

RESEARCH REPORT

Prioritizing Opportunity for All in the Federal Budget

A Key to Both Growth in and Greater Equality of Earnings and Wealth

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Contents

Acknowledgments	iv
Prioritizing Opportunity for All in the Federal Budget	1
Introduction and Summary	1
The Nation's Limited and Declining Opportunity Budget	4
How to Pursue an Opportunity Agenda, and Its Relationship to Equality	9
How Opportunity Relates to Equality	9
Opportunity: A Forward-Looking Agenda	16
Why Other Programs Need Not Be Pared	16
Why Now?	17
Conclusion: Exciting yet Daunting Challenges	20
Notes	23
References	24
About the Author	26
Statement of Independence	27

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Prioritizing Opportunity for All in the Federal Budget

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, then measure how well programs achieve those outcomes. We also need to recognize the 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.¹ Prioritizing opportunity throughout the budget, not simply in a program here or there, is a crucial way to reduce inequalities in earnings and wealth.

Introduction and Summary

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, including the movement to a postindustrial international economy and a system of winner-take-all rewards in industries ranging from technology to entertainment, can be cited. Still, 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.

The federal budget has never broadly promoted opportunity for all. Meanwhile, the share of earnings and wealth held by lower earning households, including blacks and Hispanics, has increased minimally—and sometimes declined.

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 Opportunity 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 (AEI/Brookings Working Group on Poverty and Opportunity 2015). 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.

In this paper 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, which summarizes these results, will be explained in more detail later.
- **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 r \$75,000 a decade from now, but with almost nothing for programs that promote opportunity for all.

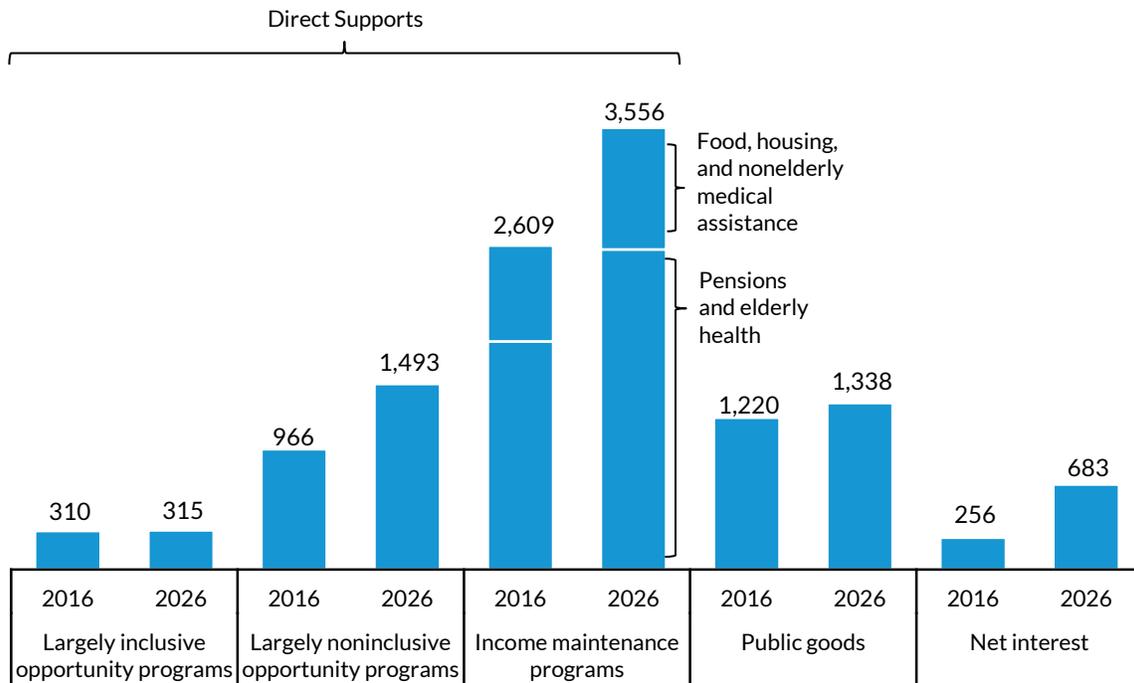
Finally, a caution: designing programs to succeed is much tougher when promoting greater equality of opportunity than when promoting equality of consumption or temporary income. Give individuals resources to consume food or clothing or health care, and, at least at that instant, they likely will consume 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.

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.

The Nation’s Limited and Declining Opportunity Budget

In this analysis, I build on work done by Carasso, Reynolds, and Steuerle (2008) by dividing the federal budget, including tax subsidies, into three distinct categories according to the primary purpose to which they are directed:

- **Public goods**, which represent functions of government undertaken for society as a whole.
 - » Traditional examples here include national defense, infrastructure spending, and general administration, but public goods also include investment and tax subsidies for research and development.
 - » Classic measures of success are public order, a well-functioning justice system, and thriving commerce.

- **Income maintenance programs**, which chiefly aim to protect or “maintain” individuals’ current health and living standards.
 - » Traditional examples here include retirement support through Social Security, much acute health care spending, and food assistance.
 - » Classic measures of success here include (1) reductions in poverty, defined officially as the income required to maintain some minimum amount of consumption; and (2) a sufficient level of wage replacement, so former consumption or living standards can be partially or wholly maintained when retired or unemployed.

