The Impacts of Neighborhoods on Economic Opportunity
New Evidence and Policy Lessons

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Photo Credit: Florida Atlantic University

The American Dream?

- Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth:

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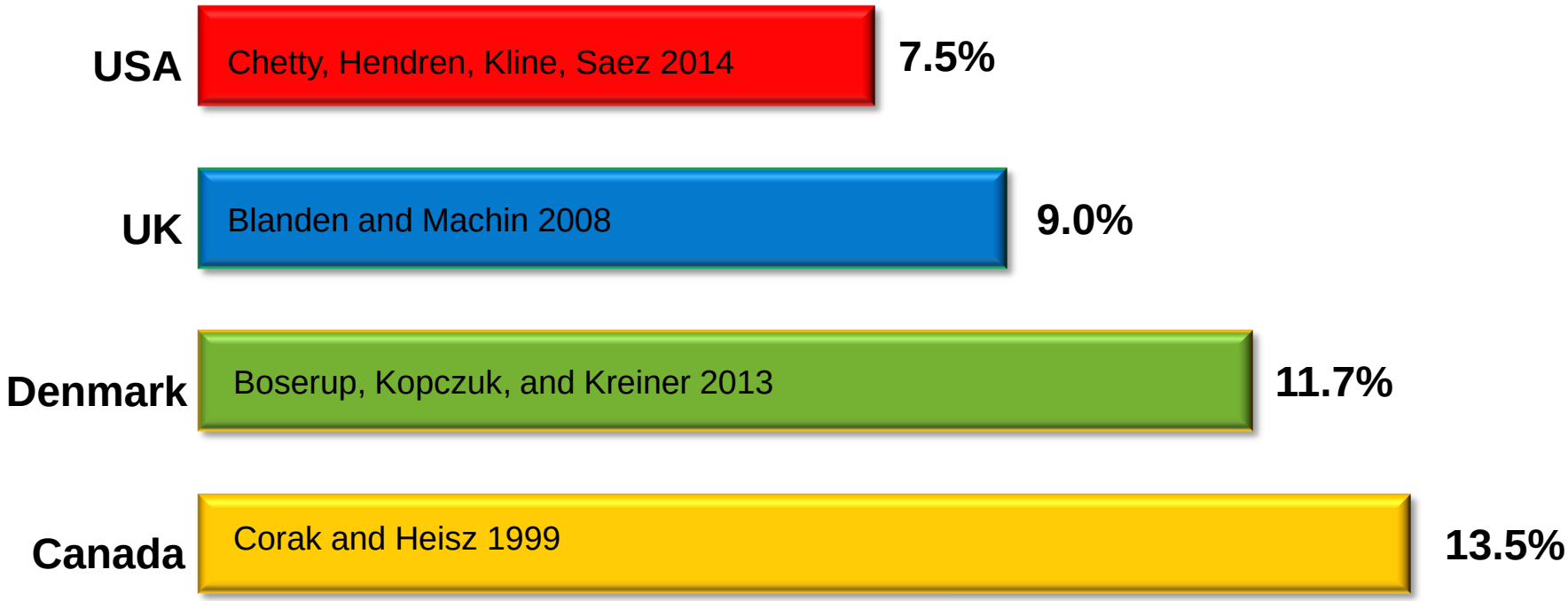
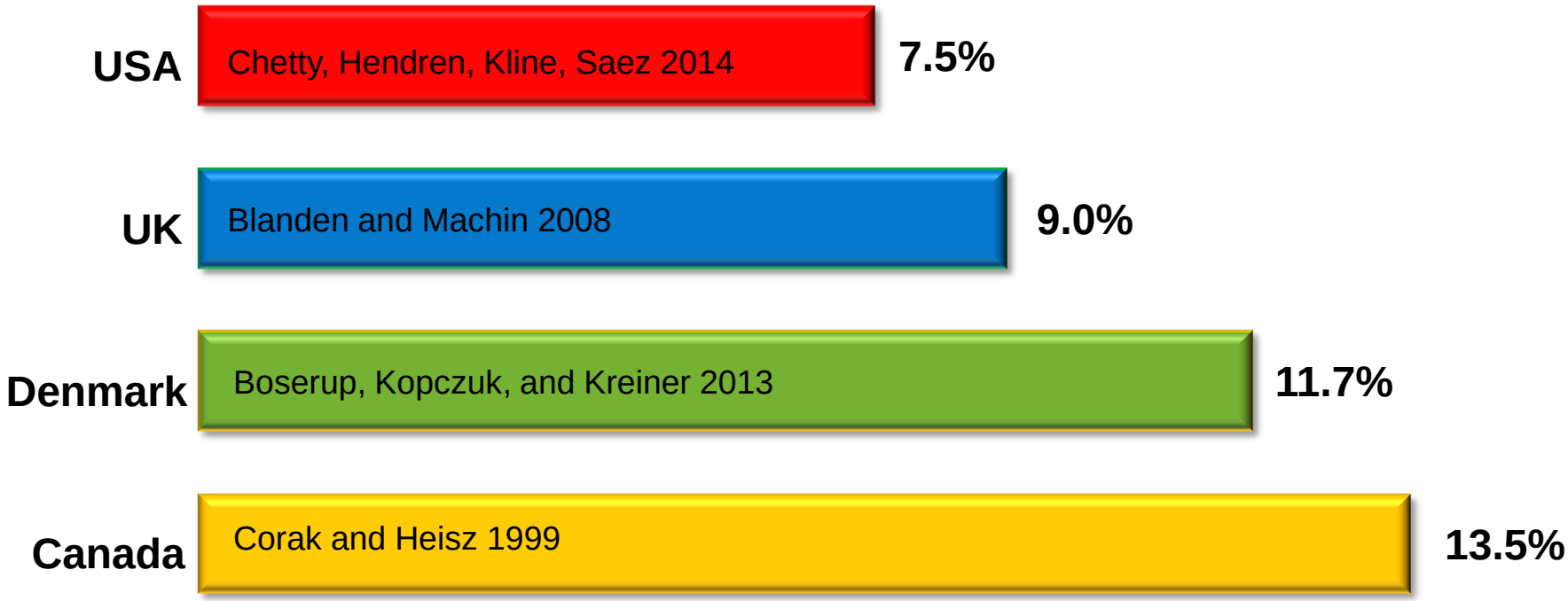


