EconoFact Chats: Moving to Opportunity

Lawrence F. Katz, Harvard University

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Michael Klein:
I'm Michael Klein, executive editor of EconoFact. A nonpartisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:
To what extent does where you live, determine how you live? In particular, does growing up in a poor neighborhood reduce the chances for economic and social advancement, for greater educational achievement, and even for your health? Poor people typically live in poor neighborhoods, but would those people do better in better-off settings? And if so, what government policies could help? My guest on EconoFact chats today, Professor Lawrence Katz of Harvard University is a leading researcher on this issue. He has contributed to policy formulation through leading the Moving to Opportunity study, a major randomized housing mobility experiment sponsored by the US Department of Housing and Urban Development. Larry, thanks for joining me on EconoFact Chats.

Lawrence Katz:
Thanks, Michael.

Michael Klein:
Larry, what do we know about an area's poverty rate and outcomes for employment, life expectancy, and children's opportunities for people who live in those areas?

Lawrence Katz:
What we know is that there's a very strong correlation between economic success, and the poverty rate of a neighborhood, or the characteristics of your neighbors. So people who live in poor neighborhoods have lower employment rates, lower earnings than those who live in more well off neighborhoods, and they also have shorter life expectancies. And furthermore, their children are less likely to go to college, have lower adult earnings, even conditioning on their parents observed income, and tend to have more involvement in crime, and contemporaneously, have poorer test scores on state exams. So that's all correlational information that a whole set of social benefits and social problems seem to go together with what type of neighborhood you live in.

Michael Klein:
And as economists, we know that correlation doesn't imply causality. Why living in a poor neighborhood necessarily leads to the outcomes or is just correlated with that. Can you talk a little bit about that?

Lawrence Katz:
But of course, correlation does not always imply causation, and there are reasons to worry that the relationship between outcomes of adults and children in their neighborhood poverty rate may not reflect the true causal effect of the neighborhood. For example, it may be almost mechanical that people with lower earnings opportunities for any reason end up living in less attractive neighborhoods because they
can't afford housing in other areas. So this could be reverse causation. And even children may be affected by their parents' resources that we don't measure. So one worries that this may not tell you anything about neighborhoods, but might just tell you about the types of people who live in different neighborhoods.

Michael Klein:
So Larry, given these challenges and understanding causality, you and your team working on the Moving to Opportunity study have done work that can say something much more definitive about causal relationships.

Lawrence Katz:
Yes. So in order to understand the causal effect of neighborhoods on outcomes for adult and children, you need some way of getting people to either be randomly assigned to neighborhoods, or to effectively randomly change the incentives or opportunities to live in different types of neighborhoods.

And following an unfortunate historical event, the 1992 Rodney King Los Angeles riot, there was a brief period where the US Congress was willing to allocate resources, and to think about improving policy to help families living in some of the highest poverty, most segregated US neighborhoods. And when I was working in 1993 in the Clinton administration as Chief Economist of the Labor department, we use some of these resources to design a large scale randomized experiment called Moving to Opportunity, where we provided additional housing vouchers to move into the private market, and help through mobility counselors, to a random group of families living in the highest poverty public housing projects who were interested in moving to better areas. So this was in Baltimore, Boston, Los Angeles, Chicago, and New York City.

Michael Klein:
So what did you find out about the effects of neighborhoods and outcomes for adults, for example?

Lawrence Katz:
So what we found for adults was very interesting. It was more about moving to tranquility, than Moving to Opportunity. There was not getting an opportunity to move to a lower poverty area, didn't have much effect on economic outcomes. Essentially zero effect on employment and earnings, but had very large effects on wellbeing and health. Large reductions in obesity and in stress, big improvements in mental health, self-reported happiness, large declines in depression. So for adults it greatly affected their wellbeing, but it wasn't through income and economic outcomes.

Michael Klein:
But you did find more striking results for children, right? And I also found it really interesting that there was a length of exposure effect for children. Can you describe this?

Lawrence Katz:
Yes. So for children, initially we weren't finding a whole lot. There was some effects for girls but not for boys. But as we tracked them over the next 15 to 20 years and saw them turn adults, what we found is children who moved at younger ages did much, much better economically as adults. They were more likely to go to college. They earned 30% more than those not able to move to lower poverty areas. So there were striking economic impacts and the sort of longer the exposure to a lower poverty neighborhood, the bigger the impact. So kids who moved say at 18 didn't get as much of a bang. There was some disruption effect, but they didn't have a lot of exposure. But those who moved at younger ages got very big impacts, and we found very similar findings -- my colleagues, Raj Chetty and Nathan Hendren -- using millions of moves in observational data -- essentially every child who grew up in the
1980s in the US who moved across neighborhoods, they've been tracking very similar to our experimental findings.

