

2018

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Raj Salhotra

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# GROWING INEQUALITY OF OPPORTUNITY IN TEXAS: CAUSES AND SOLUTIONS

RAJ SALHOTRA\*

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## I. INTRODUCTION

I remember Priscila<sup>1</sup> saying "Mr. S.,<sup>2</sup> my family is so poor that sometimes we don't have enough money for electricity, so I use a candle for homework."

I remember Ernesto explaining that he and his parents were immigrants who did not know English. He believed that people took advantage of his parents and that they had lost money when they tried to get a loan.

I remember Melissa complaining that around her home there were vacant lots where trash often piled up. Alex also noted that whenever people in his neighborhood called the police, they never showed up.

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\* Raj Salhotra is a Harvard Law School Graduate who received his J.D. in 2018. For this project, he would like to thank Professor Sabeel Rahman, who directed his research and provided invaluable support along the way."

1. Throughout this paper, I have changed people's names so as to protect their identities.

2. She was a former student and thus referred to me as Mr. S.

I remember Henry<sup>3</sup> yearning for a father figure as he told me about how his dad was in jail for a minor drug offense. He added that his brother, who did not win the lottery to attend the charter school he did, was part of a gang and had spent time in and out of jail.

As a former teacher, hearing my students' stories left me devastated. Each of these students had real dreams and aspirations, but many of them faced poverty, crime, and lack of social mobility that prevented them from reaching their goals. However, perhaps what is more tragic, is that these stories are merely emblematic of a larger problem in both the United States generally, and Texas specifically.

Within the United States as a whole, the statistics are dismal. Currently, 45 million Americans are mired in poverty<sup>4</sup> with over 21 million children living in poverty.<sup>5</sup> Beyond just poverty, there is vast income inequality, as the top 1% captures more than 20% of the nation's income, whereas the bottom 50% captures only 12%.<sup>6</sup> Similar patterns emerge in wealth distribution, as the top 1% of Americans control 38.6% of the nation's wealth, while the bottom 90% has just 22.8% of the wealth.<sup>7</sup> Let me say that again: 3 million Americans have nearly twice as much wealth as 270 million Americans.

These massive income and wealth gaps lead to reduced social mobility. That is, it is becoming harder and harder for low-income Americans to move up the socioeconomic ladder. While in the 1940's, 92% of children earned more than their parents, now only 50% of children do better economically than their parents.<sup>8</sup> This erosion of the American Dream is perhaps the most insidious consequence of poverty and rising income inequality. Ultimately, America is becoming a land of haves and have nots featuring

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3. The story of Priscila, Ernesto, Melissa, Henry are all from my time as a teacher at YES Prep Southwest, a charter school in Houston, Texas where over 85% of the students receive free or reduced lunch.

4. Mark Gongloff, *45 Million Americans Still Stuck Below Poverty Line: Census*, HUFFINGTON POST (Sept. 16, 2014), [www.huffingtonpost.com/2014/09/16/poverty-household-income\\_n\\_5828974.html](http://www.huffingtonpost.com/2014/09/16/poverty-household-income_n_5828974.html).

5. *Child Poverty*, NATIONAL CENTER FOR CHILDREN IN POVERTY, [www.nccp.org/topics/childpoverty.html](http://www.nccp.org/topics/childpoverty.html) (last visited Mar. 5, 2018).

6. Heather Long, *U.S. Inequality Keeps Getting Uglier*, CNN MONEY (Dec. 22, 2016, 2:44 PM), [money.cnn.com/2016/12/22/news/economy/us-inequality-worse/index.html](http://money.cnn.com/2016/12/22/news/economy/us-inequality-worse/index.html). While this may appear to be a global phenomenon, the data do not bear that out. In fact, the United States is the fourth most unequal country in the OECD, and many other countries are doing much better at controlling inequality. OECD, *OECD Income Distribution Database (IDD): Gini, Poverty, Income, Methods and Concepts*, [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm) (last visited Mar. 5, 2018).

7. Matt Egan, *Record inequality: The Top 1% Controls 38.6% of America's Wealth*, CNN MONEY (Sept. 27, 2017, 4:40 PM), [money.cnn.com/2017/09/27/news/economy/inequality-record-top-1-percent-wealth/index.html](http://money.cnn.com/2017/09/27/news/economy/inequality-record-top-1-percent-wealth/index.html).

8. Long, *supra* note 6.

significant inequality of opportunity.

Some states are positive outliers with limited income inequality and robust social mobility; however, Texas is unfortunately not one of these states.<sup>9</sup> Instead, as described in the next section, on almost any measure (education, health, income, or wealth) Texas is severely unequal. In fact, on most metrics Texas performs worse than the national average. Some Texas politicians have proudly congratulated themselves for creating a booming Texas economy. However, this miracle has been asymmetrically distributed with those at the top reaping all of the rewards, and lower income folks struggling to make it.

In this paper, I will discuss Texas-specific data regarding inequality, identify causes of rising inequality, and offer policy solutions to remedy the situation. Specifically, in Section II, I will offer data on inequality within Texas. In Section III, I will build a framework to conceptualize the various causes of this growing inequality. In Section IV, I will offer specific solutions to help reduce inequality. For each solution, I will offer a “dream” solution and a “politically-feasible” solution. Finally, in Section V, I will conclude the paper and relate this research back to the American Dream story.

## II. INEQUALITY DATA IN TEXAS

The anecdotes in the introduction paint a human picture of the inequity in Texas, and the data provide strong evidence that these anecdotes are symptomatic of a broader problem. While there are several statistics available to show inequality, I will focus on two categories of data—educational and economic.<sup>10</sup>

### A. Educational Data

Educational inequality begins with children as young as four-years-old, as Texas ranks 26<sup>th</sup> in the nation in pre-k spending<sup>11</sup> and

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9. States in the Great Plains (Utah, for example) have the most upward mobility. Derek Thompson, *The Geography of the American Dream*, THE ATLANTIC (Jan. 23, 2014), [www.theatlantic.com/business/archive/2014/01/the-geography-of-the-american-dream/283308/](http://www.theatlantic.com/business/archive/2014/01/the-geography-of-the-american-dream/283308/).

10. One important data point that I do not include is maternal mortality. Texas has 35.8 deaths per 100,000 births with most of the deaths concentrated in low-income and minority folks. Community Health Assessment 2016, *Demographics*, TEXAS CHILDREN'S HOSPITAL, [www.texaschildrens.org/sites/default/files/CHNA\\_Guide\\_2016\\_V10.pdf](http://www.texaschildrens.org/sites/default/files/CHNA_Guide_2016_V10.pdf) (last visited Aug. 16, 2018). This ratio is similar to that of developing countries. Marian MacDorman et al., *Recent Increases in the U.S. Maternal Mortality Rate*, OBSTET. GYNECOL. (Sept. 2016).

11. Editorials, *Rich Kids are in Pre-K while Poor Kids are with Grandma*, DALL. MORNING NEWS (Sept. 29, 2017), [www.dallasnews.com/opinion/editorials/2017/09/29/age-3-inequality-clear-rich-kids-pre-k-poor-kids-](http://www.dallasnews.com/opinion/editorials/2017/09/29/age-3-inequality-clear-rich-kids-pre-k-poor-kids-)

only 50% of low-income students who are in pre-k in Texas are in full-day high-quality programs.<sup>12</sup> Moreover, the quality of pre-k programs in Texas is sub-par, as the National Institute of Early Education Research rated Texas' programs a two out of ten.<sup>13</sup> While most low-income students attend low-quality pre-k programs, or do not attend pre-k at all, wealthy students attend high-quality programs that prepare them for kindergarten.<sup>14</sup> This inequality in pre-k access results in an achievement gap that begins when kids start kindergarten.<sup>15</sup> In fact, less than 50% of low-income students are ready for kindergarten when they start.<sup>16</sup>

Unfortunately, the educational inequalities remain as students progress through school. For example, Quality Counts and Education Week gave Texas a "D" on School Finance as the funding disparity between high-income and low-income schools is greater than the national average.<sup>17</sup> These disparities lead to academic gaps on the 8<sup>th</sup> grade standardized tests, as high-income students pass at a 92% rate while low-income students pass at a 78% rate.<sup>18</sup> Moreover, on the high school end-of-course exams, 42% of African Americans failed whereas 23% of Caucasian students failed, and 21% of low-income students failed whereas 17% of high-income failed.<sup>19</sup>

These educational inequalities also emerge on college preparation exams. For example, on the ACT the highest score is a 36, and Caucasians score four points higher than Hispanics and five points higher than African Americans.<sup>20</sup> Moreover, Texas law

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grandma.

12. Chandra Villanueva, *Closing the Opportunity Gap: Texas Should Invest in High-Quality Full-Day Pre-K Education for Disadvantaged Students*, CENTER FOR PUBLIC POLICY PRIORITIES (Mar. 2015), [www.forabettertexas.org/images/CPPP\\_PreK\\_policypaper\\_final.pdf](http://www.forabettertexas.org/images/CPPP_PreK_policypaper_final.pdf) (last visited Aug. 16, 2018).

13. W.S. Barnett, A.H. Friedman-Krauss, R.E. Gomez, M. Horowitz, G.G. Weisenfeld, K. Clarke Brown & J.H. Squires, *The State of Preschool 2015: State Preschool Yearbook*, NJ: NATIONAL INSTITUTE FOR EARLY EDUCATION RESEARCH (2016), [www.nieer.org/state-preschool-yearbooks/the-state-of-preschool-2015](http://www.nieer.org/state-preschool-yearbooks/the-state-of-preschool-2015) (last visited Aug. 16, 2018).

14. Editorials, *supra* note 12.

15. Villanueva, *supra* note 12. While research from Sean Reardon has shown the kindergarten achievement gap may be shrinking, the data show only a small narrowing. Jeremy Hay, *Kindergarten Readiness Gap Between Low-Income and Higher-Income Students Shrinking*, EDSOURCE (Sept. 7, 2016), [edsourcesource.org/2016/kindergarten-readiness-gap-between-low-income-and-higher-income-students-shrinking/569055](http://edsourcesource.org/2016/kindergarten-readiness-gap-between-low-income-and-higher-income-students-shrinking/569055).

16. Villanueva, *supra* note 15.

17. EDUCATION WEEK, *Quality Counts 2017: State Report Cards Map: Texas* (Dec. 30, 2016), [www.edweek.org/ew/qc/2017/2017-state-education-grades-map.html](http://www.edweek.org/ew/qc/2017/2017-state-education-grades-map.html).

18. TEXAS EDUCATION AGENCY, *Assessment Results*, [tea.texas.gov/student.assessment/results/](http://tea.texas.gov/student.assessment/results/).

19. *Id.*

20. ACT, *THE CONDITION OF COLLEGE AND CAREER READINESS 2016*,

requires every public university to administer the Texas Success Initiative Assessment (“TSI”) to determine a student’s college readiness. On the TSI, 70% of Caucasians pass (and thus do not have to take remedial classes) whereas only 58% of Hispanics and 50% of African Americans pass.<sup>21</sup> Moreover, 74% of high-income students pass while only 54% of low-income students pass. These gaps result in minority and low-income students taking more remedial classes, which is strongly correlated with dropping out of college.<sup>22</sup>

### B. Economic Data

Beyond just educational data, Texas’ economic data, particularly related to income distribution, wealth distribution, and residential segregation, show significant inequality.

