

Affordable Housing as a Pathway to Economic Opportunity

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Chairwoman Waters, Ranking Member McHenry, and members of the Committee: Thank you for the invitation to discuss the importance of affordable housing to economic mobility. I appreciate the opportunity to testify today.

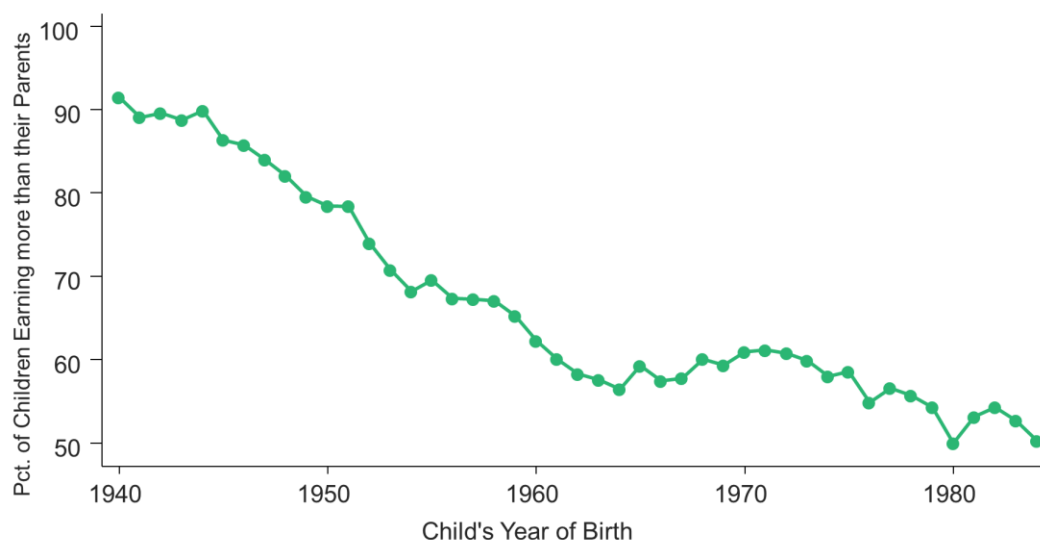
Providing affordable housing in opportunity-rich neighborhoods can be a powerful lever for increasing upward economic mobility and breaking the cycle of intergenerational poverty. The data are unequivocal: neighborhoods matter. From one's future earnings, to their likelihood of attending college or becoming incarcerated to their health outcomes, neighborhoods play a key role in shaping children's life trajectories. Unequal access to neighborhoods that provide opportunities for success amplify the stark racial and income disparities that are prevalent in America today. As I describe in the testimony that follows, increasing our supply of and improving families' access to affordable housing in high-opportunity areas through federal support can help close these gaps and increase upward mobility, giving more children access to the American Dream.

Introduction

The United States is often hailed as a “land of opportunity,” a place where a child's chances of success depend little on their family background. Indeed, for children born in the 1940s upward mobility was a virtual guarantee: over 90 percent went on to earn more than their parents did at the same age. Over time, however, there has been a dramatic fading of the American Dream such that only 50 percent of children born in the 1980s, who are in their mid-30s today, earn more than their parents.

The Fading American Dream

Percent of Children Earning More than Their Parents, by Year of Birth



Source: Chetty, Grusky, Hell, Hendren, Manduca, Narang (Science 2017)

There are many factors playing into this trend and no one policy reform will fully reverse it. However, one key area that research has identified as being central in determining upward mobility is access to a neighborhood that has the resources – from good schools to social capital – to support upward mobility. In this testimony, I will draw on extensive research to show how our current affordable housing crisis effectively denies many low-income children access to neighborhoods that are crucial to their long-term success and how well-designed federal support for affordable housing can play a significant role in increasing upward mobility across the United States. I organize my testimony into three parts: (1) showing why neighborhoods matter for upward mobility; (2) discussing why many low-income families currently lack access to affordable housing in opportunity-rich areas; and (3) discussing policy and program changes that could help address the problem.

