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

Raj Chetty
Harvard University
The American Dream?

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

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  - **USA**: 7.5%
    - Chetty, Hendren, Kline, Saez 2014
  - **UK**: 9.0%
    - Blanden and Machin 2008
  - **Denmark**: 11.7%
    - Boserup, Kopczuk, and Kreiner 2013
  - **Canada**: 13.5%
    - Corak and Heisz 1999
Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth:

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→ 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

San Jose 12.9%
Salt Lake City 10.8%
Denver 8.7%
Minneapolis 8.5%
Chicago 6.5%
Boston 10.4%
Washington DC 11.0%
Charlotte 4.4%
Atlanta 4.5%

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
Children whose families move from Chicago to Boston when they are 9 years old get 54% of the gain from growing up in Boston from birth.
Effects of Moving to a Different Neighborhood on a Child’s Income in Adulthood by Age at Move

Percentage Gain from Moving to a Better Area

Age of Child when Parents Move

Boston

Chicago
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 (25\textsuperscript{th} 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.**

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>Change in Earnings (%)</th>
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<tbody>
<tr>
<td>1</td>
<td>Dupage, IL</td>
<td>+15.1</td>
</tr>
<tr>
<td>2</td>
<td>Snohomish, WA</td>
<td>+14.4</td>
</tr>
<tr>
<td>3</td>
<td>Bergen, NJ</td>
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<td>4</td>
<td>Bucks, PA</td>
<td>+13.3</td>
</tr>
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<td>5</td>
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<td>+12.1</td>
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<tr>
<td>6</td>
<td>Fairfax, VA</td>
<td>+12.1</td>
</tr>
<tr>
<td>7</td>
<td>King, WA</td>
<td>+11.3</td>
</tr>
<tr>
<td>8</td>
<td>Norfolk, MA</td>
<td>+10.8</td>
</tr>
<tr>
<td>9</td>
<td>Montgomery, MD</td>
<td>+10.5</td>
</tr>
<tr>
<td>10</td>
<td>Middlesex, NJ</td>
<td>+8.6</td>
</tr>
</tbody>
</table>

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<tr>
<th>Rank</th>
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<tbody>
<tr>
<td>91</td>
<td>Pima, AZ</td>
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<tr>
<td>92</td>
<td>Bronx, NY</td>
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<td>Milwaukee, WI</td>
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<td>Fresno, CA</td>
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<td>Cook, IL</td>
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<td>97</td>
<td>Orange, FL</td>
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<tr>
<td>98</td>
<td>Hillsborough, FL</td>
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<tr>
<td>99</td>
<td>Mecklenburg, NC</td>
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</tr>
<tr>
<td>100</td>
<td>Baltimore City, MD</td>
<td>-17.3</td>
</tr>
</tbody>
</table>

*Estimates represent % change in earnings from growing up a given county instead of an average place.*
<table>
<thead>
<tr>
<th>Rank</th>
<th>Top 10 Counties</th>
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<tbody>
<tr>
<td>1</td>
<td>Bucks, PA</td>
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<td>Norfolk, MA</td>
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<td>Salt Lake, UT</td>
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<td>Contra Costa, CA</td>
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<td>Middlesex, NJ</td>
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<td>100</td>
<td>Marion, IN</td>
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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

- Experimental
- King Towers
- Control
- Wakefield
- Bronx
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”
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

Downloadable Data on Intergenerational Mobility

<table>
<thead>
<tr>
<th>Data Description</th>
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<tbody>
<tr>
<td>Preferred Mobility Measures by Commuting Zone</td>
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<tr>
<td>Online Data Table 1: National 100 by 100 Transition Matrix</td>
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<td>Online Data Table 2: Marginal Income Distributions by Centile</td>
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<tr>
<td>Online Data Table 3: Intergenerational Mobility Statistics and Selected Covariates by County</td>
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<td>Online Data Table 4: Intergenerational Mobility Statistics by Metropolitan Statistical Area</td>
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<td>Online Data Table 5: Intergenerational Mobility Statistics by Commuting Zone</td>
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<td>Online Data Table 6: Quintile-Quintile Transition Matrices by Commuting Zone</td>
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<td>Online Data Table 7: Income Distributions by Commuting Zone</td>
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<td>Online Data Table 8: Commuting Zone Characteristics</td>
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<td>Online Data Table 9: Commuting Zone Characteristics Definitions and Data Sources</td>
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<td>Geographic Crosswalks (Tolbert and Sizer 1998, Autor and Dorn 2009 &amp; 2013)</td>
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<td>Replication Stata Code and Datasets</td>
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<tr>
<td>Downloadable Map of Absolute Upward Mobility</td>
<td>Zip file</td>
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</table>


For more information on the data, please email info@equality-of-opportunity.org.
### An Opportunity and a Challenge

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<th>Metro Area</th>
<th>Odds of Rising from Bottom to Top Fifth</th>
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<td>17.9%</td>
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<td>12.9%</td>
</tr>
<tr>
<td>Washington DC</td>
<td>10.5%</td>
</tr>
<tr>
<td><em>U.S. Average</em></td>
<td>7.5%</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>6.5%</td>
</tr>
<tr>
<td>Memphis, TN</td>
<td>2.6%</td>
</tr>
</tbody>
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