Considering income, Texas is the 8<sup>th</sup> most unequal state in the nation with the top 1% making 26.9 times more than the bottom 99%.<sup>23</sup> Said differently, the top 1% of Texans earn 21% of the state’s income.<sup>24</sup> When looking at wealth, the data is even worse. Over the past twenty years, the bottom 20% has lost 10% of their wealth while the top 5% has increased its wealth by 96%.<sup>25</sup> Texas now has the 7<sup>th</sup> most unequal wealth distribution in the nation as measured by wealth controlled by top 20% vis-a-vis wealth controlled by the bottom 20%.<sup>26</sup>

Coupled with the rise in income and wealth inequality, Texas’ cities also face residential segregation wherein wealthy people live with other wealthy people and poor people live with other poor people. Houston and Dallas are especially residentially segregated with Houston being the 2<sup>nd</sup> most segregated city in the nation, and

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[www.act.org/content/dam/act/unsecured/documents/state44\\_Texas\\_Web\\_Secured.pdf](http://www.act.org/content/dam/act/unsecured/documents/state44_Texas_Web_Secured.pdf) (last visited Mar. 5, 2018).

21. TEXAS HIGHER EDUCATION COORDINATING BOARD, *Annual TSI School Summary Report* (Sept. 2015), [www.theceb.state.tx.us/reports/PDF/6849.PDF](http://www.theceb.state.tx.us/reports/PDF/6849.PDF) (last visited Mar. 5, 2018).

22. Grace Chen, *Special Challenges and Support for First-Generation Community College Students*, COMMUNITY COLLEGE REVIEW (May 11, 2017), [www.communitycollegereview.com/blog/special-challenges-and-support-for-first-generation-community-college-students](http://www.communitycollegereview.com/blog/special-challenges-and-support-for-first-generation-community-college-students).

23. Economic Policy Institute, *Inequality in Texas*, [www.epi.org/multimedia/unequal-states-of-america/#/Texas](http://www.epi.org/multimedia/unequal-states-of-america/#/Texas) (citing Estelle Sommeiller, Mark Price, & Ellis Wazeter, *Income Inequality in the U.S. by State, Metropolitan Area, and County*, Economic Policy Institute (June 16, 2016), [www.epi.org/files/pdf/107100.pdf](http://www.epi.org/files/pdf/107100.pdf)). Mark Frank, *US State-Level Income Inequality Data*, [http://www.shsu.edu/eco\\_mwfi/inequality.html](http://www.shsu.edu/eco_mwfi/inequality.html).

24. ECONOMIC POLICY INSTITUTE, *supra* note 23.

25. CENTER FOR BUDGET AND POLICY PRIORITIES, *Income Inequality Has Grown in Texas*, [www.cbpp.org/sites/default/files/atoms/files/Texas.pdf](http://www.cbpp.org/sites/default/files/atoms/files/Texas.pdf) (last visited Mar. 5, 2018).

26. *Id.*

Dallas being the 4<sup>th</sup>.<sup>27</sup> Over the past twenty years, Houston has had the greatest growth in residential segregation of any city in the nation.<sup>28</sup> By concentrating wealth in certain areas, opportunity for prosperity and social mobility is also concentrated in certain areas.

### III. CAUSES OF GROWING INEQUALITY

While there are certainly several causes for rising inequality, rather than simply listing the causes, I will use Piketty's "r>g" analysis as a conceptual framework. Piketty argues that inequality has grown because "r," the return on capital, has grown faster than "g," the growth rate of the economy.<sup>29</sup> Thus, those who have capital have seen their wealth rise at a faster rate than others. If we accept Piketty's framework, then other causes of inequality, such as falling minimum wage, declining union membership, and increased automation, can fall within the rising r or falling g buckets.

Piketty's framework is helpful; however, we can expand it in two ways to help us understand the causes of rising inequality. (1) Piketty does not address causes that may have decreased access to g. That is, some drivers of rising inequality make it harder for low-income individuals to secure a piece of the economic growth. For example, inadequate Pell Grants to help students matriculate to college prevent some low-income individuals from securing a job in the growing economy and thus from accessing growth. (2) Piketty also does not explicitly conceive of causes falling into multiple buckets (e.g. causes that both increase "r" and decrease "access to g"). By making these two modifications, we can use Piketty's framework to explain the causes of rising income inequality and falling social mobility.

#### A. Systemic Causes of Rising Inequality and Falling Social Mobility

In this section, I will outline *some* of the drivers of rising inequality and falling social mobility.<sup>30</sup> Before beginning, let me offer two notes on this framework of r, g, and access to g. (1) Causes that increase r and/or decrease g will tend to primarily increase inequality because those at the top have more capital and thus their wealth grows faster than workers whose source of income is labor.

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27. Richard Fry & Paul Taylor, *The Rise of Residential Segregation by Income*, PEW RESEARCH CENTER (Aug. 1, 2012), [www.pewsocialtrends.org/2012/08/01/the-rise-of-residential-segregation-by-income/](http://www.pewsocialtrends.org/2012/08/01/the-rise-of-residential-segregation-by-income/).

28. *Id.*

29. David Grewal, *The Laws of Capitalism*, 128 HARV. L. REV. 626, 642 (2014) (summarizing Piketty's work).

30. This paper does not try to quantify how much each cause affects inequality or mobility, nor does it attempt to provide an exhaustive list. Instead, the paper simply lists some of the causes.

(2) Causes that decrease access to *g* will tend to decrease social mobility as low-income individuals are less able to secure a high-paying job and escape from poverty.<sup>31</sup>

### *B. Causes that increase “r”*

#### *1. No state income tax*

The Texas Constitution prohibits a personal income tax and a business income tax,<sup>32</sup> making Texas one of only seven states without a personal income tax,<sup>33</sup> and one of only six states without a business income tax.<sup>34</sup> As such, business income and income generated from pass-through entities, such as partnerships, are not taxed and therefore the rate of return on capital investments increases. While the Legislature did enact a Gross Margins Tax, which tried to approximate a business income tax, it was largely unsuccessful.<sup>35</sup>

#### *2. No state estate tax*

Once individuals accumulate wealth, Texas allows residents to pass all their wealth tax free to their heirs. Unlike nearly 50% of states that have either an estate tax, inheritance tax, or both, Texas allows wealth to accumulate generation after generation with no tax consequences.<sup>36</sup> Without an estate tax or inheritance tax, the rate of return of capital (in this case of the existing stock of wealth) is not limited by state taxes.

### *C. Causes that reduce *g* and reduce access to *g**

Broadly speaking, most factors that reduce educational quality will tend to both reduce “*g*” and reduce “access to *g*.” While there are

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31. It is important to remember that increasing inequality is itself correlated with reduced social mobility. Alan B. Krueger, *The Great Utility of the Great Gatsby Curve*, BROOKINGS (May 19, 2015), [www.brookings.edu/blog/social-mobility-memos/2015/05/19/the-great-utility-of-the-great-gatsby-curve/](http://www.brookings.edu/blog/social-mobility-memos/2015/05/19/the-great-utility-of-the-great-gatsby-curve/).

32. TEX. CONST. art. XXIV, § 8.

33. Chris Khan, *Is a State with no Income Tax Better or Worse?*, BANKRATE (Jan. 13, 2015), [www.bankrate.com/finance/taxes/state-with-no-income-tax-better-or-worse-1.aspx](http://www.bankrate.com/finance/taxes/state-with-no-income-tax-better-or-worse-1.aspx).

34. Morgan Scarboro, *State Corporate Income Tax Rates and Brackets*, TAX FOUNDATION (Feb. 27, 2017), [files.taxfoundation.org/20170828112929/Tax-Foundation-FF542-8.28.pdf](https://files.taxfoundation.org/20170828112929/Tax-Foundation-FF542-8.28.pdf).

35. Scott Drenkard, *The Texas Margin Tax: A Failed Experiment*, TAX FOUNDATION (Jan. 14, 2015), [files.taxfoundation.org/20170801132909/TaxFoundation-SR226.pdf](https://files.taxfoundation.org/20170801132909/TaxFoundation-SR226.pdf).

36. Scott Drenkard, *Does your State Have an Estate or Inheritance Tax*, TAX FOUNDATION (May 5, 2015), [taxfoundation.org/does-your-state-have-estate-or-inheritance-tax/](http://taxfoundation.org/does-your-state-have-estate-or-inheritance-tax/).

many causes that fit within this bucket, I will focus on three: (1) an inequitable school finance system; (2) the rising cost of college tuition; and, (3) the widening achievement gap.

### 1. *Inequitable school finance*

The Texas Constitution requires the Legislature to provide for an “efficient system of public free schools.”<sup>37</sup> The Texas Supreme Court has interpreted this clause to require the Legislature to create a system such that (1) schools taxing at similar rates raise similar dollars and (2) each school can provide an “adequate education” for all students.<sup>38</sup> The Texas Legislature has, however, never fully implemented this mandate; instead, the current system allows wealthy schools to raise \$1,000 more per pupil than poor schools.<sup>39</sup> This funding disparity prevents low-income schools from hiring enough college counselors<sup>40</sup> or building adequate facilities<sup>41</sup> thereby reducing the educational attainment of its students. If low-income students attain less human capital, economic growth slows<sup>42</sup> and students themselves are less able to partake in the economic growth.<sup>43</sup>

### 2. *Rising cost of college*

Tuition for Texas’ public universities has nearly tripled in the past 12 years; however, household incomes have remained flat.<sup>44</sup>

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37. TEX. CONST. art. VII, § 1.

38. See e.g., Albert Kauffman, *The Texas School Finance Litigation Saga: Great Progress, Then Near Death by a Thousand Cuts*, 40 ST. MARY’S L.J. 511 (2008) (explaining the history of school finance litigation in Texas).

39. Kiah Collier, *Texas Supreme Court Rules School Funding System is Constitutional*, TEX. TRIB. (May 13, 2016, 9:00 AM), [www.texastribune.org/2016/05/13/texas-supreme-court-issues-school-finance-ruling/](http://www.texastribune.org/2016/05/13/texas-supreme-court-issues-school-finance-ruling/).

40. Laura Isensee, *How One Counselor in Texas Advises Hundreds of Students*, HOUS. PUBLIC MEDIA (Aug. 27, 2014, 6:30 AM), [www.houstonpublicmedia.org/articles/news/2014/08/27/52797/how-one-counselor-in-texas-advises-hundreds-of-students/](http://www.houstonpublicmedia.org/articles/news/2014/08/27/52797/how-one-counselor-in-texas-advises-hundreds-of-students/).

41. Bridget Balch, *Students Displaced from Mold-Ravaged Willowridge High School*, HOUS. CHRON. (Updated Aug. 4, 2017, 9:53 AM), [www.houstonchronicle.com/neighborhood/fortbend/news/article/Students-displaced-from-mold-ravaged-Willowridge-11733162.php](http://www.houstonchronicle.com/neighborhood/fortbend/news/article/Students-displaced-from-mold-ravaged-Willowridge-11733162.php).

42. Isabel Sawhill & Eleanor Krause, *Slower Economic Growth: The Role of Education and Health Care*, BROOKINGS (Sept. 20, 2016), [www.brookings.edu/opinions/slower-economic-growth-the-role-of-education-and-health-care/](http://www.brookings.edu/opinions/slower-economic-growth-the-role-of-education-and-health-care/).

43. Michael Greenstone, Adam Looney, Jeremy Patashnik & Muxin Yu, *Thirteen Economic Facts about Social Mobility and the Role of Education*, THE HAMILTON PROJECT (June 26, 2013), [www.brookings.edu/wp-content/uploads/2016/06/THP\\_13EconFacts\\_FINAL.pdf](http://www.brookings.edu/wp-content/uploads/2016/06/THP_13EconFacts_FINAL.pdf).

44. Benjamin Wermund, *College Tuition on the Rise in Texas, Far Exceeding Household Income Growth*, HOUS. CHRON. (Updated Apr. 27, 2016,

This would be less concerning if the Texas Legislature had correspondingly increased scholarship funding; however, the Texas Legislature has cut scholarship funding.<sup>45</sup> Given these financial challenges, only 9% of low-income and minority students graduate from college.<sup>46</sup> As such, they are unable to secure high-paying jobs and economic growth stalls because their education level is lower than what it could have been.

