

Inequity Threatens Our Future Growth

BY LAWRENCE SUMMERS

Despite our polarized politics, Americans from across the political spectrum share a common creed—that every person should have the opportunity to succeed in life, and that success should depend on one’s talent and hard work, not on being born rich or poor.

But today our commitment to this basic creed is in jeopardy.

For years America has thought of itself as the land of opportunity. But as inequality has widened and the middle class has withered, parents’ earnings and educational attainment increasingly dictate their children’s life prospects, placing children from less privileged backgrounds at an enormous disadvantage. Contrary to our national self-conception, we now have less economic mobility than nearly any country in Europe.

If we are to seriously grapple with this growing opportunity gap, we cannot ignore the role of race. For even as overt and explicit discrimination has

become less common, pernicious racial disparities have persisted. As a result, it continues to be especially hard for people of color to achieve economic security, let alone prosperity.

As explained throughout this book, racial disparities in poverty, employment, and wealth are widening. Take poverty. More than a quarter of blacks, Hispanics, and American Indians and Alaska Natives were living in poverty in 2011, compared to less than 1 in 10 whites. And poverty rates for African American and Hispanic children are 39 percent and 34 percent respectively, compared to 12.5 percent for white children.

Youth unemployment is especially worrisome, because it has the potential to profoundly reduce future earnings and career opportunities. Among Americans ages 16 to 24, the unemployment rate is 16.2 percent, more than double the national average. Yet the rates for some communities of color are even higher—for instance, a shocking 43 percent of black teens and 26 percent of black youths in their early 20s are unable to find work.

America also has a huge racial wealth gap, which grew even larger during the recession. While white household wealth dropped by 16 percent from 2005 to 2009, Asian household wealth dropped by 31 percent, and black and Hispanic households experienced drops of 53 percent and 66 percent, respectively, during the same span.

The gravity of these problems should be evident to anyone who is committed to the basic principles of fairness and opportunity for all. But as an economist, I also worry that these inequities pose a serious threat to our future economic growth. When people of color represented a small minority of the population, their exclusion from the economic mainstream was a profound moral problem, but it had a limited impact on aggregate economic performance. Now as people of color become a majority of the population, the failure to end their economic exclusion means the failure of the American economy.

In an advanced knowledge economy such as ours, economic growth is driven in large part by the human capital of its workers. That means it's critical to cultivate individuals' talents and to match them to jobs that will enable them to make the best use of their skills and abilities. For example, a 2009 McKinsey paper estimated that U.S. GDP would be 2 percent to 4 percent higher if we had closed the achievement gap between black and Latino students and white students during the 1980s and 1990s. The paper observes that these economic consequences will grow even larger as blacks and Latinos come to constitute a greater

share of the population. Another study by economists from the Chicago Booth School of Business and Stanford University found that 16 percent to 20 percent of U.S. economic growth from 1960 to 2008 can be explained by the entry of women and people of color into professional occupations from which they had previously been excluded. The lesson is clear: When a person's talents and abilities are squandered simply because he or she grows up in poverty or can't find a foothold in the labor market, we are all made worse off.



The opportunity gap also threatens to reduce growth by hindering entrepreneurship. We know that new Americans, particularly Latinos and Asians, start new small businesses at extraordinary rates. Yet poor access to financial capital and the loss of wealth in communities of color have made it difficult for many of these businesses to become large-scale endeavors and job creators. And without a wealth cushion, many prudent would-be entrepreneurs may conclude that starting a new venture is simply too risky.

So how can we begin to turn the tide and expand opportunity to more Americans? Our top priority should be to ensure that every young person has access to high-quality education from pre-K all the way up to college and graduate school. To achieve this goal, we must move beyond the sterile debate that pits more resources against more accountability. The fact is that we need to invest more resources while also pursuing reforms that ensure better outcomes.

First, enabling every child to attend high-quality preschool is a no-brainer. Study after study has shown that early education yields huge returns on investment and dramatically improves children's life outcomes, especially for the lowest-income kids. To expand and strengthen state programs, we both need to invest more and also promote stronger quality standards.

Second, given the innumerable ways in which affluent parents can confer advantages on their

children, it is unconscionable that our public education system further exacerbates the opportunity gap by placing our poorest children in our poorest schools. To close the achievement gap, states should consider lengthening the school day and the school year in high-poverty schools, adopt new strategies to attract high-quality teachers, and end the upside-down practice of providing poorer children with fewer educational resources rather than more.

We also need to expand access to higher education. This will require a suite of strategies—greater financial aid, a stronger commitment to recruit and admit applicants from less affluent families, and efforts to ensure that once these students are enrolled, they get the support they need to graduate. In addition, we must build stronger pathways to help students transition into the workforce. And we must reform our student-loan policies to ensure that they don't graduate with an unmanageable debt burden.

Beyond education, greater financial inclusion should also be a priority. One reason that households of color were hit especially hard by the housing crisis is that they had less access to affordable home loans than white families who were comparably credit-worthy. As a result, communities of color were more reliant on costly subprime loans, leading to higher default and foreclosure rates. We need to ensure that all Americans have access to safe and affordable financial products that help them manage their day-to-day lives as well as achieve future goals such as homeownership, sending a child to college, and a secure retirement. This requires not just the right

financial products, but also clear disclosure rules and opportunities to obtain financial counseling.

Of course, there are scores of additional policies that also merit consideration. Immigration reform, for example, would expand opportunities for millions of Latinos. Tax policies could be better targeted to reduce intergenerational wealth transfers and help low-income families get ahead. And we

need to ensure policy is encouraging, not discouraging, family structures that support children over the long term.

Ensuring that every American gets a fair shot in life will not be easy. But I draw hope from the belief that Americans continue to be committed to our core creed of opportunity for all. ■