- **Opportunity programs**, which aim to encourage or help individuals increase their private earnings, financial wealth, and human and social capital.
 - » Traditional examples here include education, jobs programs and wage subsidies, most programs for children’s health and nutrition, and supports for homeownership and private pensions.
 - » Classic measures of success here focus on future outcomes, such as higher earnings, improved school performance, or higher productivity.²

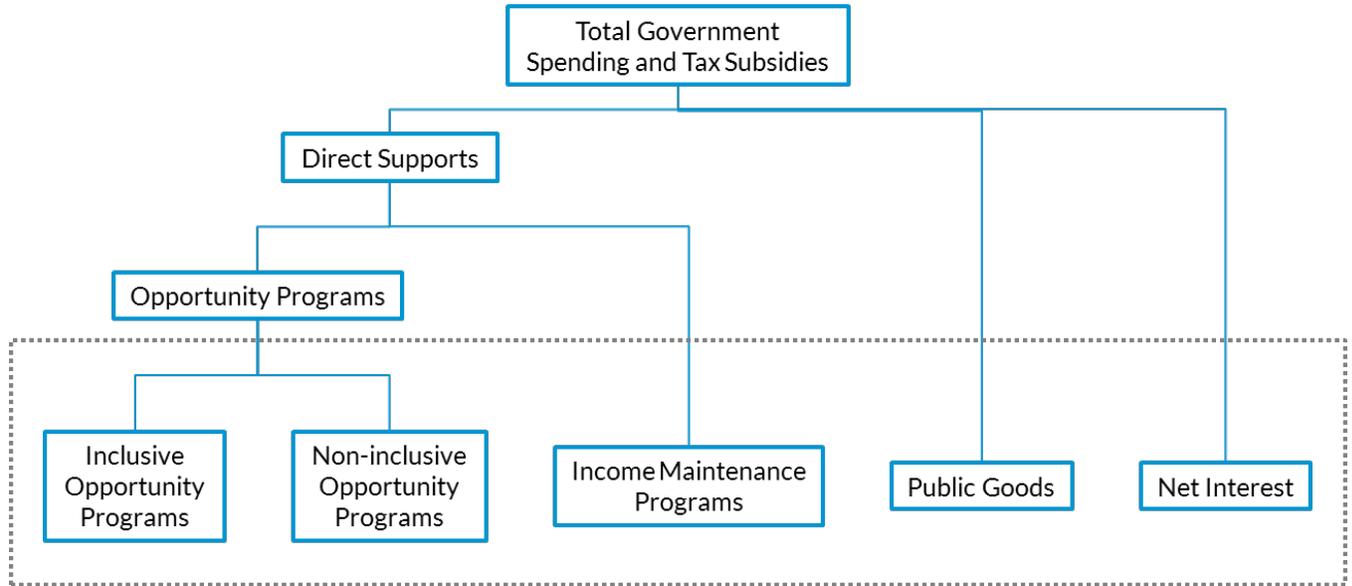
Two other distinctions are important. First, opportunity programs that provide significant benefit to lower-income groups are considered **inclusive**, while those whose benefits accrue mainly to upper-income groups—largely in the form of tax deductions and exclusions whose value increases at higher tax rates—are deemed **noninclusive**.

Second, the combination of income maintenance programs and opportunity programs are referred to here as **direct supports**, as they are targeted directly to individuals and families rather than indirectly, as in the case of public goods.

Figure 2 shows these categories and subcategories of budget spending and tax subsidies.

FIGURE 2

Budget Categories Used in This Analysis



Budget classification serves many useful purposes, but defining programs as falling into single categories according to their principal purposes inevitably contains a level of arbitrariness. In particular, budget accounting doesn't measure the performance of any program in promoting opportunity or achieving any other objective. And, studies vary in what they include under different classifications. For instance, "income maintenance" is defined in various ways in the literature: here we include in-kind benefits, like health or food assistance, but separate out opportunity programs, as defined specifically for this report. We also add in tax subsidies, though many budget analyses fail to include them in accounting for government spending or spending-like efforts. Still, while some studies might move programs from one category to another, I believe that they would still adhere to the broad conclusion of this paper: that we can do far more throughout the budget to promote opportunity and, indeed, we must, if the budget is ever to advance opportunity for all.

For discussion purposes, I also define income maintenance and opportunity programs—that is, everything other than public goods—as constituting direct supports to individuals and communities aimed at increasing their well-being. When combined, my numbers correspond closely with other measures in the literature that look at government expenditures for well-being (Bixby 1990), comprising largely transfers to individuals of money, as well as in-kind goods and services such as food assistance, education, and health care.