The American Dream?

- Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth:



→ Chances of achieving the “American Dream” are almost two times higher in Canada than in the U.S.

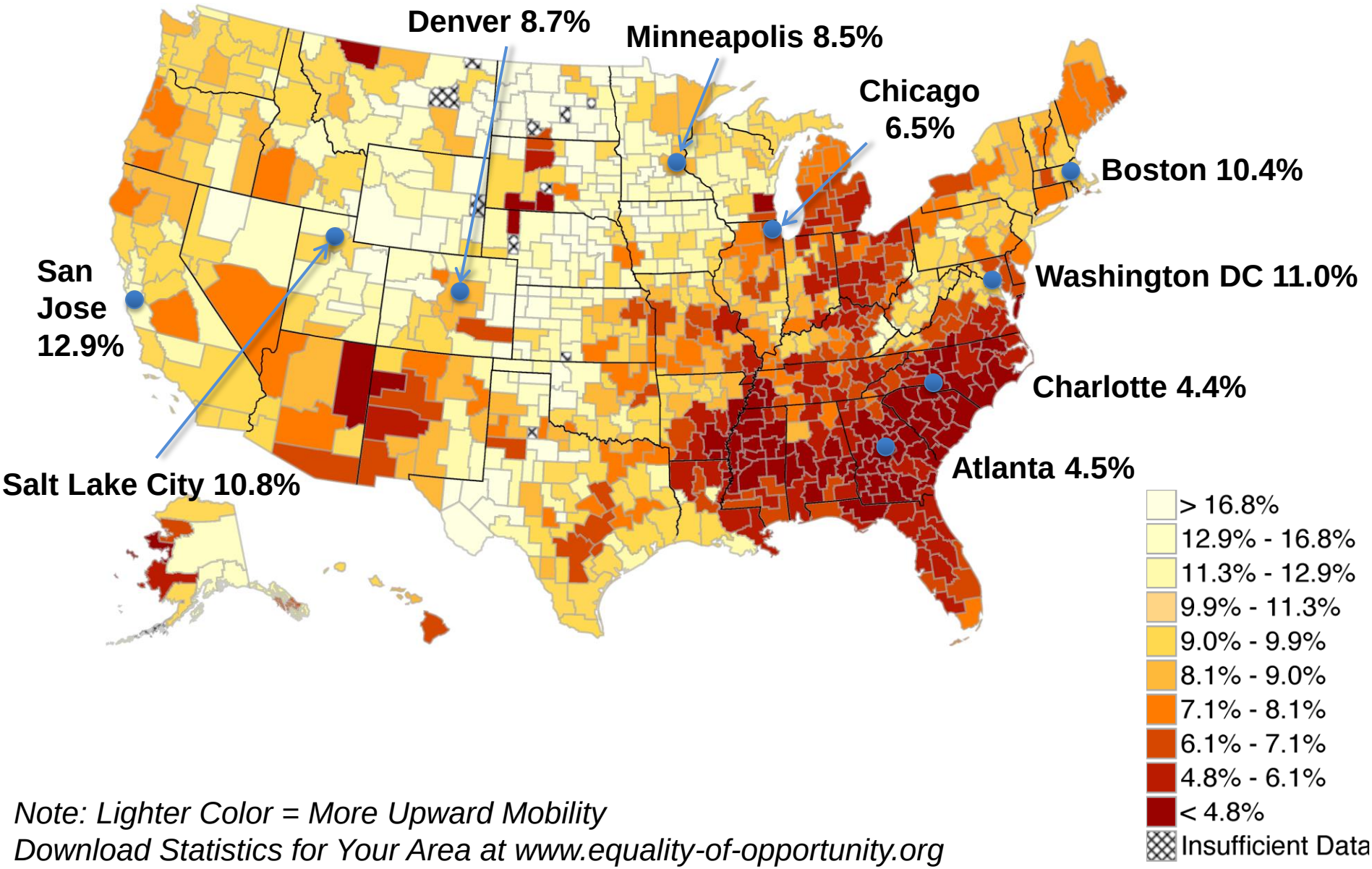
Differences in Opportunity Within the U.S.

