### Social Mobility Around the World

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Source</th>
<th>Chance</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Chetty, Hendren, Kline, Saez 2014</td>
<td>7.5%</td>
</tr>
<tr>
<td>UK</td>
<td>Blanden and Machin 2008</td>
<td>9.0%</td>
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<tr>
<td>Denmark</td>
<td>Boserup, Kopczuk, and Kreiner 2013</td>
<td>11.7%</td>
</tr>
<tr>
<td>Canada</td>
<td>Corak and Heisz 1999</td>
<td>13.5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>Heidrich 2017</td>
<td>15.7%</td>
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</tbody>
</table>

Chances of achieving the “American Dream” are **twice as high in Sweden** as in the U.S.
Percent of Children Earning More than Their Parents, by Year of Birth in US

Chetty, Grusky, Hell, Hendren, Manduca, Narang (Science 2017)

Source: Chetty, Grusky, Hell, Hendren, Manduca, Narang (Science 2017)
Percent of Children Earning More than Their Parents, by Year of Birth

Berman (2019)

Source: Berman (2019), Chetty, Grusky, Hell, Hendren, Manduca, Narang (Science 2017)
Three Questions for the Talk

1. What causes low social mobility?

2. What (if any) barriers/constraints do parents face investing in their children?

3. What are the policy implications of low mobility?
Three Questions for the Talk

1. What causes low social mobility?

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What Causes Low Social Mobility?
Tracing the Roots of Social Mobility to Childhood Environments

- Use large variation across neighborhoods as a lens to understand determinants of social mobility
  - Based on work with John Friedman, Raj Chetty, Sonya Porter, Maggie Jones, and many others

- Data sources: Census data covering U.S. population linked to federal income tax returns from 1989-2015
  - Intergenerational sample: 20.5 million children in 1978-83 birth cohorts who grew up in the U.S.

- Trace roots of social mobility to childhood environments in which they grew up
  - Focus on children who grew up in below-median income families (p25 ~ $27K)
The Geography of Upward Mobility in the United States
Average Income at Age 35 for Children whose Parents Earned $27,000 (25th percentile)

Note: Blue = More Upward Mobility, Red = Less Upward Mobility
Source: Chetty, Hendren, Jones, Porter 2018
Upward Mobility vs. Job Growth in the 30 Largest Metro Areas

- **High mobility, low growth**
  - San Jose
  - San Francisco
  - Boston
  - Minneapolis

- **Low mobility, high growth**
  - Seattle
  - Sacramento
  - Washington

- **High mobility, high growth**
  - Houston
  - Denver
  - Riverside

- **Low mobility, low growth**
  - Miami
  - Dallas
  - San Antonio

Average Income at Age 35 of Children who Grew up in Low-Income Families

Job Growth Rate (%) from 1990-2010

- **High mobility, low growth**
- **Low mobility, high growth**
The Geography of Upward Mobility in the United States
Average Income at Age 35 for Children whose Parents Earned $27,000 (25th percentile)

Note: Blue = More Upward Mobility, Red = Less Upward Mobility
Source: Chetty, Hendren, Jones, Porter 2018
Two Americas: The Geography of Upward Mobility For Black vs. White Men
Average Income at Age 35 For Men Whose Parents Earned $27,000 (25th percentile)

Note: Blue = More Upward Mobility, Red = Less Upward Mobility
Source: Chetty, Hendren, Jones, Porter 2018
Income Mobility for Black vs. White Men Raised in High-Income Families

Follow the lives of these 19,940 Americans and see where they end up as adults:

- **Rich adult**: 852 Black men, 1,411 White men (26% vs. 43%)
- **Upper-middle-class adult**: 705 Black men, 741 White men (22% vs. 23%)
- **Middle-class adult**: 646 Black men, 488 White men (20% vs. 15%)
- **Lower-middle-class adult**: 541 Black men, 298 White men (17% vs. 9%)
- **Poor adult**: 554 Black men, 254 White men (17% vs. 8%)

Source: Chetty, Hendren, Jones, Porter 2018; New York Times 2018
Male Incarceration Rates vs. their Parent’s Income, by Race