Despite its limitations, this type of budget exercise helps us understand how the budget as a whole addresses opportunity. It avoids the dilemma of having every favored program identified as focused on “opportunity,” though they may well do so indirectly. For instance, serving in the military can improve long-term employment prospects for some, and adult health care helps sustain ability to work, but that is not their main purpose.³ As I will show, an opportunity focus across the budget, even within programs with other primary purposes, would measure their effect on items like private earnings and wealth, as when some soldiers are inadequately prepared to return to civilian employment or when adult health care provides incentives to drop out of the workforce at an earlier retirement age (CBO 2014a).⁴

Using this lens to examine the federal budget reveals important recent trends in federal spending priorities (see table 1, which expands upon the summary in figure 1):

- **Income maintenance programs, driven chiefly by health care and retiree benefits, dominate the budget.** More than \$2.6 trillion, 14 percent of GDP, or roughly half of federal expenditures and tax subsidies, are scheduled toward these programs in 2016. Many shore up the country’s vital safety net or allow people to replace earnings when they retire, but many have embedded in them negative work incentives through sometimes steep, sometimes modest, means testing or through signaling households to drop out of the labor force in what might easily be considered late-middle age as measured by remaining life expectancy and good health.
- **As has long been the case, much spending on opportunity occurs through tax expenditures that fail to be inclusive.** About \$1.3 trillion, 7 percent of GDP, or about one-quarter of expenditures, fall into the opportunity-enhancing programs. This sounds impressive at first, but nearly 80 percent of 2016’s expenditures on opportunity come in tax expenditures. While some of these, such as the earned income tax credit (EITC), have been designed for low-income workers, most of the tax code’s subsidies are deductions and exclusions for items such as mortgage interest and retirement savings. Because deductions and exclusions are worth more for those in higher tax brackets and for those who spend the most, the benefits flow mainly to upper-income households (Harris et al. 2014). Additionally, most of these tax programs don’t promote opportunity well at any level. For instance, evidence suggests that retirement subsidy designs haven’t encouraged new saving as much as they have subsidized saving that would already have occurred (Chetty et al. 2012; Galper and Steuerle 1984). So while these programs might favor opportunity in some broad sense, they fail to promote opportunity *for all*.

TABLE 1

Changes in Outlays and Tax Expenditures by Major Budget Category under Current Law, 2016–26

	2016 Dollars (Billions)			Share of GDP (%)		
	2016	2026	Change	2016	2026	Change
Largely inclusive opportunity-oriented programs						
Education and training						
Primary and secondary education	39.5	39.5	0.0	0.21	0.17	-0.04
Higher education	62.6	67.1	4.4	0.34	0.29	-0.04
Other education and training	64.3	69.1	4.7	0.35	0.30	-0.04
<i>Total, education and training</i>	166.5	175.6	9.1	0.90	0.77	-0.13
Child health and nutrition						
Health	13.2	4.8	(8.4)	0.07	0.02	-0.05
Nutrition	28.1	33.7	5.5	0.15	0.15	0.00
<i>Total, child health and nutrition</i>	41.4	38.5	(2.9)	0.22	0.17	-0.05
Work supports						
Child care	11.1	11.4	0.3	0.06	0.05	-0.01
EITC and other work supports	68.0	65.9	(2.1)	0.37	0.29	-0.08
<i>Total, work supports</i>	79.0	77.2	(1.8)	0.43	0.34	-0.09
Other child well-being						
Adopted/foster children	1.3	1.5	0.2	0.01	0.01	0.00
Social services	12.9	13.5	0.5	0.07	0.06	-0.01
<i>Total, other child well-being</i>	14.2	14.9	0.7	0.08	0.07	-0.01
Citizenship services	8.0	7.4	(0.5)	0.04	0.03	-0.01
Equal opportunity	0.8	0.9	0.1	0.00	0.00	0.00
<i>Total, largely inclusive opportunity programs</i>	309.8	314.6	4.8	1.68	1.38	-0.29
Largely noninclusive opportunity-oriented programs						
Employment-based work tax subsidies						
Pensions tax incentives	169.7	291.7	122.0	0.92	1.28	0.37
Health insurance and savings tax subsidies	360.3	541.0	180.7	1.95	2.38	0.43
Other employment-based work subsidies	10.9	12.5	1.6	0.06	0.06	0.00
<i>Total, employment-based work tax subsidies</i>	540.9	845.2	304.3	2.92	3.72	0.79
Homeownership tax subsidies, credit programs, and other support	235.4	393.3	157.9	1.27	1.73	0.46
Savings and investment incentives	185.7	250.6	64.9	1.00	1.10	0.10
Business incentives and development	4.3	3.7	(0.5)	0.02	0.02	-0.01
<i>Total, largely noninclusive opportunity programs</i>	966.2	1,492.8	526.6	5.22	6.56	1.34
Total, all opportunity-oriented programs	1,276.1	1,807.4	531.3	6.90	7.95	1.05
Income maintenance programs (primarily Social Security, Medicare, and Medicaid)	2,608.6	3,556.2	947.6	14.11	15.64	1.53
Other, mostly public goods (primarily national defense and general government)	1,220.2	1,338.4	118.2	6.60	5.89	-0.71
Net interest	256.1	683.2	427.1	1.38	3.00	1.62
Total outlays and tax subsidies	5,361.0	7,385.2	2,024.3	28.99	32.48	3.49

Source: Author's tabulations of federal budget account and tax expenditure projections from CBO and OMB data.