Michael Klein:
So these are really striking results as I said. But they don't speak to why neighborhoods matter. What are some of the possible reasons for this?

Lawrence Katz:
So this is a bit of a black box in that when you change a neighborhood, you move in Boston from a public housing project in Roxbury or South Boston, say to Brookline or to Medford, you're going to change lots of things. The quality of your schools, the socioeconomic status of your neighbors, exposure to violence, access to jobs.

What we found in looking trying to find mediating factors is that a of some of this was improvement in school quality, although there were bigger changes in neighborhood than in school quality. But a lot of it was sort of what I might call getting second chances. If you didn't do that well in some class or you ran into some problems, there's a lot more forgiveness in middle class neighborhoods than in poor neighborhoods. And exposure at a younger age to people with higher upward mobility seems to give you social networks and a resilience that is difficult to attain without having neighbors with those sorts of aspects. And so while we can't say for sure, we have lots of other evidence on the role of schools, the role of exposure to violence, as well as just things like having less noise pollution and less air pollution are also important factors in improving.

Michael Klein:
Yeah, we have an EconoFact memo by David Slusky at the University of Kansas about the effects of lead pollution. And we also have a memo by Nick Sanders at Cornell on air pollution, and one by your colleague at the Kennedy School, Desmond Ang on exposure to violence. And all of these have very detrimental effects on children.

So it seems that this policy that helped people move out of poor neighborhoods could have really big benefits. But you've worked on a study that shows that just providing the housing vouchers by themselves won't do the trick.

Lawrence Katz:
Yeah. So what we have learned is a couple of things. Most families who are given housing vouchers would like to move to higher opportunity neighborhoods that are safer and have better schools. But when you give them a housing voucher without additional resources to help move to such neighborhoods, they're very unlikely to do so. Only about 15% move to the type of higher upward mobility neighborhoods they'd like to. So in Moving to Opportunity, we provided those resources and help, and we've been testing working with a number of public housing authorities in the US, whether you can do that broader scale. And we've ran a recent experiment in Seattle in King County metro area that we called Creating Moves to Opportunity, where we provided counselors and help with navigating with landlords, financial help with security deposits to help families who receive vouchers to move to the types of neighborhoods they indicated they want to. And what we found is without that sort of help, again only about 15-18% move to the higher opportunity neighborhoods. With it, we were getting over 50% or 60%. About a 40 percentage point increase in the share that can move to higher opportunity areas.
So that's a huge difference. Can you say which of the interventions that you provided seemed most important? Or was the whole package of assistance important for making the difference?

Lawrence Katz:
Really seemed to be the package. What we did is we had a full package that had sort of information, had financial resources to help with moves and with security deposits, but also gave you access to a mobility counselor who helped you get your credit record in shape, did some of the initial discussions with landlords, and helped you access those financial resources. If I give you money for a security deposit, but you have no idea who to ask at the public housing authority to get it and you need it today, whereas if you have a counselor who you can call up, you can text immediately and access that, it was very valuable. So what we found is with the full package, you got about this 40 to 50 percentage point increase, but if I just gave you the financial resources, it had a very modest effect, maybe raised from 15 to 20%, the share that move. If I just give you the information, it has very little effect. And if I give you a light touch sort of counselor who isn't as involved, it only has about half the effect. So it really things looks like overcoming a lot of the psychological sort of frictions and fear of rejection and of having someone who's an intermediary who vouches for you with the landlord is very valuable. And these services are not zero, but relative to the cost of a voucher -- there are a couple thousand dollars to do this intensively -- but a voucher is like that every month. And so it's something like five, 7% of the cost of the voucher, but it hugely changes the impact of access.

Michael Klein:
I imagine it's not just the fear of rejection and somebody advocating for you as well, but it's also difficult to navigate these things, and if you don't have any experience, having somebody who can help you just work through this stuff must be very important as well.

Lawrence Katz:
Yeah. So trusting communication and having a personal relationship and them telling you that getting rejected sometimes is a normal part of the housing search, was very important. So we complimented...so have evidence from surveys, administrative evidence that they're in better neighborhoods in terms of upward mobility for kids in schools. They're persisting in them, they're more satisfied. But we also have a lot of qualitative evidence working with some sociologists who do qualitative work, particularly Stephanie Deluca at John's Hopkins...had in depth discussions of what they thought were the main barriers to moving, how the sort of counselors helped. And a lot of it was building trust and resilience in these searches. And when you have a housing voucher, you have a limited time because if you don't lease up in 90 days or 120 days, you actually might lose the voucher. So people often will just take the first thing they can find rather than spending a little more time to get the place that really matters for their family's outcomes.

Michael Klein:
So the results of this are pretty striking for adults. It's the not necessarily economic change, but the change in the quality of their lives. For children, it's both. But I can imagine that some people would argue that a widespread program like this would just impoverish other neighborhoods and then there'd be no net benefit. How would you address that concern?