- Differences across countries have been the focus of policy discussion
- But upward mobility varies even more *within* the U.S.
- We calculate upward mobility for every metro and rural area in the U.S.
  - Use anonymous earnings records on 10 million children born between 1980-1982
  - Classify children based on where they grew up, and track them no matter where they live as adults

Source: Chetty, Hendren, Kline, Saez QJE 2014: The Equality of Opportunity Project

The Geography of Upward Mobility in the United States

Chances of Reaching the Top Fifth Starting from the Bottom Fifth by Metro Area



Note: Lighter Color = More Upward Mobility

Download Statistics for Your Area at www.equality-of-opportunity.org

Why Does Upward Mobility Vary Across Places?

- Two very different explanations for variation in children's outcomes across areas:

  1. Heterogeneity: different people live in different places

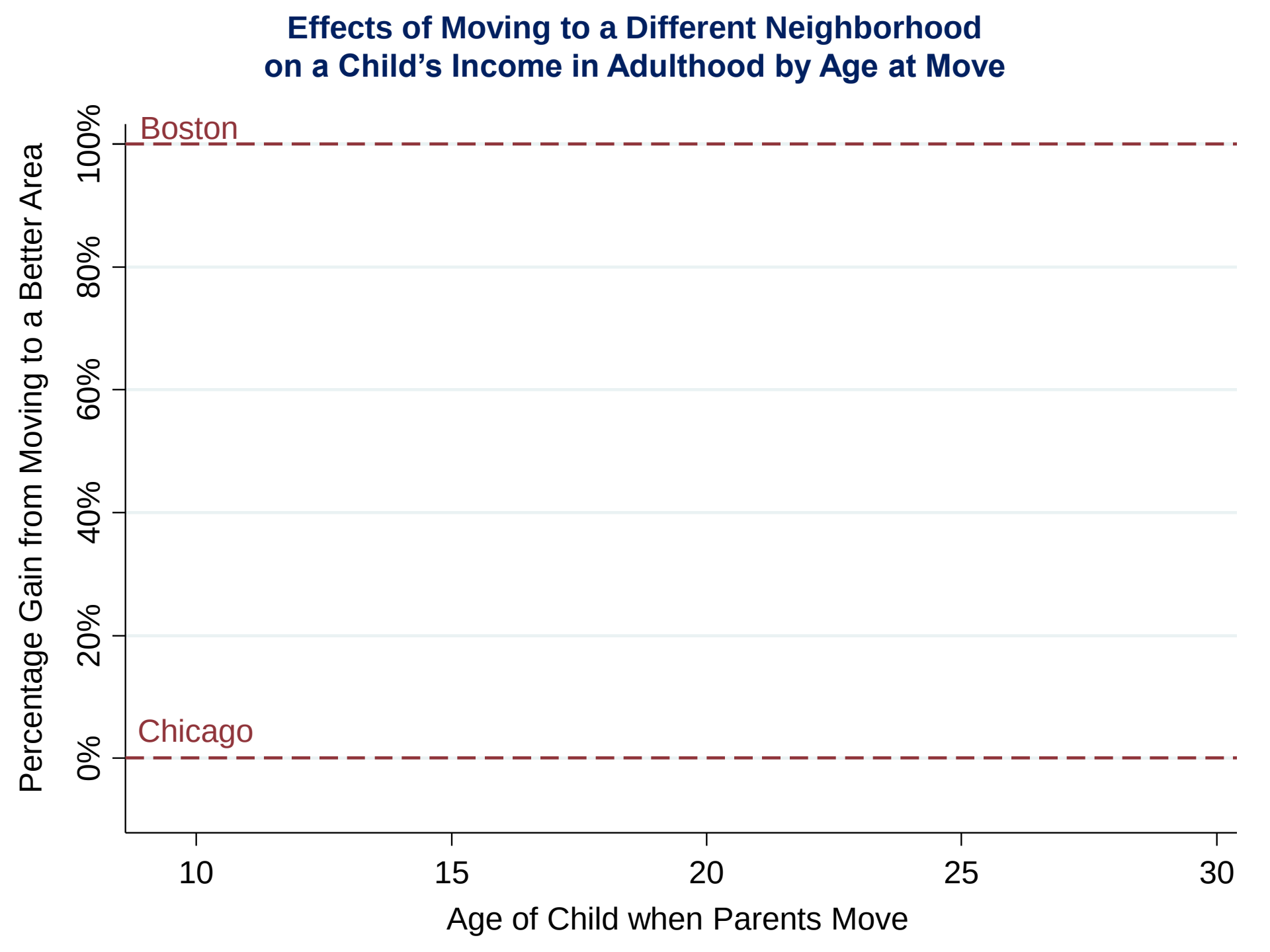
  2. Neighborhood effects: places have a *causal* effect on upward mobility for a given person