Notes: Numbers may not add to totals because of rounding. For programs such as Medicaid that benefit multiple populations (elderly, working adults, and children), the primary population served is used to allocate dollars to a particular category. Federal budget accounting for credit programs such as federal student loans likely understates their level of annual subsidies.

Now turn attention to the future. Even though some of the line drawing here is more subjective than others, the scheduled decline of opportunity for all programs within the budget stands out. Annual federal spending and tax subsidies are scheduled to increase some \$2 trillion 10 years from now (by roughly \$15,000 per household), but essentially none of that growth goes to opportunity-for-all programs. Children receive almost nothing a decade hence (Isaacs et al. 2015), interest on the debt also rises significantly because we are unwilling to collect enough taxes to pay our bills as we go along, and growth in income maintenance programs is dominated by growth in health and retirement for the elderly. On the tax subsidy side of the budget, the EITC is scheduled to decline relative to GDP while noninclusive housing and pensions subsidies continue to grow. In sum, programs oriented toward opportunity for all are scheduled to become even less of a priority as they decline relative to GDP and as a share of the budget. This conclusion proves robust under almost any set of assumptions, as almost all growth goes toward areas that few would classify as promoting opportunity, especially at the margin.

How to Pursue an Opportunity Agenda, and Its Relationship to Equality

Here I wish to track in more depth how opportunity relates to equality and how to pursue an opportunity agenda within the budget. This broad agenda goes beyond putting relatively more money into opportunity-for-all programs to applying new performance measures to other programs so over time we can see how they, too, might better enhance opportunity.

How Opportunity Relates to Equality

Programs that promote equality of opportunity are not simply about equality. Opportunity, broadly speaking, means a chance at success, whereas equality can apply to the distribution of almost anything, such as income or access to health care. Many of today's equality-oriented policies are chiefly concerned with equalizing more, or at least setting a minimum bound on, households' ability to meet **current needs**—to afford acceptable living and health standards. For instance, many programs in areas like welfare, retirement, and health **backfill** for lack of income or insurance or loss of former earnings. Their primary goal is to help people to attain some minimum level (such as the federal poverty level) or former level (for example, partial replacement of past wages in Social Security) of consumption.

A budget emphasizing opportunity attempts to spur command over **private** resources, particularly wealth, market earnings, and human and social capital **over time**. It is in the ownership of such private resources that we typically assess opportunities for individuals and families: their freedom to act, move, take entrepreneurial chances, and pass on those opportunities to their children.

For instance, few if any studies attribute more years of government retirement support with greater opportunity. When studies attempt to determine whether younger generations, succeed or have greater opportunity relative to their parents' generation, they look at such measures as whether their earnings or wealth are higher, not whether decades later they will get Social Security and Medicare benefits worth hundreds of thousands of dollars more.

As another example, low-wage earning supplements like the EITC attempt to increase the earnings power of lower-wage workers and thereby the equality of **earnings** or market income, even though, per dollar spent, they do less to reduce the inequality of immediate **consumption** than a simple, income-based welfare payment available to those with no earnings could. That is, if our goal were to maximize money to those with the lowest incomes, we wouldn't, as the EITC does, provide subsidies that grow higher (at least at low income levels) as households increase their earnings.

If the emphasis is on opportunity, programs must be assessed on more than what current levels of consumption they make possible. This distinction is crucial for cutting through the confusion when programs claiming to address opportunity and equality come up.

Opportunity programs can be provided progressively, and, when targeted to those with fewer resources, simultaneously aim to reduce inequality. But not all do so, and some do so haphazardly. Thus, I have distinguished between programs that promote opportunity and those that are inclusive and promote opportunity for all. Tax subsidies for homeownership, for instance, in theory aim at opportunity through growth in home equity but turn out to provide no subsidy to low-income households and only small subsidy to those in low tax brackets.

It is important to stress that the choice to lean in the direction of programs aimed at opportunity for all doesn't mean that other programs aren't worthwhile. It does mean that spending a larger share of **new** dollars on an opportunity focus is viewed as superior to some alternative use.

By the same token, the goal of enhancing economic growth is not enough to define an effort as part of an inclusive agenda of opportunity for all. Research credits, lower tax rates, and direct investment in science and technology also aim to boost growth but may not benefit disadvantaged children as much as early childhood education.

An agenda of opportunity for all distinguishes itself by its emphasis on growth over time in earnings, wealth, and human and social capital while including the disadvantaged. It is not a simple economic growth agenda. Nor is it a simple welfare agenda aimed at equalizing current consumption or income.

In sum, an agenda of opportunity for all distinguishes itself by its emphasis both on **growth over time** in items like earnings, wealth, and human and social capital, and on being **inclusive** of those who are disadvantaged. It is not a simple economic growth agenda that aims to increase GDP or investment without regard for how incentives for growth are distributed. Nor is it a simple welfare agenda aimed at equalizing current consumption or income after transfers and taxes with limited consideration of the effects on growth in the future private wealth, income, human and social capital of those affected.