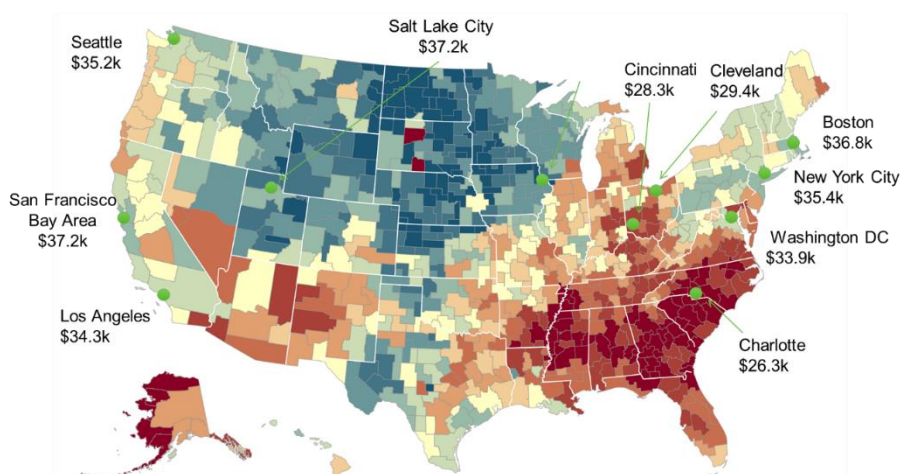
Part 1: Neighborhoods Matter for Children’s Long-Term Outcomes

Children’s Outcomes Vary Substantially Across Places

Children’s chances of achieving the American Dream of upward mobility vary widely across areas in the U.S. In some parts of the U.S., low-income children still have a high probability of growing up to join the middle class. The map below shows the average income in adulthood for children born in low-income families from each of the country’s 741 metro and rural areas. In much of the Great Plains and along each coast, children whose parents earned roughly \$25,000, on average, achieve substantial levels of upward mobility across generations. In Salt Lake City, for example, children born in low-income families grow up to earn an average of \$37,200 each year. In other parts of the U.S., however, such as the Southeast and the Industrial Midwest, low-income children tend to remain locked in place across generations.

The Geography of Upward Mobility in the United States

Average Income at Age 35 for Children whose Parents Earned \$27,000 (25th percentile)

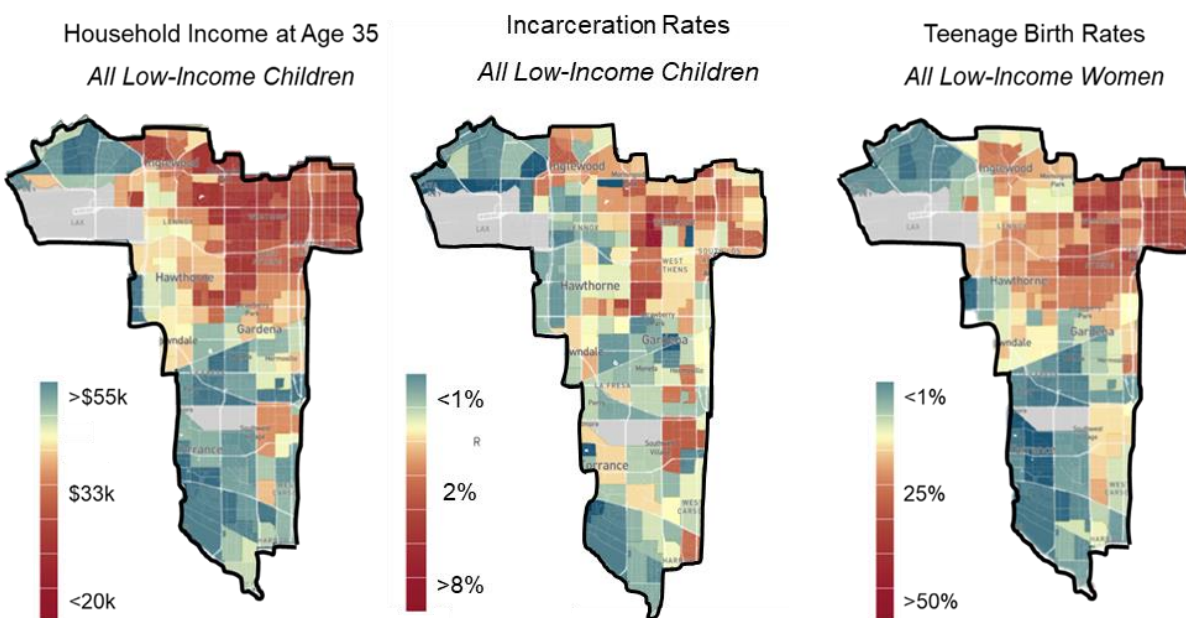


Source: Chetty, Friedman, Hendren, Jones, Porter (2018)

