhang from profligate government overextensions, face little to no opportunities. There are no jobs to be found.

We have tragically seen a similar situation beginning here in the U.S., with unemployment remaining over 8 percent for 41 consecutive months through June, and youth unemployment close to 24 percent. Economists have found evidence that there are lifetime effects on income for young people entering their careers in a depressed labor market, like the one we have seen in the U.S. over the past three-and-a-half years.

I wonder if any in the mobility research community has considered how mobility opportunities for a young person depend on the debt position of that person's country when they are in their formative years. Given the outsized debt and the labor market sluggishness of the last three-and-a-half years in the U.S., I wonder whether it is more likely for young people to end up with opportunities for economic advancement that are inferior to those of their parents?

3. Ms. Currier's testimony points to something called "social capital," such as neighborhood effects, as a driver of opportunities for mobility. It appears that the community in which you are raised can have important effects on your opportunities to move up the economic ladder. Yet while many communities would enjoy being something like Silicon Valley, most are not. Yet we see some communities resurrect themselves after industrial transformations brought on by global forces or technological change force them to alter their economic bases, while other communities struggle in poverty traps for many, many years. To some extent, results depend on community, city, and State leaders and policies, and not directly on federal policy. And I would note that the economic resurrections I have observed in some cities but not others cannot be explained away merely by identifying that everyone would have done better if they would simply have had more federal funds.

Can you tell me what, if anything, we know about things that make good neighborhoods, things that do not, and things that stand in the way of a community adapting to change in a nimble fashion. That is, what do we know about the mechanisms giving rise to births and decay of cities and communities, and what helps create dynamic centers of innovation, growth, and opportunities? What are the mechanics of local development, which could be a core feature of mobility provision?