Identifying Causal Effects of Place

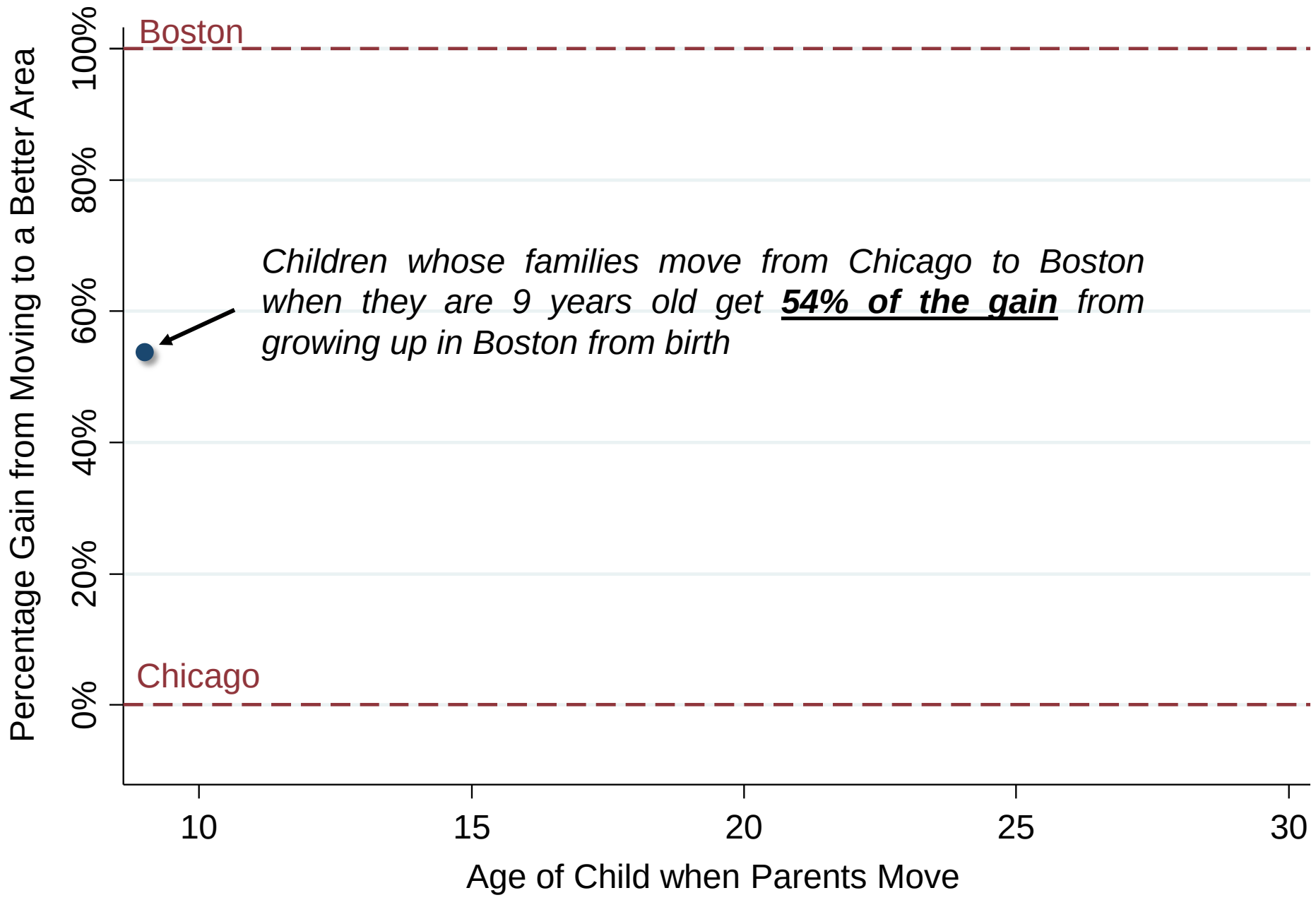
- Ideal experiment: randomly assign children to neighborhoods and compare outcomes in adulthood