More pertinent to discussions of affordable housing, there is a tremendous amount of variation in levels of upward mobility at the *local* level as well. The maps below illustrate this point by showing a range of outcomes (earnings, incarceration rates, and teenage birth rates) for low-income children who grew up in California’s 43rd congressional district. In some parts of the district, low-income children grow up to earn as much as \$50,000 in adulthood, representing substantial upward mobility across generations. In other areas, however, they grow up to earn as little as \$20,000 on average each year. We observe similar differences across other outcomes, with stark disparities in incarceration rates for low-income Black men and teenage birth rates for low-income women. Outcomes in other cities and towns in the United States follow similar patterns (which can be

viewed in the Opportunity Atlas at www.opportunityatlas.org), with children growing up within a few miles of one another experiencing vastly different life trajectories.

Neighborhood-Level Variation in Children's Life Trajectories:
Census-Tract Level Data from California's 43rd Congressional District



Source: Chetty, Friedman, Hendren, Jones, Porter (2018)

Neighborhoods Have Causal Effects on Children's Outcomes

To better understand the drivers of the types of disparities documented above, the U.S. Department of Housing and Urban Development designed an experiment aimed at testing whether providing low-income families assistance in moving to better neighborhoods could improve their economic and health outcomes. As part of the Moving to Opportunity (MTO) experiment, 4,600 families living in high-poverty public housing projects across five large US cities were randomly assigned to one of three groups: an experimental voucher group that was offered a subsidized housing voucher that came with a requirement to move to a census tract with a poverty rate below 10%, a Section 8 voucher group that was offered a standard housing voucher with no additional contingencies, and a control group that was not offered a voucher (but retained access to public housing).

By linking information on families who moved as part of MTO to tax records showing their earnings many years later, we find that there were significant earnings impacts for the *children* whose parents were assigned to the experimental voucher group and moved to a low-poverty neighborhood. Children who moved to low-poverty areas before age 13 experienced earnings

increases of 31%, on average. These gains were consistent across all five experimental sites, and for white, Black, and Hispanic children, as well as for boys and girls.¹

The fact that neighborhoods have such substantial causal effects on children's outcomes indicates a tremendous capacity to increase upward mobility by providing low-income children with access to housing in high-opportunity neighborhoods. Our estimates imply that moving a child out of public housing to a low-poverty area when young (at age 8 on average) using a subsidized voucher like the MTO experimental voucher would increase the child's total lifetime earnings by about \$302,000. This is equivalent to a gain of \$99,000 per child moved in present value at age 8, discounting future earnings at a 3% interest rate.²

In addition to these economic impacts, we also find that moving to a lower-poverty neighborhood significantly improves college attendance rates among children who were young (below age 13) when their families moved. These children also tend to live in better neighborhoods themselves as adults and are less likely to become single parents.³ They also have significantly better health outcomes as adults, with lower rates of hospitalization and health care needs.⁴ In addition, researchers have documented a range of positive health impacts for the *adults* who moved as part of MTO. Adults who moved to lower-poverty neighborhoods were less likely to suffer from extreme obesity, diabetes, and physical limitations (such as difficulty climbing stairs or carrying groceries),⁵ and experienced lower levels of psychological distress and depression.⁶

Numerous studies have now replicated the findings of the Moving to Opportunity experimental study using other quasi-experimental methods, data from other countries, and other types of policy changes. The neighborhoods that exhibit the highest rates of upward mobility exhibit a shared set of characteristics: they have lower poverty rates, strong schools, larger rates of two-parent households, and higher levels of social capital. In short, there is a clear consensus in the social sciences that neighborhoods are a key factor that shapes life outcomes.⁷

Neighborhoods Also Shape Racial Disparities

In addition to differences in upward mobility across places, we also observe stark disparities between different racial and ethnic groups in the United States. The figure below plots the expected income rank in adulthood for Black and white boys with parents from each income percentile, from 1 to 100. There are large gaps in upward mobility across the income distribution. (By contrast, we find that Black and white women born in families with similar earnings levels experience comparable levels of upward mobility.) These disparities exist in virtually all regions and neighborhoods, with Black boys experiencing lower rates of upward mobility than white boys in 99 percent of census tracts in the United States.⁸

¹ Chetty, Hendren, Katz (2015)

² Chetty, Hendren, Katz (2015)

³ Chetty, Hendren, Katz (2015)