How to Define an Opportunity Budget in Practical Terms and Measure Its Success

Since we tend to measure increased economic opportunity by command over private resources, we correspondingly need to assess programs more formally both theoretically (in incentives embedded in program design) and empirically (in the behavioral responses to those incentives). That is, what is their impact on earnings, employment, human and social capital, and wealth, and are they designed in ways that include people who are disadvantaged? The opportunity-for-all focus of programs would be assessed with six questions. These questions would be applied across the board to income maintenance, public goods, and opportunity programs.

Testing for Inclusive Opportunity

Does the program promote additional employment and earnings?

Does it add to human capital, through formal educational systems, training, apprenticeships, or learning by doing?

Does it add to wealth, through retirement saving, homeownership, saving accounts, less debt, or small business ownership?

Does it add to social capital, through support structures including the multiple adult involvements so crucial for child development, a reduction in the disincentives to marriage, fewer crimes, and lower dropout rates from school or work?

Does it promote opportunity “in place” by fostering a healthy residential environment, including safe streets, engaging community activities, thriving small business, and ability to move to a healthier environment?

Finally, in all these efforts, is it inclusive?

It is beyond the scope of this paper to assess every government program’s effectiveness, but below are some recommendations for the types of efforts a broad opportunity agenda might entail:

EXPAND AND DEVELOP PROGRAMS DIRECTLY TARGETED AT OPPORTUNITY

On its current path, the budget targets almost no additional spending from the projected growth in revenues toward inclusive opportunity programs aimed at promoting employment, earnings, wealth accumulation, and growth in human and social capital.

Practically speaking, reversing this trend means greater attention to inclusive education and training, job subsidy, and wealth-building strategies. It means relatively greater investments in the young, providing relatively more supports for investment when young, not just higher levels of consumption when older. Here are a few examples.

- The evidence that quality teachers matter a lot seems substantial, but we have made minimal effort across the board to pay for quality teachers, particularly in lower-performing schools (Chetty, Friedman, and Rockoff 2014; Rivkin, Hanushek, and Kain 2005).
- Given the evidence on investment in children in the earliest years (Heckman 2008; Heckman et al. 2010), early childhood education has expanded far too slowly over the years, primarily

because, as shown in figure 1, growing resources have already been committed to other areas throughout the budget. Support for people not bound for college could be significantly expanded through apprenticeships and raising the status of skills training in high school (Lerman 2012, 2013).

- An opportunity agenda would search for the best ways to invest in the young more generally through such efforts as visiting nurse programs during pregnancy and considering some form of individual educational plan that accommodates as best as possible the needs of each child.
- In an opportunity-focused budget, jobs and earnings would be given much higher priority. Many low-wage workers are now excluded from the EITC either because they are not raising children or they marry into a low-income family in ways that reduce work supports (Acs and Maag 2005; Carasso et al. 2008).
- In a world where the average annual spending per household outside public goods is already expanding beyond \$35,000 (counting state and local transfers), it seems sensible that some of this growing budget would be oriented toward job support. Though I am not suggesting that directly providing jobs normally would be an efficient way of achieving this goal, I cannot help but note that even a make-work job at \$10 an hour (roughly \$20,000 full time, full year) now costs significantly less than the individual support provided through other programs.
- Job subsidies at times would be expanded during national recessions and for regions with high unemployment. Unemployment insurance has always been expanded then; why not expand job subsidies such as the EITC as well?
- College students would be given work and service opportunities in lieu of student debt.
- Disability programs would be gradually weaned from their extraordinary use of any earnings as a primary way to deny eligibility (Jacobson et al. 2015).

CONVERT OPPORTUNITY PROGRAMS INTO OPPORTUNITY FOR ALL PROGRAMS

The hundreds of billions of dollars of annual tax subsidies for housing and retirement could be made simultaneously more inclusive and more successful at building up homeownership and retirement saving wealth.

- Home mortgage interest deductions, for instance, at times reduce rather than increase home equity, as people use the proceeds of second loans to finance current consumption. Other housing tax subsidies support second homes or even large McMansions. Meanwhile, a first-

time homebuyer's credit could be extended throughout the population, thus making the system far more inclusive (Harris, Steuerle, and Eng 2013).

- Similarly, current retirement saving subsidies often finance transferring money from taxable to tax-preferred accounts, without favoring new saving. Those most able to garner a subsidy without new net saving are those who already are more wealthy and have saving available to transfer. There are various ways to channel more tax subsidies to low- and moderate-income taxpayers, including a larger retirement-oriented savers credit than the one in current law and placing tighter restrictions on employer-sponsored plans that fail to extend benefits broadly to most employees (Butrica et al. 2014; Perun and Steuerle 2008).

