Improving Equality of Opportunity in America
New Evidence and Policy Lessons

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Photo Credit: Florida Atlantic University
The American Dream?

- Odds that a child born to parents in the bottom fifth of the income distribution reaches the top fifth:
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- **USA**
  - Chetty, Hendren, Kline, Saez 2014
  - 7.5%

- **UK**
  - Blanden and Machin 2008
  - 9.0%

- **Denmark**
  - Boserup, Kopczuk, and Kreiner 2013
  - 11.7%

- **Canada**
  - Corak and Heisz 1999
  - 13.5%
The American Dream?

- Odds 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 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.


Source: Chetty, Hendren, Kline, Saez 2014: The Equality of Opportunity Project
The Geography of Upward Mobility in the United States
Odds of Reaching the Top Fifth Starting from the Bottom Fifth by Metro Area

San Jose 12.9%
Salt Lake City 10.8%
Atlanta 4.5%
Denver 8.7%
Milwaukee 4.5%
Boston 10.4%
Washington DC 11.0%
Charlotte 4.4%

Note: Lighter Color = More Upward Mobility
Download Statistics for Your Area at www.equality-of-opportunity.org
The Geography of Upward Mobility in the Sacramento/San Francisco Areas
Odds of Reaching the Top Fifth Starting from the Bottom Fifth by County

- **San Francisco**: 18.5%
- **San Mateo**: 17.4%
- **Alameda**: 11.4%
- **Sacramento**: 10.3%

Note: Lighter Color = More Upward Mobility
Download Statistics for Your Area at www.equality-of-opportunity.org
Why Does Upward Mobility Differ Across Areas? The Importance of Childhood Environments

- Most of the variation in upward mobility across areas is caused by differences in childhood environment.

- Demonstrate this by studying 5 million families that move between areas in the U.S.

Source: Chetty and Hendren 2015
Effects of Moving to a Different Neighborhood on a Child’s Income in Adulthood by Age at Move

Children whose families move from Oakland to San Francisco when they are 9 years old get $54\%$ of the gain from growing up in San Francisco from birth (earn about $35,000$)
Effects of Moving to a Different Neighborhood on a Child’s Income in Adulthood by Age at Move

- **San Francisco** (avg. earnings of $40,000)
- **Oakland** (avg. earnings of $30,000)
Two Policy Approaches to Improving Upward Mobility

- Importance of place for mobility motivates two types of policies:

1. Help people move to better areas
   - U.S. already spends $45 billion per year on affordable housing, $20 billion of which goes to Section 8 housing vouchers

2. Invest in places with low levels of opportunity to replicate successes of areas with high upward mobility
Policy Approach 1: Moving to Opportunity

- HUD Moving to Opportunity Experiment: gave families vouchers to move to lower-poverty neighborhoods 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
Common MTO Residential Locations in New York

Control
MLK King Towers
Harlem

Experimental
Wakefield
Bronx
Children who moved to low-poverty areas when young (e.g., below age 13) do much better as adults:

- 30% higher earnings
- 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.
Policy Approach 2: Improving Neighborhoods

- Limits to scalability of policies that move people
  - Also need policies that improve existing neighborhoods

- Challenging to identify “recipe” for success
  - But we can characterize the typical 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
Racial Segregation in Atlanta
Whites (blue), Blacks (green), Asians (red), Hispanics (orange)

Source: Cable (2013) based on Census 2010 data
Racial Segregation in Sacramento
Whites (blue), Blacks (green), Asians (red), Hispanics (orange)

Source: Cable (2013) based on Census 2010 data
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
The Place Where the Poor Once Thrived

San Jose, in the heart of Silicon Valley, used to be the best place in the country for kids to experience a Horatio Alger, rags-to-riches life. Is it still?
Equality of Opportunity and Economic Growth

- Traditional argument for greater social mobility is based on principles of justice

- But improving opportunities for upward mobility can also increase size of the economic pie

- To illustrate, focus on innovation
  - Study the lives of 750,000 patent holders in the U.S.

Source: Bell, Chetty, Jaravel, Petkova, van Reenen 2015
Patent Rates vs. Parent Income Percentile

Patent rate for children with parents in top 1%:
8.3 per 1,000

Patent rate for children with parents below median:
0.85 per 1,000

Patent Rates vs. 3rd Grade Math Test Scores

90th Percentile

No. of Inventors per Thousand Children

3rd Grade Math Test Score (Standard Deviations Relative to Mean)
Patent Rates vs. 3rd Grade Math Test Scores for Children with Low vs. High Income Parents

No. of Inventors per Thousand Children

3rd Grade Math Test Score (Standard Deviations Relative to Mean)

Par. Inc. Below 80th Percentile  Par. Inc. Above 80th Percentile
High-ability children much more likely to become inventors if they are from high-income families.
Policy Lessons

1. Improve childhood environments and primary education

- Not just spending more money: US already spends more than other developed countries with better outcomes

- Instead, focus on key inputs such as attracting and retaining talented teachers (e.g., Finland)

- May be essential to combine efforts in schools with neighborhood-level improvements in other dimensions

- Childhood environment matters at all ages, not just the earliest years
Policy Lessons

1. Improve childhood environments and primary education

2. Tackle upward mobility at a local, not just national level
   - Target subsidized housing vouchers to families with young children to help them move to better neighborhoods
   - Focus on improving cities such as Baltimore and Chicago, and on specific neighborhoods within those cities
Policy Lessons

1. Improve childhood environments and primary education

2. Tackle upward mobility at a local, not just national level

3. Harness “big data” to develop a scientific evidence base for economic and social policy
   - Identify which neighborhoods are in greatest need of improvement and which policies work
   - County-level data on mobility publicly available at www.equality-of-opportunity.org
# An Opportunity and a Challenge

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<td>San Jose, CA</td>
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</tr>
<tr>
<td>Washington DC</td>
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</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>
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Patent Rates vs. 3rd Grade Math Test Scores by Race

No. of Inventors per Thousand Children

3rd Grade Math Test Score (Standard Deviations Relative to Mean)

- White
- Black
- Hispanic
- Asian