⁴ Pollack et al. (2019)

⁵ Ludwig et al. (2011)

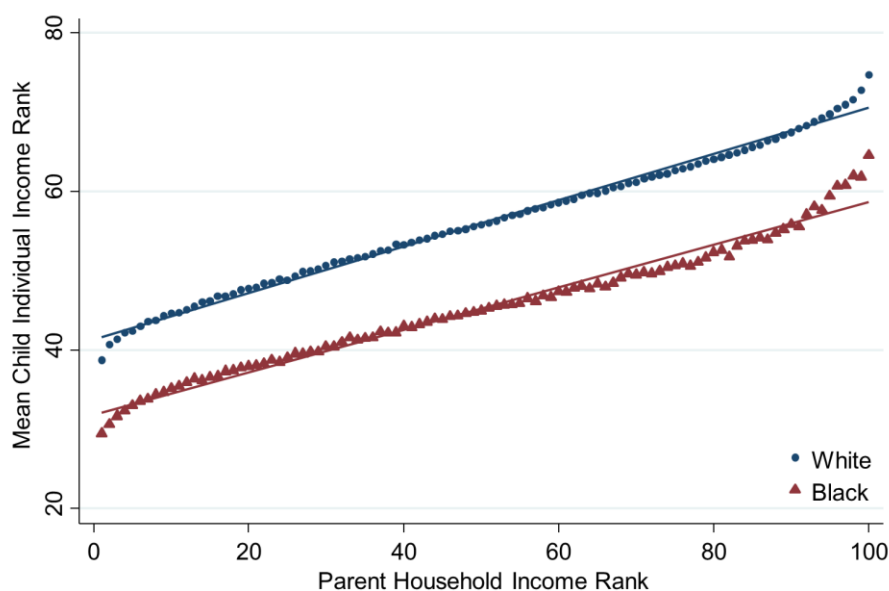
⁶ Sanbonmatsu et al. (2012)

⁷ Chyn and Katz (2021); Chetty and Hendren (2017); Deutscher (2020)

⁸ Chetty, Hendren, Jones, Porter (2020)

Black-White Gap in Child Individual Income Rank vs. Parent Income Rank

Male Children



Source: Chetty, Hendren, Jones, Porter (2020)

Neighborhoods again play an important role in shaping such racial disparities. Black men who move to areas associated with better outcomes for Black men – such as those with low poverty rates, low racial bias, and higher father presence – earlier in their childhood have higher incomes and lower rates of incarceration as adults. The challenge is that very few Black children currently grow up in environments that foster upward mobility. Fewer than five percent of Black children currently grow up in areas with a poverty rate below ten percent and more than half of Black fathers present. In contrast, 63 percent of white children grow up in areas with analogous conditions. Hence, improving access to high-opportunity neighborhoods is crucial to reducing racial disparities in the United States. The key question is how we give everyone access to such “opportunity-rich” neighborhoods – regardless of their parental income, their race, or their ethnicity.

Part 2: Access to Housing in Opportunity-Rich Areas is Severely Constrained

The United States faces an affordable housing crisis. There is not a single county in the country in which a minimum-wage earner can comfortably afford a two-bedroom rental.⁹ Since the

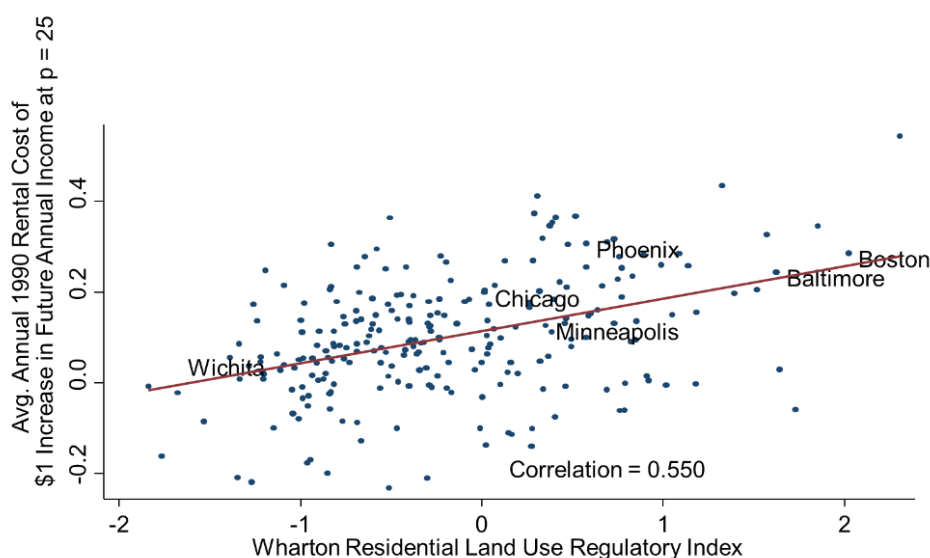
⁹ National Low Income Housing Coalition (2020)