### 3. *Achievement gap*

The two aforementioned drivers, among many others such as inadequate pre-k programs, have combined to help create an education gap between students' potential and their actual achievement. McKinsey estimated that this education gap cost the U.S. economy \$2.3 trillion.<sup>47</sup> If we assume that every state bears a proportional amount of this loss in economic output<sup>48</sup> then this education gap could cost Texas upwards of \$40 billion, which is nearly 2.5% of the Texas economy.<sup>49</sup>

### D. *Causes that reduce "access to g"*

Like in all the previous sections, there are several causes that reduce "access to g;" however, in this section, I will focus on two: (1) lack of affordable housing in high opportunity areas and (2) the inability of low-income individuals to obtain high-paying jobs.

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9:35 AM), [www.houstonchronicle.com/news/houston-texas/houston/article/College-tuition-on-the-rise-in-Texas-far-7377309.php](http://www.houstonchronicle.com/news/houston-texas/houston/article/College-tuition-on-the-rise-in-Texas-far-7377309.php).

45. Matthew Watkins, *As Texas Higher Ed Tuition Rises, Financial Aid is Covering Less and Less*, TEX. TRIB. (Mar. 17, 2017, 12:00 AM), [www.texastribune.org/2017/03/17/texas-financial-aid-becomes-less-ambitious-while-number-needy-students/](http://www.texastribune.org/2017/03/17/texas-financial-aid-becomes-less-ambitious-while-number-needy-students/).

46. Mikhail Zinshteyn, *The Slow Growth of College-Graduation Rates*, THE ATLANTIC (Aug. 3, 2017), [www.theatlantic.com/education/archive/2016/04/the-slow-growth-of-college-graduation-rates/477798/](http://www.theatlantic.com/education/archive/2016/04/the-slow-growth-of-college-graduation-rates/477798/).

47. Byron Auguste, Bryan Hancock & Martha Laboissiere, *The Economic Cost of the US Education Gap*, MCKINSEY & CO. (June 2009), [www.mckinsey.com/industries/social-sector/our-insights/the-economic-cost-of-the-us-education-gap](http://www.mckinsey.com/industries/social-sector/our-insights/the-economic-cost-of-the-us-education-gap).

48. Assuming the amount of loss is borne proportionally is likely conservative given that Texas as a bigger state likely bears a greater burden of costs and potential benefits from policy change.

49. To make this calculation, I divided \$2.3 trillion by 51 (50 states and the District of Columbia) to get about \$40 billion. The Texas economy is about \$1.6 trillion. Mark J. Perry, *If New York is Spain and California is Brazil, What is Texas?*, NEWSWEEK (June 22, 2015, 11:27 AM), [www.newsweek.com/if-new-york-spain-and-california-brazil-what-texas-344702](http://www.newsweek.com/if-new-york-spain-and-california-brazil-what-texas-344702)). I then divided 40 billion by \$1.6 trillion to get 2.5%. Moreover, research from the Brookings Institute has shown that increased educational attainment is the key to social mobility or "accessing g." Michael Greenstone et. al, *supra* note 43.

### 1. Lack of affordable housing in high opportunity areas

Cities currently provide affordable housing by both building public housing and providing Section 8 vouchers that families can then use at privately-owned apartments. Research from Raj Chetty et al. shows that the location of the affordable housing units matters because: (1) the neighborhood one lives in determines future outcomes; and, (2) some neighborhoods have a significantly higher effect on reducing poverty, improving life expectancy, and increasing social mobility.<sup>50</sup> Thus, concentrating low-income individuals in low-opportunity areas prevents them from attending high-quality schools, securing high-paying jobs, or achieving social mobility (i.e. “access to g”).

Unfortunately, most public housing units are concentrated in low-income, relatively lower-opportunity areas.<sup>51</sup> In Houston, for example, only six of the city’s several hundred public housing developments are in the highest opportunity parts of the city.<sup>52</sup> Similarly, the vast majority of Section 8 vouchers are used for units within low-opportunity, high-poverty areas.<sup>53</sup> This problem is especially pronounced because Texas law prohibits municipalities from requiring apartment owners to accept Section 8 vouchers.<sup>54</sup> As such, apartment owners in wealthy areas routinely reject qualified applicants solely because their method of payment is a Section 8 voucher.<sup>55</sup>

In 2015, the Supreme Court ruled in *Texas Department of Housing & Community Affairs v. Inclusive Communities Project, Inc.* that disparate-impact claims are cognizable under the Fair Housing Act and endorsed Housing and Urban Development’s (“HUD”) burden-shifting framework for proving such claims.<sup>56</sup> HUD also passed a rule that requires cities to “affirmatively further fair housing” and ensure affordable housing is built in high-opportunity

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50. Raj Chetty, Nathaniel Hendren & Lawrence Katz, *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project*, 106 AM. ECON. REV. 4 (2015).

51. Daniel Hartley, *Public Housing, Concentrated Poverty, and Crime*, FED. RESERVE BANK OF CLEVELAND (Oct. 6, 2014), [www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/2014-economic-commentaries/ec-201419-public-housing-concentrated-poverty-and-crime.aspx](http://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/2014-economic-commentaries/ec-201419-public-housing-concentrated-poverty-and-crime.aspx).

52. Charlie Duncan, *Report: No Good Choice for Houston’s Housing Choice Voucher Holders*, TEXAS LOW INCOME HOUS. INFO. SERV. (Nov. 21, 2015), [texashousers.net/2015/11/21/report-no-good-choice-for-houstons-housing-choice-voucher-holders/](http://texashousers.net/2015/11/21/report-no-good-choice-for-houstons-housing-choice-voucher-holders/).

53. *Id.*

54. S.B. 267, 2014 Leg., 84th Sess., (Tx. 2015).

55. John Henneberger, *Suit Filed to Overturn Texas prohibition on Source of Income Protection for Voucher Holders* (Nov. 21, 2015), [texashousers.net/2017/02/17/suit-filed-to-overturn-tx-statute-outlawing-municipal-ordinances-to-prohibit-discrimination-against-recipients-of-federal-housing-vouchers/](http://texashousers.net/2017/02/17/suit-filed-to-overturn-tx-statute-outlawing-municipal-ordinances-to-prohibit-discrimination-against-recipients-of-federal-housing-vouchers/).

56. *Texas Dep’t of Hous. & Cmty. Affairs v. Inclusive Communities Project, Inc.*, 135 S. Ct. 2507, 2532, 192 L. Ed. 2d 514 (2015).

areas.<sup>57</sup> Nevertheless, the Trump administration is planning to roll back experiments that cities like Dallas have taken to offer affordable housing recipients access to high-opportunity areas.<sup>58</sup> The upshot is that despite the Supreme Court's ruling and HUD's rule, more affordable housing will be restricted to low-income, low-opportunity areas which will leave low-income families less able to access economic growth.

## 2. *Inability of low-income Texans to secure high-paying jobs*

One of the major drivers of growing income inequality is that low-income workers have been locked in low-wage jobs. Thus, while the economy has continued growing, low-income workers have been unable to access this growth. Several factors have driven this inability to secure a greater piece of the economic growth.

Firstly, Texas has not raised the minimum wage above that of the federal government and thus many Texans are mired in low-paying jobs with a wage that has decreased in real terms over time.<sup>59</sup> Secondly, Texas is a right-to-work state, which has reduced the rate of unionization to 4.8%<sup>60</sup> as compared with nearly 10.7% nationwide as of January 2017.<sup>61</sup> Weak unions prevent workers from bargaining for more of their productivity gains. Moreover, unions have traditionally advocated for policies that improve social mobility, so with weaker unions, politicians are less likely to pursue such policies.<sup>62</sup> Thirdly, in 2008 Governor Perry's office produced a report underscoring the need for Texas to focus on middle-skill jobs (welding, oil and gas technicians, etc.) for which apprenticeships are crucial.<sup>63</sup> The state, however, has underinvested in these apprenticeships that are especially important for low-income

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57. *Affirmatively Furthering Fair Housing*, U.S. DEPT. OF HOUS. & URBAN DEV., [https://www.huduser.gov/portal/affht\\_pt.html](https://www.huduser.gov/portal/affht_pt.html) (last visited Mar. 5, 2018).

58. Alana Semuels, *Trump Administration Puts on Hold an Obama-Era Desegregation Effort*, THE ATLANTIC (Aug. 30, 2017), [www.theatlantic.com/business/archive/2017/08/trump-hud/538386/](http://www.theatlantic.com/business/archive/2017/08/trump-hud/538386/).

59. Drew DeSilver, *5 Facts about Minimum Wage*, PEW RESEARCH CENTER (Jan. 4, 2017), [www.pewresearch.org/fact-tank/2017/01/04/5-facts-about-the-minimum-wage/](http://www.pewresearch.org/fact-tank/2017/01/04/5-facts-about-the-minimum-wage/).

60. Sheryl Jean, *Union membership remains flat in Texas, dips nationwide*, DALL. MORNING NEWS (Jan. 2015), [www.dallasnews.com/business/business/2015/01/23/union-membership-rate-remains-flat-in-texas-dips-nationwide](http://www.dallasnews.com/business/business/2015/01/23/union-membership-rate-remains-flat-in-texas-dips-nationwide).

61. *Union Members Summary*, BUREAU OF LABOR STATISTICS (Jan. 26, 2017), [www.bls.gov/news.release/union2.nr0.htm](http://www.bls.gov/news.release/union2.nr0.htm).

62. David Madland & Nick Bunker, *Unions Make Democracy Work for the Middle Class*, CENTER FOR AMERICAN PROGRESS ACTION FUND (Jan. 25, 2012, 9:00 AM), [www.americanprogressaction.org/issues/economy/reports/2012/01/25/10913/unions-make-democracy-work-for-the-middle-class/](http://www.americanprogressaction.org/issues/economy/reports/2012/01/25/10913/unions-make-democracy-work-for-the-middle-class/).

63. TEXAS WORKFORCE INVESTMENT COUNCIL, *The Demand for Middle-Skills jobs in the United States and Texas* (June 2008), [gov.texas.gov/uploads/files/organization/twic/Demand\\_Middle\\_Skills.pdf](http://gov.texas.gov/uploads/files/organization/twic/Demand_Middle_Skills.pdf).

students who lack the social capital to find internships to secure an on-ramp to a high-paying job.

#### IV. POLICY SOLUTIONS

In this section, I will lay out policy solutions to reduce income inequality and expand social mobility. For each policy, I will suggest both a dream solution that would do the most good and a realistic solution that is more politically-feasible. Rather than simply listing the policies, I will group them according to the framework developed in the previous section. To review, Piketty argued that the rise in inequality as driven by “ $r$ ” > “ $g$ .” Yet his story fails to account for the factors that affect access to economic growth (what I have called “access to  $g$ ”) and the possibility that drivers and solutions can address multiple buckets (i.e. both “ $r$ ” and “ $g$ ”). As such, my policy solutions are grouped by whether they: (1) reduce “ $r$ ” only; (2) increase “ $g$ ” only; (3) increase access to “ $g$ ” only, or (4) affect some combination of “ $r$ ,” “ $g$ ,” and “access to  $g$ .”

##### A. Policies reducing “ $r$ ” only

###### 1. Gross Margins Tax

In 2007, Texas created a Gross Margins tax to tax certain business income. In theory, such a tax should tax all income generated by businesses; however, the tax was needlessly complex and littered with exemptions.<sup>64</sup> Because of these exemptions, the tax never reached its revenue-generating goals—lawmakers projected it would raise \$5.9 billion, but it only raised \$4 billion.<sup>65</sup> A more robust gross margins tax would reduce “ $r$ ” as after-tax gains from business investments would be lower.

- a. Dream Scenario: Increase the tax rate to fully reach the \$5.9 billion goal

The tax rates within the Gross Margins tax are too low to generate the revenue needed by the state. Texas could therefore increase the tax rates progressively so that businesses with higher profits face a higher tax rate. This ideal solution would reduce “ $r$ ” and bring in revenue needed to fund other priorities. Given the Texas Legislature’s opposition to ever increasing taxes and the political gymnastics needed to enact the original Gross Margins tax,

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64. Scott Drenkard, *The Texas Margin Tax: A Failed Experiment*, TAX FOUNDATION (Jan. 14, 2015), [taxfoundation.org/texas-margin-tax-failed-experiment/](http://taxfoundation.org/texas-margin-tax-failed-experiment/).

