Prioritizing Opportunity for All in the Federal Budget

Executive Summary[1]

C. Eugene Steuerle

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Elected officials from both political parties are advocating policy agendas that claim to advance opportunity. But to move from rhetoric to action, we need to rigorously discern the outcomes being pursued and measure how well programs achieve those outcomes. There is extraordinary potential for achieving better outcomes within a budget that likely will provide an average lifetime total of over $2 million in health, retirement, education and other direct supports—and about $4 million in total spending and tax subsidies—for each child born today.[2] Prioritizing opportunity throughout the budget, not simply in a program here or there, is a crucial way to reduce inequalities in earnings and wealth.

The federal budget has never broadly promoted opportunity for all. Yes, it has achieved other worthy objectives, including reducing poverty among the disadvantaged; and yes, it sometimes promoted opportunity as a byproduct of those other purposes. But when budget numbers are examined, programs aimed directly at promoting opportunity—that is, programs that encourage and enable households to invest in human and social capital, increase their earnings, and build wealth over time—have taken a back seat to other objectives. The opportunity programs that do exist often exclude disadvantaged groups and those with low or moderate incomes. More strikingly, current law schedules almost no share of the additional revenues provided by economic growth for programs like work supports, education, and children's programs aimed directly at promoting opportunity, leading to their further demise as a share of the economy and the federal budget.

Meanwhile, recent decades have seen little gains and sometimes losses by lower earning households, including African Americans and Hispanics, in their *share* of earnings and wealth. Many factors can be cited, but the failure to shift a greater share of government spending and tax subsidies toward an opportunity-for-all budget—for instance, toward programs that promote rather than discourage wealth-holding by low- to-middle income households—likely bears responsibility as well.

Are the two—lack of budgetary focus on opportunity and greater inequality in private earnings and wealth—partly connected? Politicians seem to agree that they are. Republicans and Democrats alike have jumped on the rhetorical bandwagon that we should shift priorities to better promote opportunity, particularly for less advantaged members of society. President Obama named the section of his fiscal 2017 budget proposal outlining his agenda for education, workforce development, and tax reform "Meeting Our Greatest Challenges: *Opportunity* for All." Republicans in the House Budget Committee put forward a competing budget promising "Economic *Opportuni*ty for All." Similarly, a 2014 effort spearheaded by then–House Budget Chair Paul Ryan, "Expanding *Opportunity* in America," set forth conservative proposals to reform safety net programs, education, the criminal justice system, and other policies to address poverty and economic mobility.

Recently, a bipartisan group of researchers showed how to reach common ground on what was largely an opportunity agenda for encouraging stronger families and greater labor force and education opportunities.[3] Thus, while parties differ significantly on whether past government policy has succeeded on one front or another, they share a common belief that the government can improve how it promotes growth in well-being for the disadvantaged and the general public.

Converting those broad interests into budget policy, however, first requires critical thinking about just what an opportunity budget might entail, how it might be enhanced, what might actually work, how outcomes should be measured and tracked, and, in many cases, where bipartisan consensus might be reached. Progress requires moving from rhetoric to actionable items.

I draw three major conclusions:

- **First, the few programs that attempt to promote opportunity, such as work incentives and education, are scheduled to decline in the future and take a smaller share of available federal government resources.** There is one major exception: large tax subsidies for housing and for employee benefits like retirement accounts continue to expand. However, by largely excluding low- to middle-income households, those programs show how today's opportunity programs largely fail to promote opportunity for all. That is, they are not *inclusive* opportunity programs. Figure 1 summarizes these results.
- **Second, if we wish to promote opportunity for all, we must carefully discern the outcomes pursued and judiciously measure how well programs achieve those outcomes.** "Opportunity for all," if left amorphous, lacks any prescriptive power, leads to claims that anything the government does or stops doing can promote opportunity, and, as long as the intended outcomes are unspecified, prevents assessing program performance. I suggest that opportunity for all is not simply an equity objective: it pursues outcomes centered on growth over time in earnings, employment, human and social capital, and wealth while it emphasizes inclusion, especially of low- and middle-income households. And I suggest that we can and should