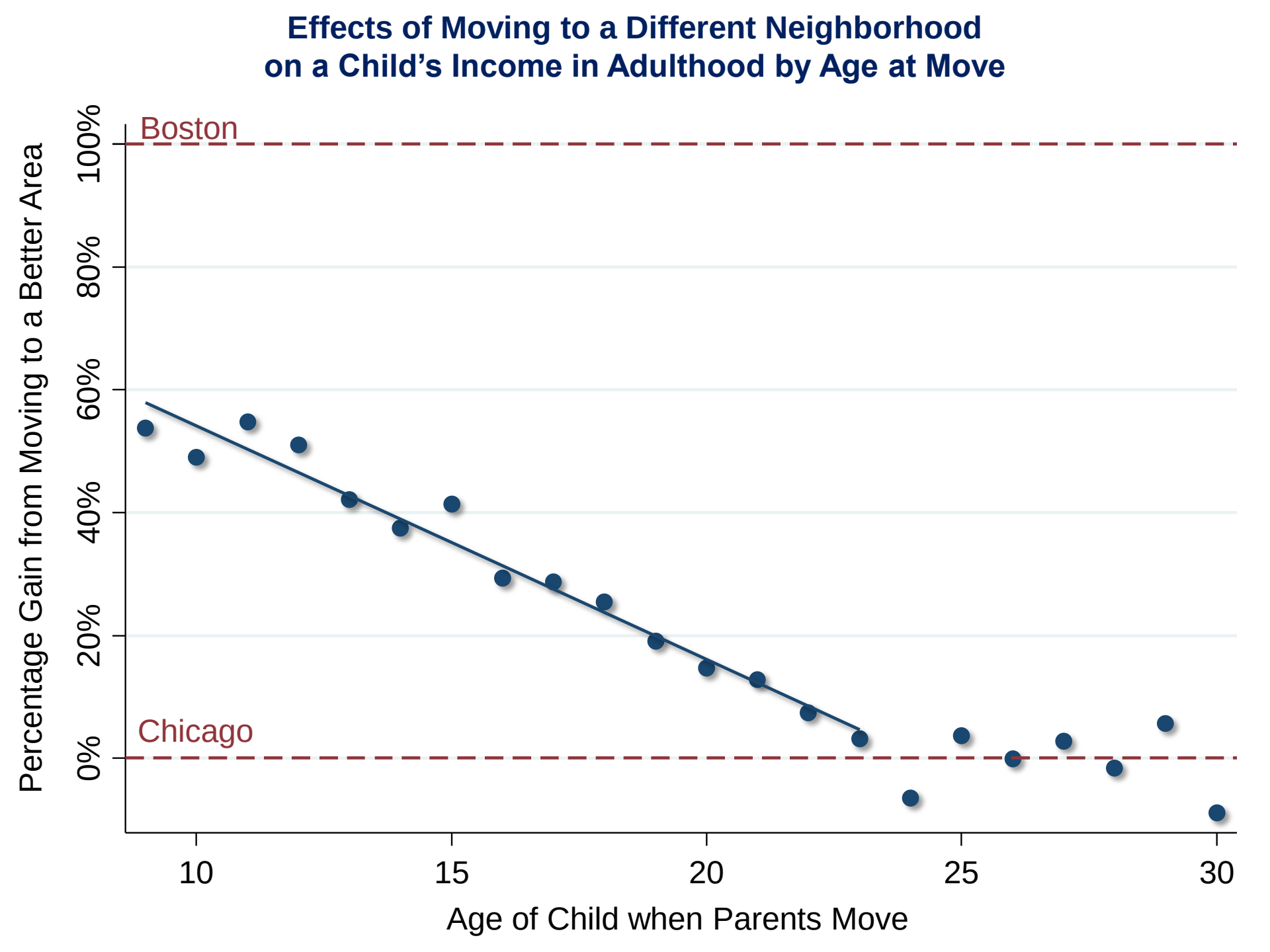
- We approximate this experiment using a quasi-experimental design [Chetty and Hendren 2015]

  - Study 5 million families who move across areas with children of different ages in observational data


Effects of Moving to a Different Neighborhood
on a Child's Income in Adulthood by Age at Move
Boston
Chicago
100%
80%
60%
40%
20%
0%
Percentage Gain from Moving to a Better Area
10
15
20
25
30
Age of Child when Parents Move