65. *Id.*

it is unlikely this solution is politically feasible.<sup>66</sup>

b. Politically Viable Solution: Remove exemptions from the Gross Margins Tax

Currently, the Gross Margins tax is complex with four different methods for calculating taxable income with businesses finding every loophole to reduce their taxable income.<sup>67</sup> As such, the Legislature could vote to repeal these exemptions and establish one uniform method for calculating taxable income. Removing exemptions may be more politically feasible than increasing tax rates, as there is widespread agreement that a broader tax base is better (if only for the sake of simplicity).<sup>68</sup> If the Legislature removed these exemptions, it would raise some revenue and perhaps reduce “r.”

2. *Minimum wage*

Over the past 40 years, productivity has increased significantly; however, the minimum wage has barely moved.<sup>69</sup> In fact, in real terms, the minimum wage is lower today than it was in 1960’s, 1970’s, or 1980’s.<sup>70</sup> Texas has not created its own minimum wage, so Texans are subject to the federal minimum wage.<sup>71</sup> Nationwide, however, there is support for increasing the federal minimum wage, as 74% of Americans (including 58% of Republicans) support increasing the minimum wage to \$9.<sup>72</sup> Like the nation as a whole, the majority of Texans support raising the minimum wage.<sup>73</sup> Increasing the minimum wage will reduce “r” because the returns to capital will fall relative to the returns to labor. In other words, those who own businesses will see their

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66. Ross Ramsey, *UT/TT Poll: Voters Want Budget Cuts but Don’t Like Options*, TEX. TRIB., (Feb. 21, 2011), [www.texastribune.org/2011/02/21/uttexas-tribune-poll-mixed-signals-on-budget-cuts/](http://www.texastribune.org/2011/02/21/uttexas-tribune-poll-mixed-signals-on-budget-cuts/).

67. *Id.*

68. Scott Greenberg, *Options for Broadening the U.S. Tax Base*, TAX FOUNDATION (Nov. 24, 2015), [taxfoundation.org/options-broadening-us-tax-base/](http://taxfoundation.org/options-broadening-us-tax-base/).

69. Ben Olinsky, *6 Policies to Combat Inequality*, CENTER FOR AMERICAN PROGRESS (Jan. 28, 2014, 2:07 PM), [www.americanprogress.org/issues/economy/news/2014/01/28/82929/6-policies-to-combat-inequality/](http://www.americanprogress.org/issues/economy/news/2014/01/28/82929/6-policies-to-combat-inequality/).

70. Stacked Deck, *How the Dominance of Politics by the Affluent & Business Undermines Economic Mobility in America*, DEMOS, [www.demos.org/data-byte/real-value-federal-minimum-wage-1968-2012](http://www.demos.org/data-byte/real-value-federal-minimum-wage-1968-2012).

71. Garrett Groves, Jennifer Lee, & Katherine Strandberg, *It’s Time to Raise the Minimum Wage in Texas, Center for Public Policy Priorities* (April 2015), [forabettertexas.org/images/EO\\_2015\\_04\\_MinWage\\_report.pdf](http://forabettertexas.org/images/EO_2015_04_MinWage_report.pdf).

72. Niv Ellis, *Poll: Bipartisan majority supports raising minimum wage*, THE HILL (June 1, 2017, 12:01 PM), [thehill.com/homenews/335837-poll-bipartisan-majority-supports-raising-minimum-wage](http://thehill.com/homenews/335837-poll-bipartisan-majority-supports-raising-minimum-wage).

73. Groves, Lee, & Strandberg, *supra* note 71.

returns fall as they must share more of their profits with labor.

The immediate counterargument to any proposal to increase minimum wage is that it will slow economic growth and result in job-loss.<sup>74</sup> At the extreme, this is likely true—if tomorrow the government mandated a \$100 per hour minimum wage, companies would lay off workers and economic growth would slow. However, at the other extreme, if tomorrow the government announced that over the next ten years the minimum wage would increase from \$7.25 per hour to \$7.26 per hour, there would likely be no employment impacts or reductions in economic growth. This contrived thought experiment suggests that there is some cut-off wherein a minimum wage increase goes from not affecting jobs and economic growth to causing job loss and reducing economic growth. While the exact threshold is unclear, research from the Congressional Budget Office<sup>75</sup> and academics<sup>76</sup> suggests that a moderate increase from \$7.25 per hour to \$9 per hour phased in over a few years likely has limited to no impact on jobs or economic growth. In fact, a meta-analysis of studies on minimum wage increases estimates that there is essentially zero employment impact from raising the minimum wage to \$9 per hour or \$10.10 per hour.<sup>77</sup>

Conservatives will point to the recent study showing that Seattle's minimum wage increase from \$9.47 per hour to \$15 per hour resulted in job loss.<sup>78</sup> They will argue that this study proves that increasing the minimum wage results in job loss. However, there are several reasons why this study should not be regarded as the final word for a potential minimum wage increase in Texas. Firstly, the minimum wage was raised to \$15 per hour, which is much higher than anything I would propose for Texas. Secondly, the increase was phased in over three years, which is quicker than what Texas should do. Finally, there were data limitations within the study such that it did not present the full picture.<sup>79</sup> Nevertheless, even if a moderate minimum wage increase resulted in a slight decrease in jobs or economic growth (i.e. slight reduction in "g") it

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74. See e.g., Michael Saltzman, *The Record Is Clear: Minimum Wage Hikes Destroy Jobs*, FORBES (Apr. 2013), [www.epionline.org/oped/the-record-is-clear-minimum-wage-hikes-destroy-jobs/](http://www.epionline.org/oped/the-record-is-clear-minimum-wage-hikes-destroy-jobs/).

75. Jared Bernstein, *The Impact of a Minimum Wage Increase*, N.Y. TIMES (Feb. 18, 2014, 5:40 PM), [economix.blogs.nytimes.com/2014/02/18/the-impact-of-a-minimum-wage-increase/](http://economix.blogs.nytimes.com/2014/02/18/the-impact-of-a-minimum-wage-increase/).

76. Douglas Hall, *Raising the Federal Minimum Wage to \$10.10 Will Not Lead to Job Loss*, ECONOMIC POLICY INSTITUTE (Feb. 12, 2014, 7:00 PM), [www.epi.org/blog/raising-federal-minimum-wage-will-not-lead-to-job-loss/](http://www.epi.org/blog/raising-federal-minimum-wage-will-not-lead-to-job-loss/).

77. Michelle Brown, *Minimum Wage Meta Analysis: Evidence Over Theory*, MSNBC (Updated Sept. 13, 2013, 8:47 AM), [www.msnbc.com/martin-bashir/minimum-wage-meta-analysis-evidence-over-the](http://www.msnbc.com/martin-bashir/minimum-wage-meta-analysis-evidence-over-the).

78. Jeff Guo, *The Controversial Study Showing High Minimum Wages Kill Jobs, Explained*, VOX (June 27, 2017, 12:00 PM), [www.vox.com/policy-and-politics/2017/6/27/15879346/study-high-minimum-wage-job-killer-seattle](http://www.vox.com/policy-and-politics/2017/6/27/15879346/study-high-minimum-wage-job-killer-seattle).

79. *Id.*

would still be beneficial because of the reduction in “r.”

- a. Dream Scenario: Raise Texas minimum wage to \$10.10 per hour

In Texas, an increase in the minimum wage would benefit 2.4 million Texans of whom 60% are between the age of 25 and 54, 50% are kids, and more than 50% are minority.<sup>80</sup> Raising the minimum wage to \$10.10 per hour, or even just \$9.00 per hour, over five years would increase the incomes of several low-income Texans and reduce inequality.<sup>81</sup> While this solution may not be politically-feasible given the conservative make-up of the Texas Legislature, it would reduce “r” as returns to capital would fall slightly.

- b. Politically Feasible Solution: Index minimum wage to inflation; repeal HB 804; require government contractors to pay a living wage

While raising the minimum wage to \$10.10 per hour may be tough, there are three other steps the Legislature can take. Firstly, the Legislature can index Texas’ minimum wage to inflation. Currently, the federal minimum wage, which Texas follows because it does not have its own minimum wage, is not indexed to inflation and thus its real value is eroded every year.<sup>82</sup> Indexing the minimum wage to inflation will ensure low-income Texans are not losing money every year. Given that inflation is relatively low, this would result in low increases in the minimum wage and thus likely not result in job loss. Secondly, the Legislature should repeal HB 804, which prevents municipalities from setting their own minimum wages.<sup>83</sup> Texans pride themselves on local control and therefore should allow municipalities to experiment with setting their own minimum wage. Thirdly, the Legislature should require all state government contractors to pay their workers \$9 per hour.<sup>84</sup> These three steps are not systemic overhauls; however, they will all increase pay for low-wage workers, reduce “r,” and decrease inequality.

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80. *Id.*

81. GROVES, LEE, & STRANDBERG, *supra* note 71.

82. Drew DeSilver, *5 Facts about Minimum Wage*, PEW RESEARCH CENTER (Jan. 4, 2017), [www.pewresearch.org/fact-tank/2017/01/04/5-facts-about-the-minimum-wage/](http://www.pewresearch.org/fact-tank/2017/01/04/5-facts-about-the-minimum-wage/).

83. BILL ANALYSIS, ECONOMIC DEV. COMM. REPORT, H.B. 804, 2003 Leg., 78th Sess., (Tx. 2003), [www.capitol.state.tx.us/tlodocs/78R/analysis/pdf/HB00804H.pdf#navpanes=0](http://www.capitol.state.tx.us/tlodocs/78R/analysis/pdf/HB00804H.pdf#navpanes=0).

84. The federal government passed a similar order in 2017. Sara Gorajski, Department of Labor Issues Notice of 2017 Minimum Wage Increase for Federal Contractors, LITTLER (Sept. 20, 2016), [www.littler.com/publication-press/publication/department-labor-issues-notice-2017-minimum-wage-increase-federal](http://www.littler.com/publication-press/publication/department-labor-issues-notice-2017-minimum-wage-increase-federal).

## B. Policies increasing *g* and access to *g*

### 1. High-quality pre-k

Research has demonstrated the efficacy of pre-k in boosting economic growth and helping low-income students overcome the achievement gap.<sup>85</sup> Pre-k can therefore increase both “*g*” by boosting human capital and “access to *g*,” by helping more low-income students succeed in school, matriculate to college, and ultimately access higher paying jobs.

As explained in Section IIA, only half of low-income Texans are enrolled in a high-quality pre-k program, and national rankings place Texas near the bottom in both access to pre-k and quality of pre-k programs.<sup>86</sup> This occurs despite bipartisan support for pre-k;<sup>87</sup> in fact, Texas’ Republican Governor Greg Abbott has led the charge in advocating for increased spending on pre-k.<sup>88</sup> In 2015, Governor Abbott succeeded in securing nearly \$120 million for grants to support local school districts’ pre-k programs.<sup>89</sup> However, in 2017, the Texas Legislature defunded Governor Abbott’s grant program leaving many low-income students with no option for pre-k.<sup>90</sup>

#### a. Dream Scenario: Fully fund pre-k for all low-income students statewide

Following the lead of San Antonio, Texas should authorize a 0.125% increase in the sales tax to fund high-quality, full-day, pre-kindergarten for low-income students.<sup>91</sup> Funding universal, high-

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85. *Pre-kindergarten: What the Research Shows*, CENTER FOR PUBLIC EDUCATION, [www.centerforpubliceducation.org/Main-Menu/Pre-kindergarten/Pre-Kindergarten/Pre-kindergarten-What-the-research-shows.htm](http://www.centerforpubliceducation.org/Main-Menu/Pre-kindergarten/Pre-Kindergarten/Pre-kindergarten-What-the-research-shows.htm) (last visited Mar. 5, 2018).