collapse of the housing market in 2008, demand for housing has consistently outpaced supply, and the majority of poor renting families currently spend half their income or more on housing.¹⁰

This affordable housing crisis is especially concerning in light of the importance of neighborhoods for upward mobility. Low- and even middle-income families are effectively barred from accessing the opportunity-rich neighborhoods described above. The core challenge is that the neighborhoods that offer the best chances for upward mobility are often more expensive, effectively making high-opportunity neighborhoods inaccessible to the very same families who would stand to benefit most from the resources that they offer.

Across all metro areas in the U.S., the average “price of opportunity” is \$0.19 – that is, “buying” a \$1,000 increase in future annual income for children costs an additional \$190 in annual rent for each year of their childhood. In many parts of the country, high-opportunity neighborhoods are even more expensive. To take one example, in Washington, DC the average low-income family would need to pay an additional \$375 in rent annually to afford an expected annual earnings increase of \$1,000 for their child.¹¹

Relationship Between Land Regulation and the Price of Opportunity



Source: Chetty, Friedman, Hendren, Jones, Porter (2018)

What kinds of places have a steeper price of opportunity? One key predictor is the extent of land-use regulations. As shown in the figure below, there is a strong positive relationship between the level of land use regulations in a given metro area and the “price of opportunity” in that area. In

¹⁰ Einstein, Katherine Levin, David M. Glick, and Maxwell Palmer (2019)

¹¹ Chetty, Friedman, Hendren, Jones, Porter (2018)

lightly regulated cities, such as Wichita, KS, the price of predicted outcomes is just \$0.05 in annual rent for a \$1 increase in future annual income; in highly regulated cities, such as Boston, MA, or Baltimore, MD, the price is five times higher, at approximately \$0.26.¹² This finding suggests that local restrictions in *housing supply* are a key barrier that may hamper access to opportunity and thereby inhibit upward income mobility.

Federal aid can play a major role in addressing these challenges and making opportunity more accessible to all. Indeed, many programs already exist that have precisely this aim. But these programs are vastly under-funded. At present, only one in four families who are eligible for federal housing assistance actually receive that aid. Meanwhile, 16 million low-income families – including 5.3 million families with children – are left without any federal assistance.¹³

Bolstering affordable housing supply and affordability – through the voucher program, public housing, the Housing Tax Credit, and other policy models – can increase access to housing in high-opportunity areas and thereby increase upward mobility. In addition to providing assistance for lower-income families in renting existing housing, it is also important to provide support for expanding the total supply of housing in order to relieve pressure on prices.

Part 3: Providing Supports Beyond Funding Can Amplify Program Impacts

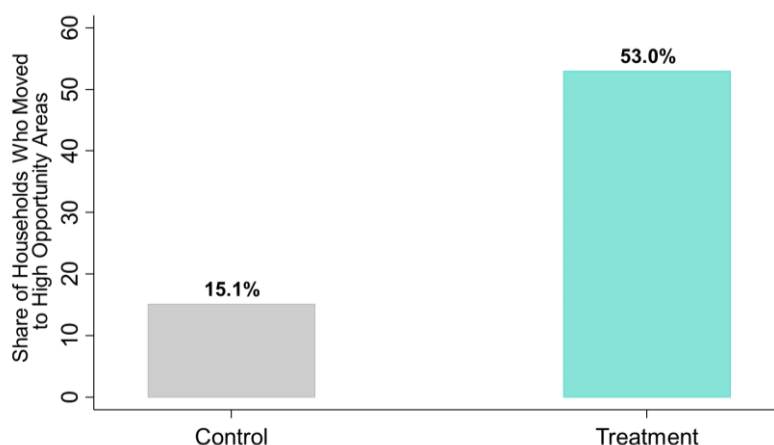
Greater funding for affordable housing – particularly housing that provides access to opportunity-rich neighborhoods – is an important first step for improving long-term outcomes. But lack of funding for government programs is not the sole barrier preventing low-income families from accessing higher opportunity neighborhoods. Even among families who do receive housing vouchers, the majority currently live in lower-opportunity neighborhoods.

