



Statement before the Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Economic Policy
Hearing on Economic Mobility

Enhancing Upward Mobility

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Chairman Cotton, Ranking Member Cortez Masto, and distinguished members of the Economic Policy Subcommittee of the Senate Committee on Banking, thank you for convening this hearing on “Economic Mobility: Is the American Dream in Crisis?” I am a visiting fellow at the American Enterprise Institute, a fellow at the National Review Institute, a senior editor at *National Review*, and a columnist for *Bloomberg Opinion*. This testimony reflects my own views and not those of any organization with which I am affiliated. It is an honor to be testifying before you.

Our topic today, economic mobility, has been central to America’s self-conception and so it is fitting that legislators should examine its condition today and what can be done to improve it. While we rightly prize relative mobility—the chance to move over the course of a lifetime from the poorest to the richest segment of society, which implies the chance to move in the opposite direction—our main concern is and should be absolute mobility. We want and should want the bulk of our population to be able to perform rewarding work, to have the wherewithal to raise a family, and to enjoy rising living standards over time.

There is a widespread sense that this kind of economic progress is a thing of the past. Today I wish to make four main points about economic mobility.

Our recent record on mobility has been poor.

There has been less mobility in recent decades – but it is important to get the timeline correct in order to draw the right lessons from it.

It is often claimed, for example, that the average wage, adjusted for inflation, has fallen over the last fifty years. The Pew Research Center suggests that this figure peaked in 1973.¹ But widely-repeated claims of this nature turn out, thankfully, to be misleading, for two main reasons.

First, wage figures ignore non-wage compensation, which has been a rising share of compensation over time.² While it may be argued that government policies should change in ways that would encourage a shift in that mix back toward wage compensation, that’s a different

¹ DeSilver, Drew. "For Most Americans, Real Wages Have Barely Budged for Decades." Pew Research Center. August 07, 2018. Accessed July 13, 2019. <https://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/>.

² See, e.g., Appelbaum, Binyamin. "One Reason for Slow Wage Growth? More Benefits." *The New York Times*. September 25, 2018. Accessed July 13, 2019. <https://www.nytimes.com/2018/09/25/us/politics/wage-growth-benefits.html>.

question from the one we would face if total compensation had been stagnant or falling for more than four decades.

Second, the estimate of falling wage compensation is itself based on a faulty method of adjusting for inflation. Pew, for example, uses the Consumer Price Index – and specifically a measure called CPI-U. It overestimated housing inflation before 1983. Before 1999, it did not account for the way consumers blunt the impact of inflation by changing their behavior, and it still does not fully account for it. Using the PCE deflator to estimate inflation over time avoids these problems.³ Over time the difference is large: It turns out that the average wage rose 21 percent from 1973 through 2018 rather than falling.⁴ Average compensation must have risen even more. One could certainly wish that the increase had been even larger, but this is not a picture of decline or stagnation.

Median family income over this stretch of decades has also grown. The family in the middle of the income spectrum in 2015 made 45 percent more than its counterpart in 1970, again using the PCE deflator.⁵ That gain of course reflects not only rising wages but increased labor-force participation by women.

The point of providing this reassuring data is not to deny that our country has any problems with respect to absolute economic mobility. It is to identify the problems we have more precisely. The data are not uniformly positive. The median family income of 2014 was actually lower, in inflation-adjusted terms, than it was in 2000. It had risen by 11 percent from 1970 to 1985, and by another 24 percent from 1985 to 2000.

The American mobility machine has stalled out for much of this century. The trends over the last few years have, on the other hand, been pretty good, and could get better if this expansion continues.

Effective counter-cyclical policy is crucial for economic mobility.

The poor performance of household income for much of the last two decades had a lot to do with the sharp recession that began in December 2007 and the agonizingly slow recovery from it. Median family income dropped more than 7 percent from 2007 through 2011, the sharpest decline since this data series started in 1953. It did not recover completely until 2015.

When thinking about increasing absolute upward mobility, then, it is vital to consider whether our anti-recession policies are sufficiently effective. This is especially the case because the effects of recessions linger. The lost output and time in the workforce is never fully regained, and

³ For more on this, see Winship, Scott. "Debunking Disagreement Over Cost-Of-Living Adjustment." *Forbes*. June 15, 2015. Accessed July 13, 2019. <https://www.forbes.com/sites/scottwinship/2015/06/15/debunking-disagreement-over-cost-of-living-adjustment/>.

⁴ Author's calculation using data available at fred.stlouisfed.org.

⁵ *Ibid.*

people who begin their working lives during recessions have lower lifetime incomes as a result of that timing.

In the U.S., the Federal Reserve has primary responsibility for counter-cyclical policy. It is frequently asserted that it acquitted itself well in the response to the Great Recession. That it avoided some of the worst mistakes central banks can make is beyond dispute. But there is no reason for complacency about its record. The institution's first move after the collapse of Lehman Brothers was a contractionary one: beginning the policy of paying banks interest on excess reserves, which has depressed lending and reduced the effect of the stimulative policies that it adopted thereafter.