86. *Id.*

87. Alia Wong, *The Bipartisan Appeal of Pre-k*, THE ATLANTIC (Oct. 23, 2015), [www.theatlantic.com/education/archive/2015/10/pre-k-vs-college/412048/](http://www.theatlantic.com/education/archive/2015/10/pre-k-vs-college/412048/).

88. Julie Chang, *Gov. Greg Abbott’s Signature Pre-K Program in Danger of Going Unfunded*, MY STATESMAN (Mar. 10, 2017, 2:12 PM), [www.mystatesman.com/news/state--regional-govt--politics/gov-greg-abbott-signature-pre-program-danger-going-unfunded/OtLN9KtUN5wBrgGAN3Z1WM/](http://www.mystatesman.com/news/state--regional-govt--politics/gov-greg-abbott-signature-pre-program-danger-going-unfunded/OtLN9KtUN5wBrgGAN3Z1WM/).

89. Julie Chang, *Texas School Districts Receive \$116 million in Pre-K Grants*, MY STATESMAN (July 5, 2016, 5:42 PM), [www.mystatesman.com/news/state--regional-govt--politics/texas-school-districts-receive-116-million-pre-grants/hqCGOPvq4jdaAGd9mk7q6K/](http://www.mystatesman.com/news/state--regional-govt--politics/texas-school-districts-receive-116-million-pre-grants/hqCGOPvq4jdaAGd9mk7q6K/).

90. Editorial, *When will Texas Provide Real Help to Improve Pre-k?*, THE DALLAS MORNING NEWS (June 15, 2017), [www.dallasnews.com/opinion/editorials/2017/06/15/will-texas-provide-real-help-improve-pre-k](http://www.dallasnews.com/opinion/editorials/2017/06/15/will-texas-provide-real-help-improve-pre-k).

91. Erick Trickey, *How Julián Castro Bet on 4-Year-Olds to Transform San Antonio*, POLITICO MAGAZINE (Aug. 17, 2017), [www.politico.com/magazine/story/2017/08/17/san-antonio-pre-k-program-mayor-julian-castro](http://www.politico.com/magazine/story/2017/08/17/san-antonio-pre-k-program-mayor-julian-castro).

quality pre-k will not only boost economic growth in Texas but also ensure more low-income students can access that economic growth.

While some will argue this policy is politically unfeasible or regressive, considering the case of San Antonio is instructive. Regarding political feasibility, marshalling the support of the powerful business community can help ensure the bill's passage.<sup>92</sup> Regarding regressivity, the Legislature can consider applying the tax only to certain items. By exempting more items, the tax can become less regressive. However, even if there are no exemptions, the tax's regressivity is in-part balanced out by the targeted spending on programs for low-income individuals.

b. Politically Feasible Scenario: Reinstate the pre-k grants Governor Abbott established

If Democrats oppose the previous solution because it is regressive and Republicans oppose it because it raises taxes, the Legislature should reinstate the high-quality pre-k program grants that Governor Abbott established. These grants cost the state about \$120 million per year, which can be funded by expanding the business income tax, creating a statewide soda tax, or even issuing social impact bonds.<sup>93</sup> Securing the business lobby will be crucial to enacting these grants given the opposition from the Tea Party fringe of the Republican Party, which has only gotten stronger with the resignation of moderate Republican and former Texas House Speaker Joe Strauss.<sup>94</sup> Restoring these grants would help expand pre-k access thereby increasing social mobility.

2. College affordability

Research has shown that a college degree is the key to the middle class.<sup>95</sup> Americans with a college degree are 21% more likely to enter the middle class as compared with those who do not have a college degree.<sup>96</sup> Increasing the number of individuals with a college

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215497.

92. In San Antonio, Mayor Castro secured the support of HEB, a grocery store whose products are largely exempt from sales tax. Similarly, at the state level, several powerful businesses would lobby for such a policy.

93. Jeff Edmondson, Bill Crim & Allen Grossman, *Pay-For-Success is Working in Utah*, STANFORD SOCIAL INNOVATION REV. (Oct. 27, 2015), [ssir.org/articles/entry/pay\\_for\\_success\\_is\\_working\\_in\\_utah](http://ssir.org/articles/entry/pay_for_success_is_working_in_utah).

94. Ross Ramsey, *Analysis: The Far-Reaching Political Repercussions of Speaker Straus' Exit*, TEX. TRIB. (Oct. 25, 2017, 1:00 PM), [www.texastribune.org/2017/10/25/analysis-texas-house-speaker-straus-resigns-politics/](http://www.texastribune.org/2017/10/25/analysis-texas-house-speaker-straus-resigns-politics/).

95. Joanna Venator & Richard Reeves, *Three Reasons College Matters for Social Mobility*, BROOKINGS (Feb. 6, 2015), [www.brookings.edu/blog/social-mobility-memos/2015/02/06/three-reasons-college-matters-for-social-mobility/](http://www.brookings.edu/blog/social-mobility-memos/2015/02/06/three-reasons-college-matters-for-social-mobility/).

96. *Id.*

education also boosts the economic growth of a community.<sup>97</sup> At the micro-level, a college education increases “access to g,” as individuals are more likely to secure a high-paying job and experience upward mobility. At the macro-level, boosting college graduation rates increases “g” by spurring economic growth.

The reality, however, is that too many low-income Americans and Texans lack the ability to reach their college goals.<sup>98</sup> In Texas, less than 10% of low-income students graduate from college and 66% of students drop out while in college.<sup>99</sup> While several factors drive this reality, decreased college affordability, as described in Section IIIC, is certainly an important one.<sup>100</sup>

- a. Dream Scenario: Make college tuition, fees, room, and board, \$5,000 or less per year for students receiving the Pell Grant

Senator Bernie Sanders ran for President promising to make college tuition free, and Secretary Clinton ran promising to make college tuition debt free (i.e. families would still have to make their Expected Financial Contribution).<sup>101</sup> Texas should adopt a hybrid-version by making public universities cost less than \$5,000 per year for all students receiving the Pell Grant.

While this idea may seem hopelessly expensive, it may be doable. Firstly, community colleges are already tuition free for students receiving the Pell Grant.<sup>102</sup> Secondly, the gap between the full Pell Grant and the tuition at the University of Texas at Austin is less than \$5,000 per year.<sup>103</sup> Thirdly, the Texas Grant, if fully-funded, provides up to \$5,666 per year for students, which is the more than the gap between tuition and the Pell Grant. As such, for

97. Ulrich Boser, *The Best Way to Boost GDP: Education?*, US NEWS (Aug. 12, 2015, 2:35 PM), <https://www.usnews.com/opinion/knowledge-bank/2015/08/12/education-can-boost-gdp-even-more-than-we-thought>.

98. Michele Free, *Low Income Students Are Less Likely to Enroll and Graduate from College*, REACH HIGHER (Feb. 8, 2016), [www.reachpikespeak.org/low-income-students-are-less-likely-to-enroll-and-graduate-from-college/#.WgxYcNOPI2w](http://www.reachpikespeak.org/low-income-students-are-less-likely-to-enroll-and-graduate-from-college/#.WgxYcNOPI2w).

99. Garret Groves & Leslie Helmcamp, *Keeping College Within Reach*, CENTER FOR BUDGET AND POLICY PRIORITIES (Apr. 2015), [forabettertexas.org/images/EO\\_2015\\_04\\_KeepingCollegeWithinReach.pdf](http://forabettertexas.org/images/EO_2015_04_KeepingCollegeWithinReach.pdf).

100. *Id.*

101. Maxwell Tany, Aby Jackson, & Samantha Lee, *Here's where Hillary Clinton and Bernie Sanders Stand on College Affordability*, THE BUSINESS INSIDER (Feb. 27, 2016, 2:50 PM), [www.businessinsider.com/hillary-clinton-bernie-sanders-education-college-affordability-2016-2](http://www.businessinsider.com/hillary-clinton-bernie-sanders-education-college-affordability-2016-2).

102. Interview with John Hansen, Houston Community College Board Member, Oct. 2017.

103. UT Tuition is \$10,000 for in-state residents and the Pell Grant is \$5,500. *Federal Pell Grant Program*, U.S. DEPT. OF ED., [www2.ed.gov/programs/fpg/index.html](http://www2.ed.gov/programs/fpg/index.html). *University of Texas at Austin*, COLLEGE DATA, [www.collegedata.com/cs/data/college/college\\_pg03\\_tmpl.jhtml?schoolId=788](http://www.collegedata.com/cs/data/college/college_pg03_tmpl.jhtml?schoolId=788) (last visited Mar. 5, 2018).

students receiving the full Pell Grant, college should already be tuition free. This leaves a gap of about \$9,000 for room and board. The Federal Work Study program provides an average of approximately \$2,500 for students.<sup>104</sup> Assuming the student's Estimated Financial Contribution is zero, the gap is still about \$6,000. The Texas Legislature should allocate \$1,000 per year per student and then the student can obtain a federal subsidized loan for the other \$5,000.<sup>105</sup> This policy idea, therefore, would only require the Texas Legislature to allocate approximately \$1,000 per student who receives the full Pell Grant and slightly more for others.

Despite the relatively reasonable price tag on such a policy, Texas' Legislators may be unwilling to adopt it because it will require an increase in funds dedicated to education, and for many Legislators that is anathema. Moreover, some conservatives argue that people must have "skin in the game"<sup>106</sup> and that providing college at a low cost is ineffective because people will not value it as much.

b. Politically Feasible Scenario: Fully Fund the Texas Grant

The Texas Grant was created as a scholarship to support low-income students attend college.<sup>107</sup> While the Legislature increased funding by 10% in 2017, the grant is still not able to fully cover all the eligible students.<sup>108</sup> As such, the Legislature should allocate the final funding needed to fully cover this grant. This will be a relatively low-cost solution (in the tens of millions of dollars) that will ensure more low-income students can attend college. The Texas House voted to fully fund the grant; however, the Texas Senate scaled back the funding. As such, advocacy should focus on the Texas Senate to ensure the grant is fully funded. Ultimately, reducing the cost of college will help more low-income students matriculate to and graduate from college and thus increase social

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104. Teddy Nykiel, *What is Work Study, A Student's Guide*, NERDWALLET (Aug. 18, 2017), [www.nerdwallet.com/blog/loans/student-loans/what-is-work-study/](http://www.nerdwallet.com/blog/loans/student-loans/what-is-work-study/).

105. The subsidized loan can come from the government which allocates up to \$5,000 per year for qualifying students. *Subsidized and Unsubsidized Loans*, FEDERAL STUDENT AID, [studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized](http://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized) (last visited Mar. 5, 2018).

106. *Should College Students have Skin in the Game*, EDVISORS, [www.edvisors.com/plan-for-college/teamwork/skin-in-the-game/](http://www.edvisors.com/plan-for-college/teamwork/skin-in-the-game/).

107. COLLEGE FOR ALL TEXANS, [www.collegeforalltexas.com/apps/financialaid/tofa2.cfm?ID=458](http://www.collegeforalltexas.com/apps/financialaid/tofa2.cfm?ID=458).

108. Matthew Watkins, *In a Year of Cuts, the Texas Legislature Boosted Financial Aid for College Students*, TEX. TRIB. (June 7, 2017, 12:00 AM), [www.texastribune.org/2017/06/07/year-cuts-texas-legislature-boosted-financial-aid/](http://www.texastribune.org/2017/06/07/year-cuts-texas-legislature-boosted-financial-aid/).

mobility.