% Incarcerated on April 1, 2010 (Ages 27-32)

Parent Household Income Rank

White

Black

- White
- Black
Two Americas: The Geography of Upward Mobility For Black vs. White Men
Average Income at Age 35 For Men Whose Parents Earned $27,000 (25th percentile)

Note: Blue = More Upward Mobility, Red = Less Upward Mobility
Source: Chetty, Hendren, Jones, Porter 2018
Opportunity is Local: The Geography of Upward Mobility in NYC
Average Household Income for Children with Parents Earning $25,000 (25th percentile)

Harlem (Brooklyn) $21K
Hoboken $44K
Bed-Stuy (Brooklyn) $21K

Map showing the average household income for children with parents earning $25,000 in different neighborhoods in NYC.
Characteristics of Neighborhoods with High Upward Mobility
Race-Adjusted Correlations with Household Income Rank, Parent Income at 25th Percentile

Number of Jobs Within 5 Miles
High-Paying Jobs Within 5 Miles
Job Growth 2004-2013

Magnitude of Race-Controlled Signal Correlation

Positive  Negative
Characteristics of Neighborhoods with High Upward Mobility
Race-Adjusted Correlations with Household Income Rank, Parent Income at 25th Percentile

- Number of Jobs Within 5 Miles
- High-Paying Jobs Within 5 Miles
- Job Growth 2004-2013
- 2000 Employment Rate

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Job Growth 2004-2013
2000 Employment Rate
Share Above Poverty Line
Mean Household Income
Mean 3rd Grade Math Score
Share College Grad.

Magnitude of Race-Controlled Signal Correlation

Positive
Negative

0 0.2 0.4 0.6 0.8
Characteristics of Neighborhoods with High Upward Mobility
Race-Adjusted Correlations with Household Income Rank, Parent Income at 25th Percentile

- Number of Jobs Within 5 Miles
- High-Paying Jobs Within 5 Miles
- Job Growth 2004-2013
- 2000 Employment Rate
- Share Above Poverty Line
- Mean Household Income
- Mean 3rd Grade Math Score
- Share College Grad.
- Share Single Parent Households
- Census Return Rate ("Social Capital")

Magnitude of Race-Controlled Signal Correlation

Positive
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How Large is a Neighborhood?

![Graph showing the association with poverty rate vs distance in miles.](image)
Does the Geographic Variation Reflect Selection or Causation?

Large variation in upward mobility across neighborhoods can be driven by two sources:
Does the Geographic Variation Reflect Selection or Causation?

Large variation in upward mobility across neighborhoods can be driven by two sources:

- **Selection**: Different types of people live in different places
Does the Geographic Variation Reflect Selection or Causation?

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Does the Geographic Variation Reflect Selection or Causation?

Large variation in upward mobility across neighborhoods can be driven by two sources:

- **Selection**: Different types of people live in different places
- **Causation**: A child randomly assigned to grow up in a different neighborhood would have different outcomes

We study the experiences of 7 million children who move across areas during childhood [Chetty, Friedman, Hendren, Jones, and Porter (2018)]

- Most of the variation in upward mobility is caused by differences in childhood environment
Income Gain from Moving to a Better Neighborhood
Forecasted Average Income at Age 35 by Child’s Age at Move

Harlem ($21K)  
Hoboken ($44K)
Income Gain from Moving to a Better Neighborhood
Forecasted Average Income at Age 35 by Child’s Age at Move

- Move at age 2 from Harlem to Hoboken 
  → avg. earnings of $33,500 (62% of difference)
Income Gain from Moving to a Better Neighborhood
Forecasted Average Income at Age 35 by Child’s Age at Move

Average Income at Age 35

Age of Child when Parents Move

Harlem

Hoboken
Income Gain from Moving to a Better Neighborhood

Forecasted Average Income at Age 35 by Child’s Age at Move

Average Income at Age 35

$36K

$31K

$26K

$21K

Age of Child when Parents Move

2 10 20 28

Hoboken

Harlem
Use two approaches to evaluate validity of key assumption:

1. Sibling comparisons to control for family fixed effects

2. Outcome-based placebo tests exploiting heterogeneity in place effects by gender, quantile, and outcome

   - Ex: moving to a place where boys have high earnings $\rightarrow$ son improves in proportion to exposure but daughter does not
Childhood Exposure Effects Around the World

**United States**

Source: Chetty, Friedman, Hendren, Jones, Porter (2018)

**Australia**

Evidence of age-varying exposure effects
Evidence of age-invariant selection effects

Source: Deutscher (2018)

**Montreal, Canada**

Source: Laliberté (2018)

**Denmark**

Source: Faurtoeh (2018)

**MTO: Baltimore, Boston, Chicago, LA, NYC**

Source: Chetty, Hendren, Katz (AER 2016)

**Chicago Public Housing Demolitions**

Source: Chyn (AER 2016)
Quantification of Impacts of Moving to an Upwardly-Mobile Neighborhood

• Childhood neighborhoods have substantial causal effects on children’s long-run outcomes

• Moving at birth from tract at 25th percentile of distribution of upward mobility to a tract at 75th percentile within county → $206,000 gain in lifetime earnings
Three Questions for the Talk

1. What causes low social mobility?

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1. Differences in social mobility is largely driven by **childhood exposure**

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Quantification of Impacts of Moving to an Upwardly-Mobile Neighborhood

• Do families face constraints when making choices over neighborhoods and other investments in their children?

• Motivation: Low-income families typically live in neighborhoods with low upward mobility

• Even families with housing vouchers that covers rental costs
Most Common Locations of Families with Housing Vouchers in Seattle

- 25 most common tracts where voucher holders with children lived before the CMTO experiment.

Percentile Rank in Adulthood:
- > 60 ($55k)
- 48 ($39k)
- < 30 ($20k)
The Price of Opportunity in Seattle: Upward Mobility vs. Rents
By Census Tract

Mean Household Income Ranks of Children with Low-Income (25th Percentile) Parents

Median 2-Bedroom Rent in 2015
Why Don’t Families Move to Neighborhoods with More Upward Mobility?

- Two classes of explanations:

  1. **Preferences**: families may prefer to stay in current neighborhoods because of other amenities (e.g., commute time, proximity to family)

  2. **Barriers**: families may be unable to find housing in high-opportunity areas because of lack of information, search frictions, or landlords’ tastes
Creating Moves to Opportunity in Seattle

Randomized trial to reduce barriers housing voucher recipients face in moving to high-opportunity areas in Seattle
CMTO Treatment Interventions

CMTO paired families with **rental brokers** to help families rent units in high-opportunity neighborhoods.

**Components**

- **CUSTOMIZED SEARCH ASSISTANCE**
- **DIRECT LANDLORD ENGAGEMENT**
- **SHORT-TERM FINANCIAL ASSISTANCE**

Program Cost: $2,600 per family issued a voucher (2.2% of average voucher payments over 7 years)

*Note: Families not required to move to high-opportunity areas*
Fraction of Families who Leased Units in High Opportunity Areas

Share of Households Who Have Moved to High Opportunity Areas

- **Control**: 14.3%
- **Treatment**: 

**Difference**: 40.0 pp
**SE**: (5.2)
Fraction of Families who Leased Units in High Opportunity Areas

Share of Households Who Have Moved to High Opportunity Areas

- **Control**: 14.3%
- **Treatment**: 54.3%

Difference: 40.0 pp
SE: (5.2)
Destination Locations for CMTO Families

High-Opportunity Area

Control
Destination Locations for CMTO Families

- High-Opportunity Area
- Control
- Treatment
Qualitative Evidence on Mechanisms

**Emotional/Psychological Support**

“It was this whole flood of relief. It was this whole flood of, “I don’t know how I’m going to do this” and “I don’t know what I’m going to do” and “This isn’t working,” and yeah…I think it was just the supportive nature of having lots of conversations with Megan.” –Jackie