Effects of Moving to a Different Neighborhood on a Child's Income in Adulthood by Age at Move

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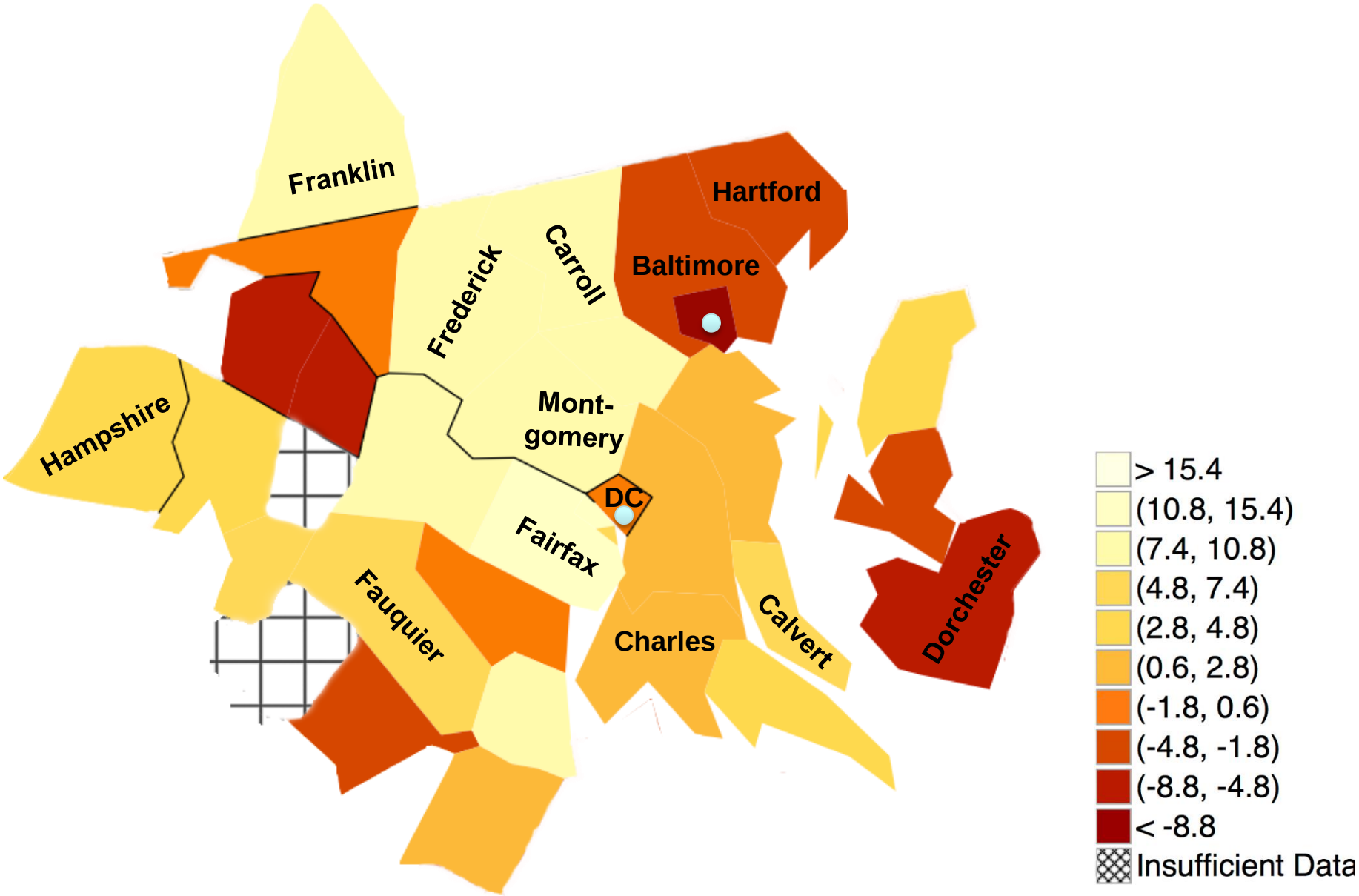
County-Level Estimates of Causal Effects

- By studying families who move, we identify causal effect of every county in the U.S. on a given child's earnings
  - Predict how much a child would earn on average if he/she had grown up in a different county
- For example, children who move from Washington DC to Fairfax county at younger ages earn more as adults
  - Implies that Fairfax has a positive effect relative to DC
- Use a statistical model to combine such information for all 5 million movers to estimate each county's effect

Source: Chetty and Hendren 2015

Causal Effects of Growing up in Different Counties on Earnings in Adulthood

For Children in Low-Income (25th Percentile) Families in the Washington DC Area



Note: Lighter colors represent areas where children from low-income families earn more as adults

Causal Effects on Earnings for Children in Low-Income (25th Percentile) Families

Top 10 and Bottom 10 Among the 100 Largest Counties in the U.S.