### 3. Access to healthcare

Texas has the highest rate of uninsured people in the United States, as currently, 5 million Texans (17.1% of the population)<sup>109</sup> do not have health insurance.<sup>110</sup> Research has shown that increasing health coverage for low-income individuals boosts economic growth and reduces inequality.<sup>111</sup> Specifically, as more people have coverage, it reduces the amount they must spend on healthcare thereby allowing for other investments to boost their well-being. Moreover, expanding health insurance coverage improves health outcomes which boosts economic growth, “g”, and allows more low-income individuals to improve their socio-economic status, “access to g.”<sup>112</sup> For this policy, I have only offered one recommendation: expand Medicaid, as it is both the dream scenario, because it would provide insurance for millions, and the politically-feasible solution, because more and more business Republicans have come out in support of the policy.

#### a. Dream Scenario and Politically-Feasible Scenario: Expand Medicaid

The Affordable Care Act mandated that states expand Medicaid to cover all families with incomes up to 133% of the federal poverty line.<sup>113</sup> However, the Supreme Court in *NFIB v. Sebelius* ruled this provision unconstitutional because it was coercive.<sup>114</sup> As such, states had to choose whether or not to expand Medicaid. 32 states have opted to expand Medicaid; however, Texas decided not to, thereby leaving 1 million Texans without health insurance.<sup>115</sup>

109. Alexa Ura, *Texas' Uninsured Rate Continues to Fall*, TEX. TRIB. (Sept. 13, 2016, 11:00 AM), [www.texastribune.org/2016/09/13/texas-uninsured-rate-continues-fall/](http://www.texastribune.org/2016/09/13/texas-uninsured-rate-continues-fall/).

110. Center for Budget and Policy Priorities, *Miracle or Mirage* [forabettertexas.org/images/2016\\_MiracleOrMirage\\_2pager.pdf](http://forabettertexas.org/images/2016_MiracleOrMirage_2pager.pdf) (last visited Mar. 5, 2018).

111. Henry Aaron & Gary Burtless, *Potential Effects of the Affordable Care Act on Income Inequality*, BROOKINGS (Jan. 27, 2014), [www.brookings.edu/research/potential-effects-of-the-affordable-care-act-on-income-inequality/](http://www.brookings.edu/research/potential-effects-of-the-affordable-care-act-on-income-inequality/).

112. Benjamin D. Sommers, Atul A. Gawande & Katherine Baicker, *Health Insurance Coverage and Health — What the Recent Evidence Tells Us*, 377 N. ENGL. J. MED. 586 (Aug. 10, 2017), [www.nejm.org/doi/full/10/1056/NEJMs1706645](http://www.nejm.org/doi/full/10/1056/NEJMs1706645) (last visited Aug. 16, 2018).

113. Patient Protection and Affordable Care Act, 42 U.S.C. § 18001 (2010). Patient Protection and Affordable Care Act, 42 U.S.C. § 18001 (2010).

114. National Federation of Independent Businesses v. Sebelius, 567 U.S. 519, 583 (2012).

115. *A 50-State Look at Medicaid Expansion*, FAMILIES USA (Jan. 2018), [familiesusa.org/product/50-state-look-medicaid-expansion](http://familiesusa.org/product/50-state-look-medicaid-expansion) (last visited Mar. 5,

Texas should expand Medicaid because it will not only help millions of Texans access insurance, but also provide jobs for Texas' first-rate medical centers.<sup>116</sup>

While the Republican-dominated Legislature has traditionally rejected a Medicare expansion, recently more and more business Republicans have expressed support for the policy. For example, Harris County Judge Ed Emmett came out in support of expanding Medicaid in Texas.<sup>117</sup> Similarly, the Texas Association of Business supports expanding Medicaid because, "it just makes sense..."<sup>118</sup> As such, with support from business Republicans coupled with Democrats, perhaps the state could expand Medicaid and provide care for millions of Texans.

#### 4. Criminal Justice System

U.S. incarceration statistics are mind-boggling: 1 out of every 37 U.S. adults are under some form of supervision by the criminal justice system, and although the U.S. has 5% of the world's population, it has 21% of its incarcerated population.<sup>119</sup> In total, the U.S. annually spends over \$80 billion incarcerating its citizens.<sup>120</sup> This means that \$80 billion cannot be spent investing in health, education, or infrastructure and thus almost necessarily lowers economic growth.<sup>121</sup> Moreover, those with a criminal record have difficulty securing a job and accessing economic growth.<sup>122</sup> While many policies drive this, one is the nation's drug laws, which disproportionately affect lower-income minorities.<sup>123</sup> Specifically,

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2018).

116. Wade Goodwyn, *Texas Politicians And Businesses Feud Over Medicaid Expansion*, NPR (May 29, 2015), [www.npr.org/sections/health-shots/2015/05/29/410520561/texas-politicians-and-businesses-feud-over-medicaid-expansion](http://www.npr.org/sections/health-shots/2015/05/29/410520561/texas-politicians-and-businesses-feud-over-medicaid-expansion).

117. *The Pulse Podcast – Judge Ed Emmett on Medicaid Expansion; Texas Tribune's Edgar Walters on Zika and the Presidential Election*, LEGACY COMMUNITY HEALTH (Apr. 6, 2018), [legacycommunityhealth.org/the-pulse-judge-ed-emmett-medicaid/](http://legacycommunityhealth.org/the-pulse-judge-ed-emmett-medicaid/).

118. Phillip Martin, *Texas Businesses Support Medicaid Expansion*, PROGRESS TEXAS (Dec. 29, 2014), [progresstexas.org/blog/texas-businesses-support-medicaid-expansion](http://progresstexas.org/blog/texas-businesses-support-medicaid-expansion).

119. *Criminal Justice Fact Sheet*, NAACP, [www.naacp.org/criminal-justice-fact-sheet/](http://www.naacp.org/criminal-justice-fact-sheet/).

120. *Does the U.S. Spend \$80 Billion a Year on Incarceration?*, COMMITTEE FOR A RESPONSIBLE BUDGET (Dec. 23, 2015), [www.crfb.org/blogs/us-spends-80-billion-year-incarceration](http://www.crfb.org/blogs/us-spends-80-billion-year-incarceration).

121. Suzanne Kirchoff, *Economic Impacts of Prison Growth*, *Congressional Research Service*, FEDERATION OF AMERICAN SCIENTISTS (Apr. 13, 2010), [fas.org/sgp/crs/misc/R41177.pdf](http://fas.org/sgp/crs/misc/R41177.pdf). (last visited Aug. 16, 2018).

122. Kai Wright, *Boxed In: How a Criminal Record Keeps You Unemployed For Life*, THE NATION (June 6, 2013), [www.thenation.com/article/boxed-how-criminal-record-keeps-you-unemployed-life/](http://www.thenation.com/article/boxed-how-criminal-record-keeps-you-unemployed-life/).

123. *Race and the Drug War*, DRUG POLICY ALLIANCE, [www.drugpolicy.org/issues/race-and-drug-war](http://www.drugpolicy.org/issues/race-and-drug-war).

although marijuana usage among wealthy and low-income Americans is similar, the rates of arrest are vastly different with low-income minorities bearing the brunt of the arrests.<sup>124</sup>

a. Dream Scenario: Legalize marijuana

Given the significant impact of marijuana arrests, 29 states and the District of Columbia have passed laws legalizing or decriminalizing marijuana.<sup>125</sup> Texas should follow these states and legalize marijuana. 53% of Texans agree that marijuana should be legalized in small amounts, and this support is only growing.<sup>126</sup> Moreover, legalizing marijuana will help ease some of the drug smuggling across the Texas-Mexico border.<sup>127</sup>

In 2017, House Bill 81, which would decriminalize marijuana possession under one ounce, passed the House Criminal Jurisprudence Committee and received 41 bi-partisan cosponsors.<sup>128</sup> While this bill did not pass, it shows there is a growing consensus around decriminalizing minor drug possession. If this bill, or one like it, were to become law, it would reduce law enforcement spending and help more low-income Texans avoid a criminal record and thus be better able to secure jobs and move into the middle class.

b. Politically-Feasible Solution: Do not preempt localities' efforts to decriminalize marijuana

If state-wide marijuana legalization is a bridge too far, Texas should allow cities and counties to experiment with decriminalizing marijuana. For example, in 2017, Harris County decriminalized possession of marijuana under four ounces, a move that will save the county millions of dollars.<sup>129</sup> Similarly, Dallas passed a cite-and-

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124. Dylan Matthews, *The Black/White Marijuana Arrest Gap*, in *Nine Charts*, WASHINGTON POST (June 4, 2013), [www.washingtonpost.com/news/wonk/wp/2013/06/04/the-blackwhite-marijuana-arrest-gap-in-nine-charts/?utm\\_term=.925f29f61eea](http://www.washingtonpost.com/news/wonk/wp/2013/06/04/the-blackwhite-marijuana-arrest-gap-in-nine-charts/?utm_term=.925f29f61eea).

125. *State Marijuana Laws in 2018 Map*, GOVERNING, [www.governing.com/gov-data/state-marijuana-laws-map-medical-recreational.html](http://www.governing.com/gov-data/state-marijuana-laws-map-medical-recreational.html).

126. Ross Ramsey, *UT/TT Poll: Support for Marijuana Growing like a Weed in Texas*, TEX. TRIB. (Feb. 21, 2017, 12:00 AM), [www.texastribune.org/2017/02/21/uttt-poll-support-marijuana-growing-weed-texas/](http://www.texastribune.org/2017/02/21/uttt-poll-support-marijuana-growing-weed-texas/).

127. Eleanor Dearman, *Legalizing Marijuana Might have Negligible Impact on Border Security*, TEX. TRIB. (Dec. 9, 2016, 12:00 AM), [www.texastribune.org/2016/12/09/marijuana-legalization-texas/](http://www.texastribune.org/2016/12/09/marijuana-legalization-texas/).

128. Stephen Young, *The State of Marijuana in Texas After the 2017 Legislative Session*, DALLAS OBSERVER (June 1, 2017, 11:00 AM), [www.dallasobserver.com/news/texas-legislature-2017-marijuana-law-recap-9522506](http://www.dallasobserver.com/news/texas-legislature-2017-marijuana-law-recap-9522506).

129. Danny Clemens, *Everything you Need to Know About Harris Co.'s New Pot Policy*, ABC NEWS (Mar. 2, 2017), [abc13.com/news/what-you-need-to-know-](http://abc13.com/news/what-you-need-to-know-)

release policy for anyone caught with under four ounces of marijuana.<sup>130</sup> Whereas the Texas Legislature has typically tried to restrict local municipalities' power, it should instead allow cities to experiment.<sup>131</sup> This not only accords with local control but also allows Texas to save money, spur economic growth, and expand social mobility.

### 5. Infrastructure investment

Each year the American Society of Civil Engineers ranks every state's infrastructure along several domains.<sup>132</sup> In 2017, Texas received an overall grade of "C-," and its flood control and dams all received a "D".<sup>133</sup> In August 2017, Hurricane Harvey provided Texans a painful reminder of the state's dismal flood control infrastructure.<sup>134</sup> This sub-par infrastructure not only reduces economic growth,<sup>135</sup> but also disproportionately impacts low-income communities and reduces their ability to achieve upward mobility.<sup>136</sup>

#### a. Dream Scenario: Create an infrastructure bank

Texas has over \$60 billion in unmet infrastructure investments; however, the state cannot simply write a check to make all the needed repairs.<sup>137</sup> As such, the state should consider

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about-harris-cos-pot-policy/1757801/ (last visited Mar. 5, 2018).

130. Stephen Young, *Cite-and-Release for Pot Possession Will (Finally) Start in Dallas in December*, DALLAS OBSERVER (Oct. 17, 2017, 1:18 PM), [www.dallasobserver.com/news/dallas-county-approved-cite-and-release-for-marijuana-possession-9981422](http://www.dallasobserver.com/news/dallas-county-approved-cite-and-release-for-marijuana-possession-9981422).