REFORM INCOME MAINTENANCE AND PUBLIC GOODS PROGRAMS TO EMPHASIZE OPPORTUNITY

Some might find it surprising that I propose measuring the impact on opportunity even for programs that do not have opportunity as a primary purpose. However, so much money is spent on these programs that marginal progress on opportunity could have large payoffs. Here are some examples of the reforms that could make these programs more opportunity-oriented:

- Rental subsidies could be designed to offer more opportunities for outright ownership, particularly in areas where the cost of ownership is lower than rental costs.
- Welfare reform could continue to emphasize work opportunities.
- Social Security benefits could be amended to provide greater work incentives—for example, by providing the same level of lifetime benefits at each lifetime earnings level (so progressivity is maintained) but providing higher benefits in later years (e.g., 80s and 90s) when retirees are more likely to report failing health in exchange for lower benefits in years (e.g., late 60s and early 70s) when they usually report excellent or good health. Again, one might be surprised by my including Social Security in this discussion. But as a program, the many additional years of retirement it has induced have added to the number of households with zero earnings and, as a consequence, added significantly to the inequality of earnings across all households (CBO 2014b) while granting the greatest increases in benefits to those with the highest incomes.
- Reducing the growth rate in the cost of health care would very likely reduce the negative employment effect that CBO has associated with the expansion of government-provided health benefits (CBO 2014a). It could also help increase cash earnings of many workers,

particularly those for whom ever larger shares of compensation come as expensive health insurance as opposed to cash.

- Many policies, of course, are unique to communities and other places. An opportunity agenda includes such possibilities as attractive recreational and other community facilities that keep people safe and occupied fruitfully, a greater share of policing allowed to members of the community rather than outsiders, and property tax relief for buildings that are well maintained. Housing rental subsidies would be reformed to better allow for the geographical mobility they in theory allow, but in practice accomplish only weakly.
- Even defense spending can be made more opportunity oriented. The Army, Navy, Air Force, and Marines spend huge amounts on training and could be encouraged to train better and offer better apprenticeships to those leaving the armed forces for civilian jobs, perhaps by making the branches compete for which succeeds best at that task.

Let me be clear particularly regarding income maintenance programs. None of these efforts need detract the programs from their other purposes. Take progressivity. Through other simultaneous efforts—for example, tweaking the eligibility formula for rental subsidies, providing minimum benefits in Social Security, and using acute health cost saving to progressively fund other efforts including preventive care—income maintenance programs could be reformed to both better promote opportunity and maintain or increase the share of public benefits for the disadvantaged. The findings from a recent well-cited study, for instance, suggest that the mortality gap between higher- and lower-income people might be better addressed by reducing spatial segregation among income classes than by spending additional money on health insurance (Chetty et al. 2016). Just as one can walk and chew gum at the same time, reforms often can add to private earnings and wealth and life expectancy relative to current law while maintaining or strengthening other goals. In any case, we should formally test these programs for their impact on opportunity. For instance, Social Security reform is inevitable at some point. Shouldn't we want to know how different reforms in the nation's largest government program would shape earnings, since a reform that led to higher earnings would increase the revenues available to the program at whatever positive tax rate that was eventually decided for funding the program?

A Forward-Looking Opportunity Agenda

In this last section, I address two items, both from an historical perspective: why movement toward an opportunity budget operates more like many traditional shifts in our budget, where past agendas aren't so much abandoned as new agendas capture a larger share of the new resources provided by an expanding economy; and why this particular shift makes sense now almost no matter how one feels about the past success of government programs.

Why Other Programs Need Not Be Pared

Emphasizing opportunity in future budgets does not require a reduction in what is spent on other priorities, whether in public goods or guaranteeing minimum levels of consumption through income maintenance programs. As long as economic growth, which itself depends partly on policy, provides additional resources, reallocating those additional resources does not require taking away real resources from the amount devoted to any particular endeavor.

The confusion on this point derives partly from the conversion over time of a budget where spending was largely discretionary to one where elected officials predetermined the direction of future government by either building growth into many mandatory programs (permanent spending and tax programs generally requiring no new appropriations) or giving away money on the tax side by shifting current bills onto future generations (Steuerle 2014). In the traditional discretionary budget, revenue grew with the economy but spending grew mainly through new appropriations, so many choices were open to policymakers. In particular, significant portions of any future budget had yet to be decided, even if that budget maintained past levels of real spending in most or all programs.

Historically, for instance, the budget for direct supports grew considerably in the first three decades after World War II partly because defense's share of revenues often declined even when real spending on defense did not. Similarly, the movement from Aid to Families with Dependent Children (AFDC) to the EITC came about largely through choices about how to spend additional revenues, not cuts in real spending levels in AFDC. More recently, Temporary Assistance for Needy Families, the replacement for AFDC enacted in 1996, hasn't been adjusted even for inflation, leading to real declines in that program. Here as well, however, real spending has been maintained through expansions in work supports and Supplemental Security Income (CBO 2015).

Yet, once policymakers compete to control the future by preallocating where growing revenues are spent, or cutting taxes in a way that raises future interest costs, the resulting decline in discretionary spending makes it appear to succeeding electorates as if they live in a time of austerity. In fact, significant growth in spending and tax subsidies still occurs: it's just been preordained unless and until elected officials override those decisions in favor of new priorities.

Why Now?

That new priorities can be set with new additional resources doesn't mean they should. Yet a certain historical logic helps explain why opportunity programs should receive higher priority for how gains in revenues should be spent in the 21st century, given the base of public goods and income maintenance programs already established.

Outside perhaps of education, “public” goods such as defense, justice, and highways received priority over most of civilization as governments were established and grew, even well into the 20th century. These public goods provided public order, the infrastructure for a safe environment in which to live and work, protection of individual rights including that of ownership, and promotion of commerce. At the same time, such programs tended to focus less on individuals, or on attention to those left behind, and more on general growth for the nation. Once that base was established, the federal government (particularly in the last century) began shifting larger shares of GDP and the budget toward other priorities that here I define broadly as direct supports for individual and community well-being.