Top 10 Counties			Bottom 10 Counties		
Rank	County	Change in Earnings (%)	Rank	County	Change in Earnings (%)
1	Dupage, IL	+15.1	91	Pima, AZ	-12.2
2	Snohomish, WA	+14.4	92	Bronx, NY	-12.3
3	Bergen, NJ	+14.1	93	Milwaukee, WI	-12.3
4	Bucks, PA	+13.3	94	Wayne, MI	-12.5
5	Contra Costa, CA	+12.1	95	Fresno, CA	-12.9
6	Fairfax, VA	+12.1	96	Cook, IL	-13.3
7	King, WA	+11.3	97	Orange, FL	-13.5
8	Norfolk, MA	+10.8	98	Hillsborough, FL	-13.5
9	Montgomery, MD	+10.5	99	Mecklenburg, NC	-13.8
10	Middlesex, NJ	+8.6	100	Baltimore City, MD	-17.3

Estimates represent % change in earnings from growing up a given county instead of an average place

Causal Effects on Earnings for Children in Low-Income (25th Percentile) Families

Male Children

Top 10 Counties			Bottom 10 Counties		
Rank	County	Change in Earnings (%)	Rank	County	Change in Earnings (%)
1	Bucks, PA	+16.8	91	Milwaukee, WI	-14.8
2	Bergen, NJ	+16.6	92	New Haven, CT	-15.0
3	Contra Costa, CA	+14.5	93	Bronx, NY	-15.2
4	Snohomish, WA	+13.9	94	Hillsborough, FL	-16.3
5	Norfolk, MA	+12.4	95	Palm Beach, FL	-16.5
6	Dupage, IL	+12.2	96	Fresno, CA	-16.8
7	King, WA	+11.1	97	Riverside, CA	-17.0
8	Ventura, CA	+10.9	98	Wayne, MI	-17.4
9	Hudson, NJ	+10.4	99	Pima, AZ	-23.0
10	Fairfax, VA	+9.2	**100**	**Baltimore City, MD**	**-27.9**

Estimates represent % change in earnings from growing up a given county instead of an average place

Causal Effects on Earnings for Children in Low-Income (25th Percentile) Families

Female Children

Top 10 Counties			Bottom 10 Counties		
Rank	County	Change in Earnings (%)	Rank	County	Change in Earnings (%)
1	Dupage, IL	+18.2	91	Hillsborough, FL	-10.2
2	Fairfax, VA	+15.1	92	Fulton, GA	-11.5
3	Snohomish, WA	+14.6	93	Suffolk, MA	-11.5
4	Montgomery, MD	+13.6	94	Orange, FL	-12.0
5	Montgomery, PA	+11.6	95	Essex, NJ	-12.7
6	King, WA	+11.4	96	Cook, IL	-12.8
7	Bergen, NJ	+11.2	97	Franklin, OH	-12.9
8	Salt Lake, UT	+10.2	98	Mecklenburg, NC	-14.7
9	Contra Costa, CA	+9.4	99	New York, NY	-14.9
10	Middlesex, NJ	+9.4	100	Marion, IN	-15.5

Estimates represent % change in earnings from growing up a given county instead of an average place

Two Policy Approaches to Improving Upward Mobility

- Importance of place for mobility motivates two types of policies:

  1. Help people move to better areas

  2. Invest in places with low levels of opportunity to replicate successes of areas with high upward mobility

Policy Approach 1: Moving to Opportunity

- One way to improve outcomes: give low income families subsidized housing vouchers to move to better areas
  - U.S. already spends $45 bil per year on affordable housing, $20 bil. of which goes to Section 8 housing vouchers
- HUD Moving to Opportunity Experiment: gave such vouchers using a randomized lottery
  - 4,600 families in Boston, New York, LA, Chicago, and Baltimore in mid 1990's

Source: Chetty, Hendren, and Katz 2015

Most Common MTO Residential Locations in New York

Moving to Opportunity Experiment

- Children who moved to low-poverty areas when young (e.g., below age 13) do much better as adults:
  - 30% higher earnings = $100,000 gain over life in present value
  - 27% more likely to attend college
  - 30% less likely to become single parents
- But moving had little effect on the outcomes of children who were already teenagers
- Moving also had no effect on parents' earnings
- Reinforces conclusion that *childhood exposure* is a key determinant of upward mobility