131. Madlin Mekelberg, *Texas Enacts Statewide Regulations for Uber, and Lyft*, THE DALLAS MORNING NEWS (May 29, 2017), [www.dallasnews.com/news/texas-legislature/2017/05/29/texas-enacts-statewide-regulations-uber-lyft](http://www.dallasnews.com/news/texas-legislature/2017/05/29/texas-enacts-statewide-regulations-uber-lyft). *Texas Legislature Bans Local Ordinances Protecting Voucher Holders from Discrimination*, NATIONAL LOW INCOME HOUSING COALITION (June 1, 2015), [nlihc.org/article/texas-legislature-bans-local-ordinances-protecting-voucher-holders-discrimination](http://nlihc.org/article/texas-legislature-bans-local-ordinances-protecting-voucher-holders-discrimination).

132. *Texas 2017*, NATIONAL INFRASTRUCTURE REPORT CARD, [www.infrastructurereportcard.org/state-item/texas/](http://www.infrastructurereportcard.org/state-item/texas/) (last visited Mar. 5, 2018).

133. *Id.*

134. Tanvi Misra, *A Catastrophe for Houston's Most Vulnerable People*, THE ATLANTIC (Aug. 27, 2017), [www.theatlantic.com/news/archive/2017/08/a-catastrophe-for-houstons-most-vulnerable-people/538155/](http://www.theatlantic.com/news/archive/2017/08/a-catastrophe-for-houstons-most-vulnerable-people/538155/).

135. TJ Costello & Ginger Lowry, *Texas Road Finance Part II: Economic Impacts*, FISCAL NOTES (2017), [comptroller.texas.gov/economy/fiscal-notes/2016/june-july/road-finance-p2.php](http://comptroller.texas.gov/economy/fiscal-notes/2016/june-july/road-finance-p2.php) (last visited Mar. 5, 2018).

136. Alexa Ura, *For Low-Income Texans, a Tougher Road to Recovery after Hurricane Harvey*, TEX. TRIB. (Sept. 1, 2017, 12:00 AM), [www.texastribune.org/2017/09/01/displaced-harvey-low-income-texans-face-long-road-recovery/](http://www.texastribune.org/2017/09/01/displaced-harvey-low-income-texans-face-long-road-recovery/).

137. *TxDOT Plans For \$70 Billion To Fund Transportation Projects Over Next 10 Years*, TEXAS DEPT. OF TRANSP. (Aug. 25, 2016), [www.txdot.gov/inside-txdot/media-center/statewide-news/22-2016.html](http://www.txdot.gov/inside-txdot/media-center/statewide-news/22-2016.html).

creating an infrastructure bank with seed funding from the Texas Rainy Day fund.<sup>138</sup> The bank could leverage private funding to rebuild roads, dams, and flood control and repay private investors over time from the increased economic growth. Such a policy would not only boost economic growth directly, but also create thousands of jobs particularly for lower-income workers.

An infrastructure bank, however, will likely face opposition from both Republicans and Democrats. Republicans may oppose this because it will require a significant up-front government investment. Democrats, on the other hand, will likely fear this plan may create private infrastructure, such as toll roads.<sup>139</sup>

b. Politically Feasible Scenario: Rebuild Texas' flood control infrastructure

In the post-Harvey Texas, there has been widespread consensus that Texas must improve its flood control infrastructure. Democrats and Republicans have called for buying homes in floodplains,<sup>140</sup> funding crucial flood projects,<sup>141</sup> and building a new reservoir.<sup>142</sup> The state should focus on these widely-supported policies and consider using the Rainy Day Fund for them. Politicians will receive a political bump from such projects, as voters are incredibly concerned about flooding. Moreover, Texas may be able to secure federal dollars to fund a significant portion of the projects, thereby, reducing the state's expense.

6. School funding

School funding is a critical lever toward expanding equality. School funding operates at two levels; firstly, increasing funding allows for improved educational outcomes that will, all else equal, increase the economic growth rate. Secondly, increasing funding

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138. TJ Costello, David Green, & Patrick Graves, *The Texas Economic Stabilization Fund*, FISCAL NOTES (2017), [comptroller.texas.gov/economy/fiscal-notes/2016/september/rainy-day.php](http://comptroller.texas.gov/economy/fiscal-notes/2016/september/rainy-day.php) (last visited Mar. 5, 2018).

139. Brandon Formby, *Texans Fear Trump's Highways Plan Will Create More Toll Roads*, TEX. TRIB. (Nov. 25, 2016, 12:00 AM), [www.texastribune.org/2016/11/25/texans-fear-trumps-infrastructure-plan-will-create/](http://www.texastribune.org/2016/11/25/texans-fear-trumps-infrastructure-plan-will-create/).

140. Mihir Zaveri, *Harris County Seeks FEMA Help on Home Buyouts After Harvey*, HOUS. CHRON. (Updated Sept. 12, 2017, 10:36 PM), [www.houstonchronicle.com/news/politics/houston/article/Harris-County-seeks-FEMA-help-on-home-buyouts-12193177.php](http://www.houstonchronicle.com/news/politics/houston/article/Harris-County-seeks-FEMA-help-on-home-buyouts-12193177.php).

141. Megan Flynn, *15 Ways Harris County Judge Ed Emmett Wants to Mitigate Flooding*, HOUSTON PRESS (Oct. 26, 2017, 8:00 AM), [www.houstonpress.com/news/15-items-on-harris-county-judge-ed-emmetts-flood-mitigation-wish-list-9906306](http://www.houstonpress.com/news/15-items-on-harris-county-judge-ed-emmetts-flood-mitigation-wish-list-9906306).

142. Miya Shay, *Texas to Give Houston \$50 Million to Cover Harvey Costs*, ABC 13 (Sept. 29, 2017) [abc13.com/texas-to-give-houston-\\$50-million-to-cover-harvey-costs/2469081/](http://abc13.com/texas-to-give-houston-$50-million-to-cover-harvey-costs/2469081/).

equity will improve the outcomes of underserved students vis-à-vis wealthy students thereby providing low-income students a better opportunity to secure high-paying jobs and therefore access economic growth.

Most states rely on property tax funding for schools, meaning that high-income neighborhoods will have more funding than low-income neighborhoods.<sup>143</sup> In response, several states have adopted some form of state-wide wealth re-distribution.<sup>144</sup> However, many states fail to meet an equal funding standard, and most states fail to meet an equitable standard between wealthy and poor districts.<sup>145</sup>

Texas, unsurprisingly, is the 4<sup>th</sup> worst state in educational funding equality.<sup>146</sup> Texas' school funding system has been subject to years of litigation in the so-called *Edgewood* cases.<sup>147</sup> These cases have continued for over thirty years and have followed a consistent pattern: school districts sue the state arguing the school finance system is unconstitutional; the court agrees and finds the system unconstitutional; the Legislature makes small tweaks; the court finds the system barely permissive; and a few years later the school districts sue again and the cycle repeats.<sup>148</sup> Most recently, in 2007, the Legislature created the Gross Margins Tax (mentioned in Section IVa) to make up the funding shortfall; however, the tax raised significantly less revenue than predicted leaving the school system under-resourced. Although the Legislature made up \$1.3 billion of the over \$5 billion shortfall, school districts remain underfunded.<sup>149</sup>

a. Dream Scenario: Redesign the school finance system to ensure funding equity

In 2016, the Texas Supreme Court found that the current

143. *Why America's Schools Have a Money Problem*, NPR (Apr. 18, 2016, 5:00 AM), [www.npr.org/2016/04/18/474256366/why-americas-schools-have-a-money-problem](http://www.npr.org/2016/04/18/474256366/why-americas-schools-have-a-money-problem).

144. NATASHA USHOMIRSKY & DAVID WILLIAMS, FUNDING GAPS 2015, THE EDUCATION TRUST (Mar. 2015), [1k9gl1yevnfp2lpq1dhrqe17-wpengine.netdna-ssl.com/wp-content/uploads/2014/09/FundingGaps2015\\_TheEducationTrust1.pdf](https://www.educationtrust.org/wp-content/uploads/2014/09/FundingGaps2015_TheEducationTrust1.pdf).

145. *Id.* (ensuring that poor districts that have more English Language Learners and first-generation students have enough funding to ensure the opportunities are equal across the districts).

146. *Id.*

147. The Associated Press, *A Timeline of Texas' 30 Years of School Finance Legal Fights*, S.D. UNION TRIB. (Aug. 30, 2015, 7:32 AM), [www.sandiegouniontribune.com/sdut-a-timeline-of-texas-30-years-of-school-finance-2015aug30-story.html](http://www.sandiegouniontribune.com/sdut-a-timeline-of-texas-30-years-of-school-finance-2015aug30-story.html).

148. *Id.*

149. Maria Luisa Cesar, *After Huge Cuts in 2011, Education Faces a Funding Crisis in Texas*, NOODLE, [www.noodle.com/articles/after-huge-cuts-in-2011-education-faces-a-funding-crisis-in-texas](http://www.noodle.com/articles/after-huge-cuts-in-2011-education-faces-a-funding-crisis-in-texas) (last visited Mar. 5, 2018).

school finance system “satisfies the minimum constitutional requirements.”<sup>150</sup> The court, however, also found that the system is “Byzantine” with “immense room for improvement.”<sup>151</sup> Many in the Legislature welcomed this as a victory, with Governor Abbott declaring the court decision a “victory for Texans.”<sup>152</sup> While the system is barely permissive, the Legislature can and should fundamentally redesign the system. One idea is to create one large school district with several sub-districts. This would have the benefit of allowing the one school district to use the entire state as a tax base and then spread money around the district. The sub-districts could remain along the current lines so that management of the schools remains local. Such a system would fundamentally redesign the school system and allow for massive investments in schools in the poorest communities. Moreover, it could spur economic growth and allow more low-income students to reach their full potential.

b. Politically-Feasible Solution: Restore the \$3 billion in cuts

While the dream scenario would ensure equity, it is likely a political non-starter because it would require wealthy districts to share their resources. As such, a more palatable option may be simply restoring the 2011 funding cut. In fact, nearly 50% of Texans support increasing funding for public education.<sup>153</sup> In 2017, the House and Senate debated including an extra \$1.1 billion in funding for education; however, they were unable to agree on a final number thereby leaving schools underfunded. The Legislature should follow the will of a plurality of Texans and increase funding for education. Specifically, it should use the Rainy Day Fund and a reformed and expanded Gross Margins Tax to boost funding for education back to its 2011 levels. Moreover, school funding growth should be tied to inflation growth.

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150. Kiah Collier, *Texas Supreme Court Rules School Funding System is Constitutional*, TEX. TRIB. (May 13, 2016, 9:00 AM), [www.texastribune.org/2016/05/13/texas-supreme-court-issues-school-finance-ruling/](http://www.texastribune.org/2016/05/13/texas-supreme-court-issues-school-finance-ruling/).

151. *Id.*

152. *Id.*

153. Ross Ramsey, *UT/TT Poll: Few Texas Voters Believe Education Spending is too High*, TEX. TRIB. (June 20, 2017, 12:00 AM), [www.texastribune.org/2017/06/20/uttt-poll-few-texas-voters-believe-education-spending-too-high/](http://www.texastribune.org/2017/06/20/uttt-poll-few-texas-voters-believe-education-spending-too-high/).

### C. Policies that expand “access to g”

#### 1. Build affordable housing in high opportunity areas

19 million households in the U.S. are eligible for affordable housing; however, only 25% of those households receive this housing.<sup>154</sup> Beyond the inadequacy of housing supply, public housing is often concentrated in low-income areas.<sup>155</sup> Texas is a perfect example of this, as 90% of public housing units and 90% of Section 8 vouchers are concentrated in areas with higher crime rates and lower-performing schools than average.<sup>156</sup> Given the research from Raj Chetty on the importance of neighborhoods in achieving social mobility, this policy traps low-income people in a cycle of poverty and reduces their upward mobility.<sup>157</sup>

##### a. Dream Scenario: Create grants for housing projects in high-opportunity areas

Currently, much of the funding for affordable housing comes from the federal government, and there is much to be improved at the federal level. However, Texas could provide its own funding for affordable housing. Specifically, Texas could provide grants to municipal housing authorities to build affordable housing in high-opportunity areas. Such a policy would directly increase access to economic growth because low-income individuals would move from areas with poorer job prospects and sub-par schools to areas with job growth and excellent schools.<sup>158</sup>

While this policy would be effective at improving upward mobility, it will likely face two significant political challenges: (1) Wealthy individuals who live in high-opportunity neighborhoods often have vocal opposition to affordable housing being built in their neighborhood;<sup>159</sup> and, (2) Any program that requires more funding

154. Erika Poethig, *One in Four: America's Housing Assistance Lottery*, URBAN INSTITUTE (May 28, 2014), [www.urban.org/urban-wire/one-four-americas-housing-assistance-lottery](http://www.urban.org/urban-wire/one-four-americas-housing-assistance-lottery).