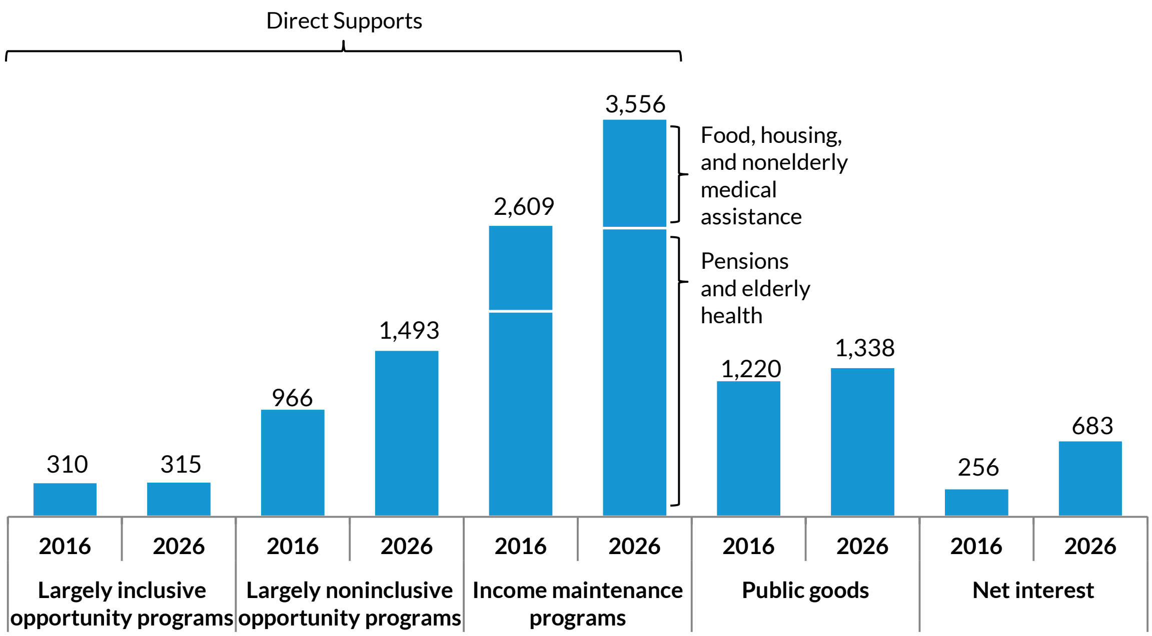
measure most programs by their performance on that opportunity standard, even if the primary standard by which they are judged—such as retirement, food security, or even defense—seems initially removed from that opportunity focus.

- **Third, there's tremendous budgetary potential for promoting opportunity regardless of whether the government increases or decreases relative to the economy**. Realizing this potential doesn't require moving backward on other fronts but shifting tracks, as from north to northeast, to also move forward on the opportunity front. The trick is to channel a larger share of the additional revenues provided by economic growth toward an opportunity agenda. At the same time, small ball is not going to get the job done when we now have a federal, state, and local budget of spending and tax subsidies that is scheduled to grow from about $60,000 per household annually today to roughly $75,000 a decade from now, but with almost nothing for programs that promote opportunity for all.

FIGURE 1

Total Outlays and Tax Expenditures for Major Budget Categories under Current Law

Billions of 2016 dollars



Source: Author's tabulations of Congressional Budget Office data.

Notes: Public goods include such items as defense, infrastructure, and research and development that benefit the population broadly. Direct supports are programs and transfers that directly benefit households and communities, such as health care and education. Within direct supports, income maintenance programs such as Social Security, Medicare, and SNAP (formerly food stamps) protect a certain level of income and consumption, while opportunity programs aim more directly to increase private earnings, wealth, and human capital over time. Largely inclusive opportunity programs benefit low- and middle-income groups, while noninclusive opportunity programs largely exclude them or provide them with fewer supports than upper income groups.

A caution: designing programs to succeed is much tougher when promoting greater equality of opportunity than when promoting equality of consumption or temporary income. Give individuals resources to consume food or clothing or health care, and, at least at that instant, they likely will consume more because of the transfer. Give individuals support or an environment to learn better, work more fruitfully, or invest in housing and retirement assets, however, and they may respond or not, or appear to respond but later reduce the amount of their own resources devoted to such efforts. Here, creating enduring rather than temporary success is a much more rigorous performance standard. Making opportunity for all into a 21st century priority is a charge with both extraordinary possibility and challenge.

Notes

1. For the full report, see http://www.urban.org/research/publication/prioritizing-opportunity-all-federal-budget-key-both-growth-and-greater-equality-earnings-and-wealth.
2. This calculation takes the Social Security intermediate assumption of productivity growth of 1.65 percent per capita and a life expectancy for a child born today of a little over 83 years; it then adds up the real value of spending that would occur over those years. Spending includes tax subsidies such as those for housing.
3. See AEI/Brookings Working Group on Poverty and Opportunity, "Opportunity, Responsibility, and Security: A Consensus Plan for Reducing Poverty and Restoring the American Dream" (Washington, DC: American Enterprise Institute and Brookings Institution, 2015).

About the Author

C. Eugene Steuerle is an Institute fellow and the Richard B. Fischer chair at the Urban Institute. Among past positions, he served as deputy assistant secretary of the US Department of the Treasury for Tax Analysis (1987–89), president of the National Tax Association (2001–02), codirector of the Urban-Brookings Tax Policy Center, and chair of the 1999 Technical Panel advising Social Security on its methods and assumptions. Between 1984 and 1986 he served as economic coordinator and original organizer of the Treasury's tax reform effort, which Treasury and White House officials acknowledged would not have moved forward without his leadership.

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