Geographic Disparities in Quality of Life in 21st-Century America

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Introduction

- Non-market local public goods (mild climate, schools, clean air, clean water, safe streets) are inputs in producing safety and comfort and human capital.
- At a point in time, Quality of life (QOL) varies across cities and neighborhoods.
- An adult’s locational choice determines her QOL consumption and her kids’ QOL consumption.
- Early life QOL is a key investment input in a child’s future.
Ranking Urban Quality of Life by Location

- The logic of compensating differentials teaches us that real estate rents are higher in nicer cities (think San Francisco versus Baltimore).
- Rents are higher in better neighborhoods within a city.
- Urban economists use spatial variation in wages and rents to infer how much people are willing to pay for non-market amenities such as clean air and street safety.
- We estimate implicit hedonic prices.
The Key Intuition about Urban QOL Rankings

- A geographic location has great QOL if people remain in a place featuring low wages, high taxes and high rents
- Place based Real estate pricing (think of Zillow) is easy
- Place based earnings data (unlike Raj Chetty other urban scholars work with self reported Census data)
- The fundamental challenge of imputing one’s earnings in a place you have never lived
- The self selection and heterogeneity challenge
Hedonic Prices are Determined by Demand and Supply of Urban Quality of Life

- On the demand side;
- Safety and comfort are normal goods
- We demand more when they are cheaper and when we are richer
The Supply of Urban Quality of Life

- No intelligent design!
- In the field of industrial Organization, economists study what attributes are bundled into a product such as a new Mercedes.
- A for profit firm makes this decision and faces a cost/benefit tradeoff.
- In contrast, the attributes of San Francisco or West Baltimore emerge as a byproduct of many independent decisions.
- Facing this reality, a reduced form approach.
- An area’s poverty rate as a sufficient statistic for local QOL such that corr(Poverty Rate, QOL) < 0.
- A selection effect or a treatment effect?
The Economic Incidence of Quality of Life Dynamics

- Over time, a place such as New York City or West Virginia changes due to shifts in local public goods
- Falling Crime, Successful environmental regulation, transit innovations
- Incumbent homeowners bear the incidence
- Especially if difficult to build new housing
- The early QOL literature assumed $0 migration costs
- People plant roots over the lifecycle such that migration costs rise with age
- Locational choice is thus a place based bet that you can’t diversify the risk
Residential QOL Sorting Within a City

- **A Fact:** Minorities and lower income people live in the low QOL cities and areas within such cities
- Explain using an Income Effects theory of neighborhood selection or
- Steered there due to lingering discrimination?
- Implications for their children


- The Chetty Opportunity Insights agenda; what explains the within city variation in later life upward mobility with respect to income?
- The Chetty work does not have an explicit model of neighborhood selection
Supply Side Policies that Increase Quality of Life Inequality

- Local land use regulation --- more pervasive in progressive cities
- Such regulation \( \Rightarrow \) higher home prices \( \Rightarrow \) exclude the poor
- Public housing \( \Rightarrow \) greater exposure to poor people by the poor
- The tension in urban economics and the “Rauch/Moretti” effect
- Person \( i \) in location \( j \)
- \( \text{Wage}_{ij} = b_1 \times \text{Skills}_{ij} + b_2 \times \text{City Skills}_j \) , \( b_2 > 0 \) social returns to living in a skilled area implicitly means that negative returns to living in a low skill area.
- Where does society want the poor to live?
Conclusion

- QOL literature started by Nordhaus and Tobin
  
  

- Revealed preference research not possible for macro research -- no market for passports.
- Urban economists use revealed preference methods
- The poor live in places with low QOL
- Is this fact due to Selection effects or treatment effects?
- Local public goods as inputs in the Heckman dynamic complementarity model of producing a functioning adult