**Brokering with Landlords**

“When you find a place, I will come with you and we will help you to fill out the application. I will talk with the landlord, I will help you to do a lot of stuff, that maybe sometimes will be complicated.” –Leah

**Short-Term Financial Assistance / Liquidity Constraints**

“I’m not going to be able to pay here and then there [in the new apartment] ... They were able to get me more money, so that they would pay more of my first portion of my rent. Because they understood the situation that I was in.” –Jennifer
Three Questions for the Talk

1. Differences in social mobility is largely driven by **childhood exposure**

2. What (if any) barriers/constraints do parents face investing in their children?

3. What are the policy implications of low mobility?
Three Questions for the Talk

1. Differences in social mobility is largely driven by childhood exposure

2. Low-income parents face complex constraints when investing in their children for things like nbhd choice

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What are the Implications for Policy?

Main Result

Constraints not innate preferences drive residential segregation and limit investments in children by low-income families.
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Constraints not innate preferences drive residential segregation and limit investments in children by low-income families

Policy Implications

- Reduce barriers to choosing neighborhoods
- Target investments in low-mobility neighborhoods
  - Location as a “tag” for investment/redistribution

Housing Policy
What are the Implications for Policy?

Main Result

Constraints not innate preferences drive residential segregation and limit investments in children by low-income families

Policy Implications

- **Housing Policy**
  - Reduce barriers to choosing neighborhoods
  - Target investments in low-mobility neighborhoods
    - Location as a “tag” for investment/redistribution

- **Broader Policies**
  - Low-income families face constraints to investments in children
    - Perhaps other policies targeting children have high returns?
Constraints not innate preferences drive residential segregation and limit investments in children by low-income families

Main Result

Policy Implications

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- Target investments in low-mobility neighborhoods
  - Location as a “tag” for investment/redistribution
- Low-income families face constraints to investments in children
  - Perhaps other policies targeting children have high returns?

Housing Policy

Broader Policies
A Unified Welfare Analysis of Government Policies
Hendren and Sprung-Keyser (2019)

• We conduct a unified welfare analysis of 133 historical policy changes in the US over the past half century

• Study policy changes spanning four major categories: Social insurance, education and job training, taxes and cash transfers, and in-kind transfers
The Marginal Value of Public Funds

• For each policy change, we draw upon estimates in existing literature to measure:
  • The benefits to its recipients (measured as willingness to pay)
  • The net cost to the government (inclusive of fiscal externalities)

• We take the ratio of benefits to net cost to form its Marginal Value of Public Funds (MVPF):

\[ MVPF = \frac{\text{Beneficiaries' Willingness to Pay}}{\text{Net Government Cost}} \]

• Differs from traditional benefit/cost ratios by focusing on incidence of costs on government
The Marginal Value of Public Funds and Social Welfare

• Comparisons of MVPFs yield social welfare impacts of budget neutral policies

  • Suppose Policy 1 has $MVPF_1 = 1$ and Policy 2 has $MVPF_2 = 2$

  • More spending on policy 1 financed by less on 2 increases social welfare iff prefer to take $2$ from Policy 2 beneficiaries to give $1$ to policy 1 beneficiaries

• MVPF quantifies the tradeoffs across policies

• Infinite MVPFs correspond to policies that pay for themselves

  • $WTP > 0$ and $Cost < 0$

  • “Laffer Effects”
Example MVPF Construction: Admission to Florida International University

• Example: Admitting additional students into college

• Florida International University (FIU) had a minimum GPA threshold for admission that created a fuzzy discontinuity

• Zimmerman (2014) utilizes this discontinuity to examine the impact of FIU admission on earnings for 14 years after admission.
Fig. 8.—Quarterly earnings by distance from GPA cutoff. Lines are fitted values based on the main specification. Dots, shown every .05 grade points, are rolling averages of values within .05 grade points on either side that have the same value of the threshold-crossing dummy.
Net Cost to Government of Admission to Florida International University

Note: All amounts in 2005 USD, discounted using a 3% real interest rate
Net Cost to Government of Admission to Florida International University

Cost per admission to FIU (IPEDS/Zimmerman (2014))