In a recent pilot study called Creating Moves to Opportunity (CMTO), we investigated why this is the case. In the CMTO study, the Seattle and King County Housing Authorities provided a randomly selected group of voucher recipients with a range of services aimed at reducing the barriers that might be preventing them from moving to high-upward-mobility neighborhoods. These services included search assistance, landlord engagement, and short-term financial assistance. The impacts were substantial: the CMTO support services increased the number of families who moved to high-opportunity neighborhoods dramatically, as shown in the figure below.

¹² Chetty, Friedman, Hendren, Jones, Porter (2018)

¹³ Center on Budget and Policy Priorities (2021)

Fraction of Families Who Leased Units in High Opportunity Areas



Source: Bergman, Chetty, DeLuca, Hendren, Katz, Palmer (2019)

Based on the data from the Opportunity Atlas, we estimate that children who move to high-opportunity neighborhoods at birth as part of the CMTO program will go on to earn approximately \$214,000 more over their lifetimes than those who were in the control group and did not move to high-opportunity areas despite receiving the same voucher assistance.

We find similarly large effects across key subgroups including racial minorities, immigrant families, and the lowest-income households in our sample, indicating that similar interventions have the potential to help reduce segregation and close mobility gaps along lines of race and income.

To understand the barriers that families face in finding housing and the mechanisms through which CMTO addressed them, we conducted interviews with many of the participants. Families identified five key mechanisms through which the CMTO program helped them move to opportunity: providing emotional support, increasing motivation to move to a high-opportunity neighborhood, streamlining the search process by helping to prepare rental applications and “rental resumes,” providing direct brokerage services and representation with landlords, and providing crucial and timely assistance for auxiliary payments that could prevent a lease from being signed.

This evidence suggests that the CMTO program’s ability to respond to each family’s specific needs and circumstances was critical to the program’s impact. Service utilization was highly heterogeneous across families, with some families relying heavily on search assistance, while others used more financial assistance or took advantage of direct landlord referrals. One participant described the custom support she received from a CMTO Housing Navigator as follows:

“It was this whole flood of relief. It was this whole flood of, “I don’t know how I’m going to do this” and “I don’t know what I’m going to do” and “This isn’t working,” and yeah...I think it was just the supportive nature of having lots of conversations with [my Housing Navigator].” –Jackie

The bottom line from this analysis is that customized search assistance and support represents an important, high-return component of affordable housing policy, above and beyond resources for housing itself. We therefore recommend expanding housing mobility programs that are aimed at helping low-income families with children use Housing Choice Vouchers include resources to support families' search processes and access to high-opportunity neighborhoods. Such support services have a very modest incremental cost but greatly amplify the program's impacts. More broadly, it is critical to make sure to invest in end-line delivery and support for any policy, above and beyond allocating funding for the program itself, in order to maximize impact.

Conclusion: Affordable Housing as a Pathway to Opportunity

Stable housing in high-opportunity neighborhoods can provide a critical foundation for a variety of outcomes such as future earnings, health, and education. Failing to meet our children's basic housing needs serves to worsen already-stark racial and economic disparities and bar generations from growing up and joining the middle class.

Today, we have an unprecedented opportunity to expand access to neighborhoods that research shows are foundational to children's and families' long-term success. Well-designed expansions of the Housing Choice Voucher program, public housing investments, the Housing Tax Credit, and place-based investments could significantly increase housing supply and access to opportunity. Such investments can give all children an opportunity to grow-up in communities that will support their long-term success.

More broadly, to achieve long-term mobility for all children in the United States, we must reduce historic patterns of segregation that have limited access to opportunity-rich neighborhoods, particularly for Black and Hispanic Americans. Equally important, we must also increase opportunity in communities that do not presently see such outcomes. Expanding access to affordable housing can be valuable on both fronts. We must continue to deploy our resources towards increasing options for low- and middle-income families living in areas currently offering high levels of opportunity, and simultaneously to maintain and expand high-quality housing options and community development efforts in areas that currently offer lower levels of opportunity. These strategies will help ensure that all families have a true choice about where to live, reduce the present bifurcation between 'high' and 'low' opportunity areas across the country, and give all children – irrespective of their race, ethnicity, or family income – a chance of achieving the American Dream.

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