Lawrence Katz:
Well, we can't directly address it from the small scale randomized experiment at the individual level. So [what] one needs to do that is more of a sense of the general equilibrium and spillover effects. And while there's no perfect answer, there have been two ways people have tried to address these issues. One are trying to look at the sort of spillover effects and what we've seen in a lot of evidence is lower income
families gain a lot when you reduce the segregation of their neighborhood, but you don't see adverse effects on higher income neighbors. So if you reduce the amount of segregation economically, what it seems to do is you make the higher income people in the receiving area is more tolerant and living in a diverse sort of climate, and you improve the economic outcomes for the poor families. So the neighborhood effects may be non-linear. The other thing is that once it's tougher for landlords and poor areas to attract families because they have these other opportunities, they may need to improve the way their apartments operate. And if a poor family moves to another neighborhood and a middle class family then moves to where they have gone, that's going to change the mix of that neighborhood. And people who have attempted to estimate broader general equilibrium models across areas have found if you tend to spread out the lower income families across a lot of areas, which is what actually happened in Moving to Opportunity and Creating Moves to Opportunity, it will tend to have this impact of large benefits without much cost on any receiving areas, and will have a force to...there's greater competition now for landlords who often capture a lot of the benefits in poor neighborhoods.

Ideally, we would run the experiment across hundreds of cities and randomize how big the program is. But we have a lot of different types of evidence that suggests that reducing the degree of segregation would have net benefits. And classic earlier work by my colleagues David Cutler and Ed Glaeser showing this across metro areas in the US, and the recent work of Raj Chetty and collaborators, show that low levels of segregation are associated with higher upward mobility for low income families, and no real losses for higher income.

Michael Klein:
So if we were able to do this across hundreds of cities, I guess what you're suggesting is that there's a cost to it of course because you're providing the vouchers, but the benefits also accrue in terms of lower social safety net spending and things like that. So when people are thinking about what's the net net effect of this, you have to think about both sides of it.

But Larry, what about a policy of just making poor neighborhoods better rather than having people move out of them? Would that be a reasonable substitute for a Moving to Opportunity kind of program? Or does experience with so-called urban renewal, and gentrification suggest that these kind of policies just don't work?

Lawrence Katz:
So I would say in the best case scenario [it] would be a reasonable compliment, not necessarily a substitute. I'd like to have both things. People should not face discriminatory barriers and administrative barriers to moving where they want to move, which is what a Moving to Opportunity type program. But we also, many people don't want to move, and can we improve their neighborhoods? And we have a very mixed record of urban renewal. What we do know is that certain types of policies that have been popular in the past, like giving tax breaks for reporting profits in enterprise zone areas are highly ineffective. They lead to a lot of shifting of where firms report profits, but they don't do much for the local residents. More comprehensive programs such as the Empowerment Zone policies of the Clinton administration that actually work with local communities to provide them with grants and resources to invest in public safety, to have more parks, to have job training programs, put together, can improve a neighborhood. So empowerment zones have been evaluated. The ones that got them, they improved relative to others, people were doing better economically. What we don't know for sure is how much of those benefits go to the original residents they were intended to, and how much happens from sort of resorting who moves into those neighborhoods. And that's the type of work I've been currently involved with in progress with my colleagues at Opportunity Insights here at Harvard, where we can match such policies to census and tax data, and follow people over time and observe who are the beneficiaries. We have some good historical examples. For example, the haphazard placement of manufacturing establishments during World War II for war production that then became hubs of employment. My student, Andy Garin has
shown linking people over time that kids who were in small cities that got such an investment, versus ones that didn't have better jobs as they grew up and had much better long run outcomes. So we have some evidence for place-based policies that invest in employment in the areas, and in resources, but tax break policies generally generate some fancy condos at the edge of a poor area, or some warehouses that don't employ anyone. So one has to be very careful about what type of policy one's doing for place based policy.

Michael Klein:
So these are such important questions. Can I get you to agree to come back on the show once you have the results from this other study and we can talk about place-based policies as well?

Lawrence Katz:
Sure, we will. And we have a lot of natural experiments that are starting because there were just a number of bills passed in the American Rescue Plan. The Commerce Department has set up a Good Jobs initiative and given grants to sort of 50 different areas. And we just passed the CHIPS Act, which is going to do a bunch of place-based policy on trying to develop more innovation hubs. So the policy may be ahead of the evidence in this area, but hopefully it will give us better sources of variation to learn about this in the future.

Michael Klein:
All right. Well, I look forward to welcoming you back in the future, Larry. And thank you very much for joining me today about this topic that's really important, especially in an age of rising inequality. So thanks for joining me.

Lawrence Katz:
Well, thank you, Michael. It was my pleasure.

Michael Klein:
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