Note: All amounts in 2005 USD, discounted using a 3% real interest rate
Net Cost to Government of Admission to Florida International University

Note: All amounts in 2012 USD, discounted using CPI-U-RS and 3% real interest rate
Net Cost to Government of Admission to Florida International University

Note: All amounts in 2012 USD, discounted using CPI-U-RS and 3% real interest rate
Net Cost to Government of Admission to Florida International University

- Total FIU Cost: $11.4K
- Student Contribution: -$3.2K
- Community College Exp.: -$5.6K

Net Upfront Gov't Cost: 2.6K

Note: All amounts in 2012 USD, discounted using CPI-U-RS and 3% real interest rate
Net Cost to Government of Admission to Florida International University

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Net Cost to Government of Admission to Florida International University

- Total FIU Cost: $11.4K
- Student Contribution: -$3.2K
- Community College Exp.: -$5.6K
- Taxes from age 19-25 earnings: $2.0K
- Taxes from age 26-33 earnings: -$7.3K

$7.3K increase in tax revenue from ages 26-33 (18.6% tax+transfer, CBO)

Note: All amounts in 2012 USD, discounted using CPI-U-RS and 3% real interest rate
Net Cost to Government of Admission to Florida International University

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- Taxes from age 19-25 earnings: $2.0K
- Taxes from age 26-33 earnings: -$7.3K
- Net Cost To Government: -$2.7K

Net government savings of $2.7K by age 33

Note: All amounts in 2012 USD, discounted using CPI-U-RS and 3% real interest rate.
Net Cost to Government of Admission to Florida International University

Policy pays for itself → \( MVPF = \infty \)

Note: All amounts in 2012 USD, discounted using CPI-U-RS and 3% real interest rate
MVPFs by Age of Beneficiary

Age of Beneficiaries

MVPF
Direct Investments in Children Historically Had Highest MVPFs

Cash Transfers
Child Education
College Adult
College Child
Disability Ins.
Health Adult
Health Child
Housing Vouchers
Job Training
MTO
Nutrition
Supp. Sec. Inc.
Top Taxes
Unemp. Ins.

Age of Beneficiaries vs. MVPF Graph

- Direct Investments in Children Historically Had Highest MVPFs
- Cash Transfers
- Child Education
- College Adult
- College Child
- Disability Ins.
- Health Adult
- Health Child
- Housing Vouchers
- Job Training
- MTO
- Nutrition
- Supp. Sec. Inc.
- Top Taxes
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- Perry Preschool
- MTO
- Nutrition
- Medicaid
- Social Security
- Unemployment Insurance
- Education
- Housing
- Health
- Nutrition
- Child
- Adult
- Direct Investments in Children Historically Had Highest MVPFs
Direct Investments in Children Historically Had Highest MVPFs

Category Averages

- Child Education
- Health Child
- College Child
- Housing Vouchers
- Job Training
- Nutrition
- Cash Transfers
- Supp. Sec. Inc.
- Unemp. Ins.
- Disability Ins.
- Health Adult

Age of Beneficiaries
Net Costs to Government per $1 of Initial Expenditure
Category Averages

Cost Over Program Cost

Age of Beneficiaries

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Cost Over Program Cost vs. Age of Beneficiaries:
- Child Education
- College Child
- Health Child
- Job Training
- Cash Transfers
- Nutrition
- Supp. Sec. Inc.
- Housing Vouchers
- Unemp. Ins.
- Disability Ins.
- Health Adult
- Top Taxes
- College Adult

Net Costs to Government per $1 of Initial Expenditure Category Averages.
Prefer 1993 tax change iff prefer $1.12 to low-income EITC beneficiaries to $1.85 to top earners.
Efficient Redistribution through Investments in Low-Income Children
Child Health, College and Education Programs
MVPF by Year of Policy

Averages by Decade
Conclusion

1. Differences in social mobility is largely driven by **childhood exposure**

2. Low-income parents face complex constraints when investing in their children for things like nbhd choice

3. Historically, direct **investments** in low-income children have had the highest returns
Explore the MVPFs at www.policyinsights.org
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Thanks!