Direct support programs turned largely, though not exclusively, at providing income maintenance and reducing poverty levels. Programs centered on providing some minimum levels of consumption and a base of nutrition, clothing, health care, and housing. The primary design was to *backfill* income shortages so people would be brought up to some standard. As a result, these programs often measured their success by whether redistribution of income available for current consumption attained some minimum or partially maintained living standard, not primarily, if at all, by future growth in earnings, employment, wealth, or human or social capital. As shown in table 1, there were exceptions, but that is not where most of the growth was directed.

As a related consequence, an individual could often increase the likelihood and level of net benefit received (benefits less taxes) by working and saving less. For instance, many of these programs used means tests that limited eligibility when earnings and wealth grew, though the magnitude of the behavioral response—how much those tests actually reduced work or savings—has been widely

debated and varies by program. Such disincentives often grew as the number of such programs and amount spent grew. As spending on the elderly and near-elderly grew, for instance, it reduced earnings and private wealth by inducing workers to retire, and earn and save less, for 12 more years than they did in 1940, when Social Security benefits were first paid.⁵

Carried out into the future, it's not that particular generations are ignored. Take millennials: while little budgetary growth is aimed at them while young, they are scheduled to receive many benefits when they retire (Steuerle and Quakenbush 2015). Few would define that budgetary trend as an opportunity agenda for the young and middle-aged, as their student loans increase, educational and other support for raising their own children wanes, and wage subsidies decline relative to income in the economy.

None of this means that other uses of government funds, such as for public goods and income maintenance programs, haven't achieved many worthy purposes, such as preventing major wars and reducing poverty among the elderly. None means that some or many of these programs shouldn't be maintained at current levels or even increased. Instead, the case for moving forward to a 21st century opportunity agenda rests partly on the success and progress these programs have already attained in establishing a stable order and minimum consumption standards (as measured by redistribution of retirement income, health care, food, and unemployment support) for many Americans.

Given the base of income maintenance and public goods programs, where should we spend the additional revenue dollars provided by economic growth as we move through the early decades of this century? At least two pieces of evidence, one theoretical and one empirical, point against simply doing more of the same things and for devoting a much larger share toward an opportunity-for-all agenda.

First, as income maintenance programs expand by doing more of the same, the marginal gains theoretically fall. Thus, increasing a food budget beyond affordable vegetables, staples, and protein sources toward higher-end foods provides fewer marginal benefits than the first dollars of support needed for a healthy lifestyle. Likewise, providing the average millennial couple \$2 million in lifetime Social Security and Medicare benefits instead of \$1 million for the average baby boomer couple retiring today does not provide the same marginal benefits to the elderly population as did bringing them out of poverty or near-poverty to the levels they have achieved today. Closely related, more years of retirement support might be nice, but the longer living partner in an average couple now is eligible for benefits for about 27 years, with most retirees saying they are in excellent or good health much of that time. Likewise, giving people access to surgeons paid \$400,000 a year instead of \$300,000 may improve people's health care slightly by attracting talent away from other industries, but it certainly provides less gain per additional dollar than giving access to surgeons in the first place.

In effect, as federal direct supports, consisting of both income maintenance and opportunity programs, have increased to about \$25,000 per household (closer to \$35,000 if we add in state and local spending), compared with about \$13,000 at the start of the Reagan administration, the marginal gains for providing higher levels of consumption have declined. Outlays for direct supports will likely double again within a few decades, even assuming lower economic growth rates. Whether that growth occurs faster or slower under one political party than another doesn't affect one basic conclusion: because of its focus on additions to human, financial, and real capita, shifting a larger share of additional resources toward an opportunity-for-all agenda likely could both reduce wealth and earnings inequalities and promote growth over time.

Second, unlike during the early decades of expansion, the recent increase in direct supports has not led to greater equality of private earnings and wealth and has only modestly affected the share of the population in poverty or near-poverty. Indeed, the amount spent per household is far above a poverty-level income for all American households. Part of my thesis here is that those who both extol and deprecate the size of the direct supports budget ignore the lack of attention to opportunity *within* direct supports, paying limited attention to what it can and cannot achieve long term. In many cases, the direct supports budget has clearly led to reduced equality in measures of earnings and wealth, even when it did provide greater equality of current consumption.

Because of its focus on additions to human, financial and real capital, shifting a larger share of additional resources toward an agenda of opportunity for all would likely do much more to both reduce wealth and earnings inequalities and promote growth over time.

When looking at inequality in earnings or wealth, we often narrow our attention to top of the income distribution (say, the top 1 percent). Although large gains at the top of the income distribution are clearly a major factor affecting the distribution of earnings and wealth, we cannot ignore the impact of other factors, including the following five.

1. The growth in debt in middle-income classes, such as in second mortgages used to finance consumption rather than additional housing, has added to wealth inequality.