The Federal Reserve has consistently undershot its inflation target over the last decade and even pursued a course of interest-rate increases while undershooting it. Whether the institution will be effective in fighting the next recession, given the limited room to cut interest rates, is also in question. The Federal Reserve should give serious consideration to whether its current approach biases it toward excessively tight monetary policy, making recessions more severe and recoveries weaker than they could be and thereby suppressing growth in employment and incomes.⁶

Mobility requires higher economic growth.

But cyclical factors are not the only reason for the disappointing performance of most of the last two decades. Even before the great recession, economic growth was slower than it had been during past expansions. It was the combination of slow growth and sharp recession that made the overall economic record of 2000 to 2014 so frustrating for most Americans.

Economic growth isn't everything, but it is a prerequisite for broad-based prosperity. Reforms that would raise the rate of economic growth over the long run should therefore be a high priority.

While there is no silver-bullet solution to raising economic growth, some policy changes hold promise. One would be to continue to reform the tax code to reward investment in the U.S. A particular priority should be a permanent provision allowing businesses to write off investments immediately while scaling back the deductibility of debt.

Another promising idea would re-orient our immigration system to the recruitment of individuals with economically useful skills rather than to the reunification of extended families. This shift would be conducive to opportunity, possibly in two ways. It would raise average productivity, and it might help to boost wages at the low end of the labor market. There is some, albeit disputed, evidence that low-skilled immigration has reduced the wages of high-school dropouts - some of whom, it should be noted, are themselves immigrants. It might be that relatively low-

⁶ I have written a short article on this topic recently. Ponnuru, Ramesh. "Better Inflation Targets Will Help in the Next Recession." Bloomberg Opinion. April 23, 2019. Accessed July 13, 2019. <https://www.bloomberg.com/opinion/articles/2019-04-23/better-inflation-targets-will-help-in-the-next-recession>.

skilled immigrants would find more opportunity for upward movement in the U.S. if there were fewer of them.

Geographic mobility enables economic mobility.

A common way that Americans have historically bettered their lot is by picking up and moving from places with few opportunities to ones that are thriving. But they have been doing a lot less of that in recent years. Interstate migration rates have been falling since 1980.⁷ While the reasons for this change are not well understood, one might expect—and some evidence suggests—that it has reduced wage growth, productivity, and employment rates, and at the same time increased the duration of spells of unemployment and the variation in income among regions of the country.

Public policy has likely contributed to the reduction in geographic mobility in multiple ways. Restrictive zoning laws in many jurisdictions, especially ones with rapid economic growth, have made housing expensive and thus reduced the ability of Americans in slower-growing regions to move there. A relaxation of these rules would conversely be expected to expand opportunity. But since many of the economic gains would be reaped by people who are not currently voting within those jurisdictions, while those who already reside there might see their property values decline, the political obstacles to local action are formidable.

The expansion of occupational licensure by state governments also works against mobility. In the 1950s, 5 percent of workers held jobs requiring a government license; by 2008 that figure had risen to 29 percent. Licensuring can suppress economic mobility within particular communities by making it more difficult for people to begin working in the field of their choice, and it can also limit mobility among communities as relocating in a new state may require the acquisition of a new license in order to work. Licensuring has been estimated to reduce interstate migration by as much as 20 percent.⁸ Those who already possess licenses are, however, motivated to resist liberalization.

Many of our government benefit programs—including programs that help with housing, child care, job training, and groceries—are operated by states and localities and vary from one jurisdiction to the next. Moving can mean re-applying for benefits via unfamiliar enrollment processes. Here the path to better policy is both politically and conceptually thorny, since the problem arises from the way our government's federalist structure has evolved.

The federal government may be able to exert a positive or at least counteracting influence in some of these areas. My American Enterprise Institute colleague Michael Strain has suggested that several months of unemployment benefits be made available in a lump sum to aid relocation

⁷ Molloy, Raven, Smith, Christopher L., Wozniak, and Abigail K. "Declining Migration within the U.S.: The Role of the Labor Market." NBER. April 17, 2014. Accessed July 13, 2019. <https://www.nber.org/papers/w20065>.

⁸ Johnson, Janna E., and Kleiner, Morris M. "Is Occupational Licensuring a Barrier to Interstate Migration?" NBER. December 2017. Accessed July 13, 2019. <https://www.nber.org/papers/w24107.pdf>.

for people seeking greener pastures.⁹ But even national attention to the mobility problem may spur beneficial steps in some places.

As this brief discussion of mobility suggests, increasing it is a multifaceted challenge. It would require sustained attention to multiple policy areas, some of them federal, some of them state and local, where obstacles to mobility have grown without notice. But if the work is difficult the potential rewards are substantial, and worth the seeking.

My thanks, again, to the committee for the invitation to speak.

⁹ Strain, Michael. "A Jobs Agenda for the Right." *National Affairs*. Winter 2014. Accessed July 13, 2019. <https://www.nationalaffairs.com/publications/detail/a-jobs-agenda-for-the-right>.