

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
- Costa DL, Kahn ME. Changes in the Value of Life, 1940–1980. *Journal of Risk and Uncertainty*. 2004 Sep 1;29(2):159-80.

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 $\text{corr}(\text{Poverty Rate}, \text{QOL}) < 0$.
- 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

DiPasquale D, Kahn ME. Measuring neighborhood investments: An examination of community choice. Real Estate Economics. 1999 Sep;27(3):389-424.

- 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
- $Wage_{ij} = b1 * Skills_{ij} + b2 * City Skills_j$, $b2 > 0$ 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

Nordhaus WD, Tobin J. Is growth obsolete?. In The measurement of economic and social performance 1973 Jan 1 (pp. 509-564). Nber.

Jones CI, Klenow PJ. Beyond GDP? Welfare across countries and time. American Economic Review. 2016 Sep;106(9):2426-57.

- 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