2. Because the cost of health care has absorbed about one-third of per person income growth in recent decades, the inequality of cash earnings has grown more than the inequality in total compensation.
3. The very large growth in number of retirement years has led to a much larger portion of the population with zero earnings who draw down rather than build up saving in their 401(k) or other plans.
4. The breakup of the family has added to the amount of income needed per adult to attain some minimum living standard (poverty standards, for instance, suggest that two people living together can live more cheaply than two living apart).
5. The conversion from defined benefit to defined contribution plans is feared by many to lead to a reduction in the protections available to low- and middle-income workers when they retire.

All this is to say that policies affecting these developments are important no matter what is happening to the share of income earned at the very top.

Also, remember that a very large share of the opportunity budget falls within the tax system and fails to be inclusive and provide opportunity for all. Hundreds of billions of dollars a year are spent on housing and pension subsidies that largely exclude low-income and many middle-income families. Unlike other parts of the opportunity budget scheduled for stagnation or decline, these subsidies are scheduled to grow significantly without Congress ever deciding where that growth can best be spent. Using the added resources to make these tax-based opportunity programs more inclusive would convert them to programs enhancing opportunity for all.

Conclusion: Exciting yet Daunting Challenges

I don't expect everyone to agree with the entire agenda laid out here, nor do I claim that I have more than scratched the surface in this broad view of the budget. But I do challenge anyone expounding an inclusive opportunity agenda to say exactly what should be done not just in this program or that program but within a budget now expanding well beyond a current level of \$60,000 per household in combined federal, state, and local spending and tax subsidies of all types. Budget decisions don't wait: one way or another the budget pie will be allocated—if not toward opportunity-oriented programs, then toward something else.

The areas of suggested program change above are not meant to be exhaustive, but they are suggestive that in an economy approaching \$20 trillion in income and output and a federal budget

already in excess of \$5 trillion in spending and tax subsidies, promoting opportunity through small-ball reform will not offset trends already moving hundreds of billions of additional programmatic dollars in other directions.

To be clear, this situation increases the demand for solid analysis, research, and thinking on all sorts of program and subprogram areas throughout the budget. The resources of the government will be allocated one way or the other, to one form of spending or tax subsidy or tax cut or saving or the other.

In an economy approaching \$20 trillion in income and output and a federal budget of around \$5 trillion in spending and tax subsidies, promoting opportunity through small-ball reform will not offset the trends already moving hundreds of billions of programmatic dollars in the opposite direction.

When it comes to resetting national priorities, a 21st century opportunity agenda requires hard work to figure out which programs work, how benefits relate to costs, and which margins offer the most promise for progress. Students can be encouraged to learn, but some will not respond. People can be encouraged to save for retirement but then withdraw those savings earlier. Homeowners often spend down rather than build up their equity, especially when a badly designed incentive structure encourages higher debt and, thereby, reduced equity.

Unlike income maintenance programs, which typically measure their success by the immediate consumption made possible by the transfer, opportunity programs measure success by more permanent progress in higher market earnings, wealth, educational attainment, and the quality of the surrounding environment. Some public housing, for instance, might be considered successful if assessed by the amount of consumption provided, but it might stack up poorly compared to other options if assessed by its impact on earnings or neighborhood environment.

An inclusive opportunity agenda is a difficult agenda. It promises no easy answers. Nonetheless, it is the right agenda for those concerned about both opportunity and greater equality in earnings and wealth. It is neither liberal nor conservative, as it fits in well with both smaller and larger government as a share of an expanding economy. It also promotes growth, which can provide more private and public resources for individuals and the nation.

Only by defining what opportunity for all means, laying down markers with which to assess programs by their impact on opportunity, then shifting the direction of future program growth can we hope to create a budget that promotes opportunity for all. That leaders in both political parties increasingly espouse the ideal of opportunity for all, while searching for a 21st century agenda, makes the prospect for converting rhetoric to action uniquely propitious at this stage in our nation's development.

Notes

1. 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 and adds up the real value of spending that would occur over those years. Spending includes tax subsidies such as those for housing.
2. These definitions are closely associated but do not always match up with definitions used in other studies. Particularly, tax subsidies are included in the budget (though not the direct spending) categories, and education is included in the opportunity and direct supports classifications rather than as a public good.
3. Perhaps the most difficult category to allocate is health care. In general, we have put health care for children and youth as opportunity based, and those for mainly for retirees as income maintenance, since they mainly provide minimum levels of consumption and discourage earning and saving by encouraging earlier retirement. With adult health care, the issue is more complex; we have classified supports that grow when one earns more as opportunity, and those that penalize work by phasing out when one earns more as income maintenance. This particular allocation does not affect our general conclusions. And, obviously, many issues are cross cutting, such as how health cost growth adds to the inequality of cash earnings.
4. In its February 2014 *Budget and Economic Outlook*, CBO estimated that on net the Affordable Care Act would reduce the number of hours worked by 1.5 to 2.0 percent between 2017 and 2024, equal to 2.5 million fewer full-time-equivalent workers in the economy by 2024. This estimate assumed the law would be fully implemented as written in 2014—before the delay and repeal of politically unpopular taxes in later legislation.
5. The average retirement age in 1940 and 1950 was 68. Today a 76-year-old has the same life expectancy as a 68-year-old in 1940, yet the 76-year-old retires at age 64.

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