



Land(s) of Opportunity? The Value-added of Neighborhoods in Social Mobility

Is America the “Land of Opportunity”? The III Calvó-Armengol International Prize Lecture, delivered by the prize awardee, Raj Chetty (Harvard University), presented new developments on the topic.

In a series of papers, Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, and Nicholas Turner document important regional differences in upward income mobility within the United States, present some evidence suggesting a causal link from neighborhood “quality” to social mobility, and explore the different factors that correlate with higher social mobility.

National Statistics

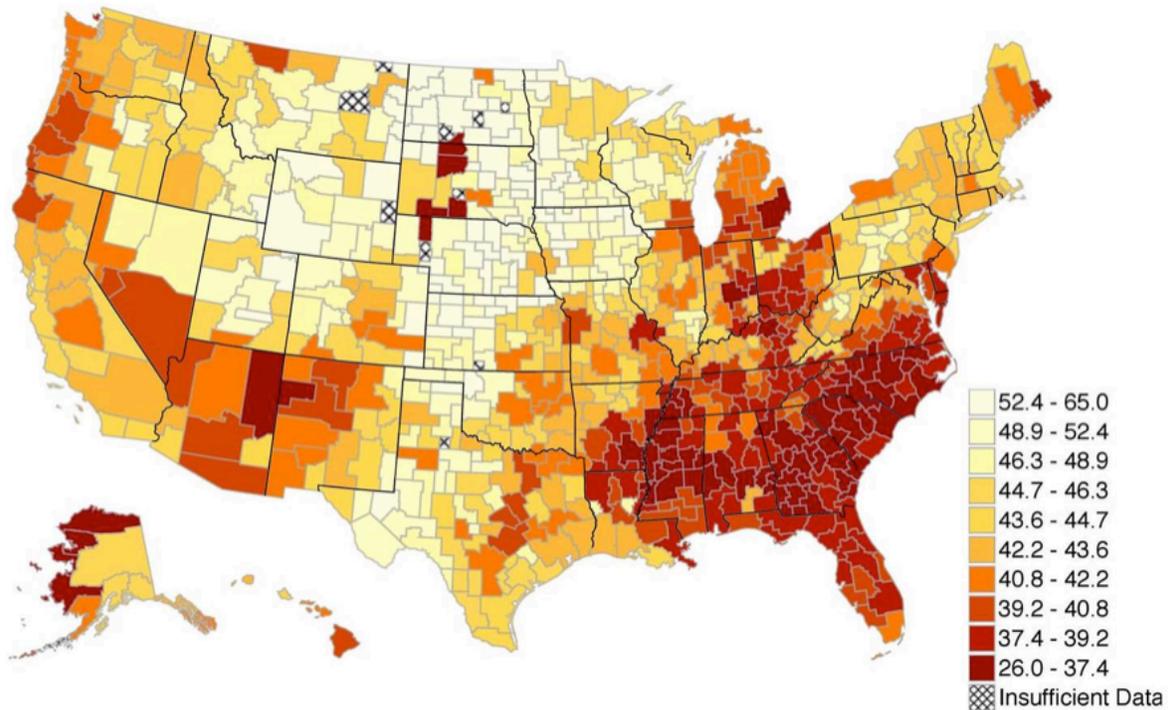
Even though the United States is often hailed as the “Land of Opportunity”, cross-country comparison of aggregate statistics suggests that the U.S. is far from being a highly mobile society. Intergenerational earnings elasticity, a measure of the correlation between parent’s and children’s income, is three times larger in the United States than in Denmark. Likewise, the probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth, a measure of the chances of achieving the “American Dream”, is 1.8 times higher in Canada than in the U.S. (13.4% vs 7.5%).

Geographical Variation Within the United States

To investigate differences in intergenerational income mobility within the United States, they exploit a micro-data sample that includes millions of anonymous earnings records, linking parents, children, and locations at different points in time. Dividing the U.S. in “commuting zones”, aggregations of counties based on

commuting patterns, they permanently assign every individual to the place where they grew up, regardless of where they live as adults. Then they rank both parents and children based on their positions in the national income distribution. This allows them to compare how well children do relative to those in the nation as a whole, conditional on the position of the parents in the income distribution.

The Figure below plots the average percentile rank of children born to below median income parents in each commuting zone. The Figure shows important geographical differences in mobility, even within a state. The Table below presents the top and bottom 10 metropolitan areas in terms of upward income mobility among the 50 most populated areas. Some cities, like San José or San Francisco, have rates of mobility comparable to countries with the highest rates of relative mobility, like Canada or Denmark. Others, like Charlotte or Milwaukee, have lower rates of mobility than any developed country for which data are currently available. Therefore, the United States can be seen as a collection of societies with very different levels of social mobility.



This map shows the average percentile rank of children who grow up in below-median income families across areas of the U.S. (absolute upward mobility). Lighter colors represent areas where children from low-income families are more likely to move up in the income distribution.

Source: <http://www.equality-of-opportunity.org/>

Upward Mobility in the 50 Biggest Metro Areas: The Top 10 and Bottom 10

RANK	METRO AREA	ODDS OF REACHING TOP FIFTH STARTING FROM BOTTOM FIFTH	RANK	METRO AREA	ODDS OF REACHING TOP FIFTH STARTING FROM BOTTOM FIFTH
1	San Jose, CA	12.90%	41	Cleveland, OH	5.10%
2	San Francisco, CA	12.20%	42	St. Louis, MO	5.10%
3	Washington, DC	11.00%	43	Raleigh, NC	5.00%
4	Seattle, WA	10.90%	44	Jacksonville, FL	4.90%
5	Salt Lake City, UT	10.80%	45	Columbus, OH	4.90%
6	New York, NY	10.50%	46	Indianapolis, IN	4.90%
7	Boston, MA	10.50%	47	Dayton, OH	4.90%
8	San Diego, CA	10.40%	48	Atlanta, GA	4.50%
9	Newark, NJ	10.20%	49	Milwaukee, WI	4.50%
10	Manchester, NH	10.00%	50	Charlotte, NC	4.40%

Source: <http://www.equality-of-opportunity.org/>

Causal Mechanisms

The authors explore the mechanisms that can generate this regional variation. In particular, they want to disentangle whether the variation is due to differences in people or differences in places. This question is of obvious policy relevance, because if there is a causal effect of neighborhoods on mobility, and the mechanisms that cause it can be affected by public policy, there would be space for public intervention in order to increase mobility.

The authors net out the sorting effect (or differences in people) exploiting information of individuals that moved across locations. In particular, they take the children of two parents that have the same rank and initial location and compare them. The difference between upward mobility of children who moved to low

mobility areas and children who moved to high mobility areas is an estimate of the causal effect of neighborhoods on social mobility.

Their results suggest an important positive correlation between the predicted difference in child rank based on prior residents and the actual difference in child rank. In other words, children moving to societies with higher mobility tend to move up with a higher frequency. This correlation increases with the time of exposure to the new place. And even among siblings moving to the same (better) place, effects are much larger for younger siblings, who are exposed for a longer period.

Characteristics of High Upward-Mobility Areas

As a final step, as places appear to matter for mobility, they investigate what makes some places generate better outcomes than others. To do so, they correlate differences in mobility with observable factors. They find that areas with greater mobility tend to have five characteristics: less segregation, less income inequality, better schools, greater social capital, and more stable families.

Further details of this research agenda can be found at www.equality-of-opportunity.org

Summary written by Prof. [Joan Llull](#) (MOVE, UAB and Barcelona GSE)