Implications for Housing Policy

- Encouraging families with young kids to move to lower-poverty areas improves outcomes for low-income children
  - Increase in tax revenue from kids' higher earnings more than offsets cost of voucher relative to public housing
- Such integration can help the poor without hurting the rich
  - Mixed-income neighborhoods produce, if anything, slightly *better* outcomes for the rich

Policy Approach 2: Improving Neighborhoods

- Limits to scalability of policies that move people
  - Also need policies that improve existing neighborhoods
- Challenging to identify causal effects of local policies
  - But we can characterize the features of areas that generate good outcomes

What are the Characteristics of High-Mobility Areas? Five Strongest Correlates of Upward Mobility

1. Segregation

   - Racial and income segregation associated with less mobility
   - Long commute times (sprawl) associated with less mobility

What are the Characteristics of High-Mobility Areas? Five Strongest Correlates of Upward Mobility

1. Segregation

2. Income Inequality

   – Places with smaller middle class have much less mobility

What are the Characteristics of High-Mobility Areas? Five Strongest Correlates of Upward Mobility

1. Segregation

2. Income Inequality

3. Family Structure

   - Areas with more single parents have much lower mobility
   - Strong correlation even for kids whose *own* parents are married

What are the Characteristics of High-Mobility Areas? Five Strongest Correlates of Upward Mobility

1. Segregation
2. Income Inequality
3. Family Structure
4. Social Capital
   - "It takes a village to raise a child"
   - Putnam (1995): "Bowling Alone"

What are the Characteristics of High-Mobility Areas? Five Strongest Correlates of Upward Mobility

1. Segregation
2. Income Inequality
3. Family Structure
4. Social Capital
5. School Quality
   - Greater expenditure, smaller classes, higher test scores correlated with more mobility
   - Clear evidence of *causal* effects from other studies

Race and Upward Mobility

- Areas with larger African-American populations have significantly lower levels of upward mobility
- Movers evidence shows that this is not only because of differences in mobility across racial groups
  - When a *given* family moves to a county with a larger African-American population, children's outcomes fall
- Areas with larger African-American populations tend to have less investment in public goods, schools, etc.
- Key implication: place effects amplify racial inequality
  - We estimate that 20% of black-white earnings gap can be attributed to county in which blacks vs. whites grow up

Policy Lessons

1. Tackle social mobility at a local, not just national level

   - Focus on specific cities such as Baltimore and neighborhoods within those cities

Policy Lessons

1. Tackle social mobility at a local, not just national level

2. Improve childhood environment

   - Childhood environment matters at *all* ages until age 20, not just in early childhood

Policy Lessons

1. Tackle social mobility at a local, not just national level

2. Improve childhood environment

3. Harness big data to evaluate other policies scientifically and measure local progress and performance

   - Identify which neighborhoods are in greatest need of improvement and which policies work

Download County-Level Data on Social Mobility in the U.S.

www.equality-of-opportunity.org/data

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Downloadable Data on Intergenerational Mobility

Data Description		
Preferred Mobility Measures by Commuting Zone	Stata file	Excel file
Online Data Table 1: National 100 by 100 Transition Matrix	Stata file	Excel file
Online Data Table 2: Marginal Income Distributions by Centile	Stata file	Excel file
Online Data Table 3: Intergenerational Mobility Statistics and Selected Covariates by County	Stata file	Excel file
Online Data Table 4: Intergenerational Mobility Statistics by Metropolitan Statistical Area	Stata file	Excel file
Online Data Table 5: Intergenerational Mobility Statistics by Commuting Zone	Stata file	Excel file
Online Data Table 6: Quintile-Quintile Transition Matrices by Commuting Zone	Stata file	Excel file
Online Data Table 7: Income Distributions by Commuting Zone	Stata file	Excel file
Online Data Table 8: Commuting Zone Characteristics	Stata file	Excel file
Online Data Table 9: Commuting Zone Characteristics Definitions and Data Sources		Excel file
Geographic Crosswalks (Tolbert and Sizer 1996, Autor and Dorn 2009 & 2013)	Zip file	
Replication Stata Code and Datasets	Zip file	
Downloadable Map of Absolute Upward Mobility		

Version 2.0, released January 17, 2014. For Version 1.0 (released on July 22, 2013), click here. Version 2.0 reports statistics using the 1980-82 birth cohorts (rather than 1980-81) and includes new data such as mobility statistics by county and MSA, new CZ-level covariates, and marginal income distributions for parents and children.

For more information on the data, please email info@equality-of-opportunity.org

An Opportunity and a Challenge

Metro Area	Odds of Rising from Bottom to Top Fifth
Dubuque, IA	17.9%
San Jose, CA	12.9%
Washington DC	10.5%
U.S. Average	7.5%
Chicago, IL	6.5%
Memphis, TN	2.6%