The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects*

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Abstract

We show that the neighborhoods in which children grow up play a significant role in determining their earnings, college attendance rates, and fertility and marriage rates by studying more than 7 million families who move across commuting zones in the U.S. By exploiting variation in the age of children when families move, we find that neighborhoods have significant childhood exposure effects: the outcomes of children whose families move to a better neighborhood – as measured by the outcomes of children already living there – improve linearly in proportion to the time they spend growing up in that area, at a rate of approximately 4% per year of exposure. We distinguish the causal effects of neighborhoods from confounding factors by comparing the outcomes of siblings within families, studying moves triggered by displacement shocks, and exploiting sharp variation in predicted place effects across birth cohorts, genders, and quantiles to implement overidentification tests. The findings show that place affects intergenerational mobility primarily through childhood exposure, helping reconcile conflicting results in the prior literature.

*An earlier version of this paper was circulated as Part I of “The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County Level Estimates” (Chetty and Hendren (2015)). The opinions expressed in this paper are those of the authors alone and do not necessarily reflect the views of the Internal Revenue Service or the U.S. Treasury Department. This work is a component of a larger project examining the effects of tax expenditures on the budget deficit and economic activity. All results based on tax data in this paper are constructed using statistics originally reported in the SOI Working Paper “The Economic Impacts of Tax Expenditures: Evidence from Spatial Variation across the U.S.,” approved under IRS contract TIRNO-12-P-00374 and presented at the Office of Tax Analysis on November 3, 2014. We thank David Autor, Gary Chamberlain, Gordon Dahl, Max Kasy, Lawrence Katz, and numerous seminar participants for helpful comments and discussions. Sarah Abraham, Alex Bell, Augustin Bergeron, Michael Droste, Jamie Fogel, Nikolaus Hildebrand, Alex Olsen, Jordan Richmond, and Benjamin Scuderi provided outstanding research assistance. This research was funded by the National Science Foundation, the Lab for Economic Applications and Policy at Harvard, and Laura and John Arnold Foundation.
The Impacts of Neighborhoods on Intergenerational Mobility II: County-Level Estimates

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Abstract

We estimate the causal effect of each county in the U.S. on children’s earnings and other outcomes in adulthood using a fixed effects model that is identified by analyzing families who move across counties with children of different ages. Using these estimates, we (a) quantify how much places matter for upward mobility, (b) construct predictions of the causal effect of growing up in each county that can be used to guide families seeking to move to opportunity, and (c) characterize which types of areas produce better outcomes. For children growing up in low-income families, each year of childhood exposure to a one standard deviation (SD) better county increases income in adulthood by 0.5%. Hence, growing up in a one SD better county from birth increases a child’s income by approximately 10%. There is substantial local area variation in children’s outcomes: for example, growing up in the western suburbs of Chicago (DuPage county) would increase a given child’s earnings by 30% relative to growing up in Cook county. Counties with less concentrated poverty, less income inequality, better schools, a larger share of two-parent families, and lower crime rates tend to produce greater upward mobility. Boys’ outcomes vary more across areas than girls, and boys have especially poor outcomes in highly segregated areas. One-fifth of the black-white earnings gap can be explained by differences in the counties in which black and white children grow up. Areas that generate better outcomes tend to have higher house prices, but our approach uncovers many “opportunity bargains” – places that generate good outcomes but are not very expensive.

*An earlier version of this paper was circulated as the second part of the paper, “The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County Level Estimates” (Chetty and Hendren (2015)). The opinions expressed in this paper are those of the authors alone and do not necessarily reflect the views of the Internal Revenue Service or the U.S. Treasury Department. This work is a component of a larger project examining the effects of tax expenditures on the budget deficit and economic activity. All results based on tax data in this paper are constructed using statistics originally reported in the SOI Working Paper “The Economic Impacts of Tax Expenditures: Evidence from Spatial Variation across the U.S.,” approved under IRS contract TIRNO-12-P-00374 and presented at the Office of Tax Analysis on November 3, 2014. We thank David Autor, Gary Chamberlain, Max Kasy, Lawrence Katz, and numerous seminar participants for helpful comments and discussions. Sarah Abraham, Alex Bell, Augustin Bergeron, Michael Droste, Jamie Fogel, Nikolaus Hildebrand, Alex Olssen, Jordan Richmond, Benjamin Scuderi, and our other pre-doctoral fellows provided outstanding research assistance. This research was funded by the National Science Foundation, the Lab for Economic Applications and Policy at Harvard, Stanford University, and Laura and John Arnold Foundation.