155. Paul Joice, *Neighborhood Effects of Public Housing: How the Level of Public Housing Concentration Influences Neighborhood Crime Levels*, (2007) [uknowledge.uky.edu/cgi/viewcontent.cgi?article=1156&context=mpampp\\_etds](http://uknowledge.uky.edu/cgi/viewcontent.cgi?article=1156&context=mpampp_etds).

156. John Henneberger, *Houstonians Should be Angry About Public Housing – Because of Segregation*, TEXAS HOUSERS (Feb. 23, 2016), [texashousers.net/2016/02/23/houstonians-should-be-angry-about-public-housing-because-of-segregation/](http://texashousers.net/2016/02/23/houstonians-should-be-angry-about-public-housing-because-of-segregation/).

157. Raj Chetty, Nathaniel Hendren & Lawrence Katz, *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project*, 106 AM. ECON. REV. 4 (2015).

158. It is important to note that we must both provide low-income families the opportunity to move to high-opportunity areas and invest in traditionally-neglected neighborhoods to ensure that families do not have to move in order to have an opportunity at upward mobility.

159. STOP THE FOUNTAINVIEW PROJECT, [stopfountainviewproject.org/](http://stopfountainviewproject.org/) (last

from the state government is essentially dead-on-arrival. Nevertheless, the Legislature should try to enact this policy because it will help low-income families experience upward mobility.

b. Politically-Feasible Scenario: Repeal Senate Bill 267

In 2014, the City of Austin passed an ordinance prohibiting landlords in the city from discriminating against tenants who were using a government-provided Section 8 voucher.<sup>160</sup> Several states have passed laws like Austin's to protect renters who receive Section 8 vouchers from discrimination.<sup>161</sup> In 2015, Texas responded to Austin's law by prohibiting municipalities from criminalizing discrimination against Section 8 voucher recipients.<sup>162</sup> As such, landlords in Texas are free to reject Section 8 voucher recipients purely because they are using vouchers to pay for the unit. This functionally prohibits low-income families from securing apartments in high-opportunity because those landlords reject them solely because they are low-income.

Texas should repeal SB 267 and allow municipalities to regulate their housing markets as they see fit. Such a change would not only promote local control, something Texans from all backgrounds support,<sup>163</sup> but also allow more low-income families to move into higher-opportunity areas.

*D. Policies that reduce “r” and increase “access to g”*

1. Unions

Unions have been a staple of the United States labor market for decades, and they served various functions including: (1) increasing worker pay;<sup>164</sup> (2) improving working conditions;<sup>165</sup> (3)

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visited Mar. 5, 2018).

160. *Texas Legislature Bans Local Ordinances Protecting Voucher Holders from Discrimination*, NATIONAL LOW INCOME HOUSING COALITION (June 1, 2015), [nlihc.org/article/texas-legislature-bans-local-ordinances-protecting-voucher-holders-discrimination](http://nlihc.org/article/texas-legislature-bans-local-ordinances-protecting-voucher-holders-discrimination).

161. *Source of Income Discrimination in Housing*, AFFORDABLE HOUSING ONLINE, [affordablehousingonline.com/source-of-income-antidiscrimination-laws](http://affordablehousingonline.com/source-of-income-antidiscrimination-laws) (last visited Mar. 5, 2018).

162. *Texas Legislature Bans Local Ordinances Protecting Voucher Holders from Discrimination*, NATIONAL LOW INCOME HOUSING COALITION (June 1, 2015), [nlihc.org/article/texas-legislature-bans-local-ordinances-protecting-voucher-holders-discrimination](http://nlihc.org/article/texas-legislature-bans-local-ordinances-protecting-voucher-holders-discrimination).

163. James Hensen & Joshua Blank, *The Demise of Local Control*, TEXAS MONTHLY (Mar. 30, 2017), [www.texasmonthly.com/burka-blog/demise-local-control/](http://www.texasmonthly.com/burka-blog/demise-local-control/).

164. George I. Long, *Differences Between Union and Nonunion Compensation, 2001–2011*, MONTHLY LABOR REVIEW (Apr. 2013), [www.bls.gov/opub/mlr/2013/04/art2full.pdf](http://www.bls.gov/opub/mlr/2013/04/art2full.pdf).

165. Matthew Walters & Lawrence Mishel, *How Unions Help All Workers*,

reducing executive compensation;<sup>166</sup> and, (4) providing workers an opportunity to experience upward mobility.<sup>167</sup> In other words, increased union membership is associated with decreased return of capital and increased access to economic growth. While some conservatives argue that increasing union membership slows economic growth,<sup>168</sup> other research suggests that unions may have no effect on economic productivity or even slightly *positive* effects.<sup>169</sup> Even if we assume, as conservatives do, that unions have a dampening effect on economic growth, unions may still be effective at reducing income inequality and expanding social mobility.

Despite these seemingly positive attributes of unions, 28 states have enacted right-to-work laws that functionally limit the formation of unions as they prevent employers from requiring employees to pay union dues as a condition of their employment.<sup>170</sup> Moreover, several states prohibit public employees from paying unions via payroll deductions.<sup>171</sup> Texas has followed the trend in becoming a right-to-work state and has tried unsuccessfully to prohibit deducting union dues from payroll.<sup>172</sup> Both of these policies reduce the power of unions thereby increasing “r” and reducing “access to g.”

#### a. Dream-Scenario: Repeal the Right-to-Work law

Texas’ right-to-work law restricts union formation resulting in a dismal 4% unionization rate as compared with 10.8% for the nation at-large as of January 2017.<sup>173</sup> By repealing the right-to-work law, Texas will encourage unionization and reap the associated benefits. However, a full repeal is unlikely given the state’s political make-up and the conservative mantra that unions

ECONOMIC POLICY INSTITUTE (Aug. 26, 2003), [www.epi.org/publication/briefingpapers\\_bp143/](http://www.epi.org/publication/briefingpapers_bp143/).

166. Kevin Banning & Ted Chiles, *Trade-Offs in the Labor Union-CEO Compensation Relationship*, 28 JOURNAL OF LABOR RESEARCH 347 (Spring 2007).

167. Lawrence H. Summers, *How do Unions Affect Social Mobility?*, WORLD ECONOMIC FORUM (Sept. 16, 2015), [www.weforum.org/agenda/2015/09/how-do-unions-affect-social-mobility/](http://www.weforum.org/agenda/2015/09/how-do-unions-affect-social-mobility/).

168. Barry T. Hirsch, *Unionization and Economic Performance: Evidence on Productivity, Profits, Investment, and Growth*, 3 PUBLIC POLICY SOURCES 1, 35–70 (1997).

169. Richard Freeman, *What Do Unions Do?* THE 2004 M-BRANE STRINGTWISTER EDITION, NBER (June 2005), [www.nber.org/papers/w11410.pdf](http://www.nber.org/papers/w11410.pdf).

170. *Right to Work States*, NATIONAL RIGHT TO WORK, [www.nrtw.org/right-to-work-states/](http://www.nrtw.org/right-to-work-states/) (last visited Mar. 5, 2018).

171. BILL ANALYSIS, COMM. REPORT, S.B. 1968, 2015 Leg., 84th Sess., (Tx. 2015), [www.legis.state.tx.us/tlodocs/84R/analysis/pdf/SB01968S.pdf#navpanes=0](http://www.legis.state.tx.us/tlodocs/84R/analysis/pdf/SB01968S.pdf#navpanes=0).

172. S.B. 1968, 2015 Leg., 84th Sess., (Tx. 2015).

173. *Union Membership in Texas-2016*, BUREAU OF LABOR STATISTICS, [www.bls.gov/regions/southwest/news-release/unionmembership\\_texas.htm](http://www.bls.gov/regions/southwest/news-release/unionmembership_texas.htm).

are bad.

- b. Politically-Feasible Scenario: Allow union dues from payroll deductions and do not preempt cities experimenting with alternate collective bargaining arrangements

As mentioned above, the Legislature tried to pass a prohibition on public employees deducting union dues from their paychecks. Texas should resist this effort, which needlessly makes it more difficult for unions to form. Moreover, the state should allow cities to experiment with alternative collective bargaining arrangements such as Seattle's plan to allow independent contractors to collectively bargain.<sup>174</sup> Such a policy would align with Texas' local control goals and help workers reap the benefits of unions and collective bargaining. These policies are more feasible than repealing the right-to-work law for two reasons. One, neither of these policies requires the Legislature to pass anything; instead, it requires inaction. Two, they will not spur unionization as much as repealing the right-to-work law.

## V. CONCLUSION

Whether we consider wealth, income, or education, America is becoming a more divided nation with gaps widening between the wealthy and the poor. Moreover, social mobility is falling as Americans are largely stuck in the same socio-economic class into which they are born. Several authors have identified causes of these twin ills; however, perhaps the most instructive is Piketty's "r">"g." Piketty argues that because "r," the rate of return on capital investments, is greater than "g," the economic growth of the economy, the owners of capital see their wealth grow faster than owners of labor resulting in widening inequality. Piketty's framework, however, is incomplete as it neither considers, access to economic growth ("access to g"), nor the potential of causes to affect multiple variables (i.e. increase "r" and lower "g").

I expand Piketty's model to include "access to g" and multi-factor causes to help explain the rise in income inequality and the fall in social mobility. I focus my analysis on Texas; however, the story is similar across the nation. Texas' inequitable school finance system, its restrictions on unions, its concentration of affordable housing in poor communities, and its underinvestment in pre-k all

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174. Although Seattle's ordinance is held up in the courts, the state itself should not try to preempt it with legislation. David Gutman, *Judge Dismisses Lawsuit Seeking to Block Seattle Law Allowing Uber and Lyft Drivers to Unionize*, SEATTLE TIMES (Updated Aug. 1, 2017, 6:36 PM), [www.seattletimes.com/seattle-news/transportation/judge-dismisses-lawsuit-seeking-to-block-seattle-law-allowing-uber-and-lyft-drivers-to-unionize/](http://www.seattletimes.com/seattle-news/transportation/judge-dismisses-lawsuit-seeking-to-block-seattle-law-allowing-uber-and-lyft-drivers-to-unionize/).

drive the rising gaps in income inequality.

I then offer specific policy recommendations for the next Texas Legislature. My suggestions focus on expanding access to pre-k, increasing support for college, reducing barriers to unions, improving the gross margins tax, expanding Medicaid, and more. For each policy, I outline both a dream scenario and a politically-feasible option. Both of these are important because focusing solely on political feasibility prevents us from envisioning structural change; whereas, concentrating solely on ideal options results in an inability to enact anything.

In the final analysis, however, this paper is about more than policies; it is instead about individual students, families, and communities from across the state. For me, it is personal because of my own experiences as a teacher. I think about Priscila, whose family didn't have money for electricity, or Ernesto, whose parents fell prey to usurious loans, or Henry, who yearned to see his father who was in jail for a minor drug offense. For each of these students, poverty was real, upward mobility was uncertain, and the link between hard work and success was broken. In short, the American Dream was on life-support for my students. This paper and these recommendations are fundamentally about restoring the American Dream for all Texans and ensuring every student can reach her aspirations.