Children who live in areas of concentrated poverty consistently perform worse in school, have more health problems, and get in trouble with the law more often than children who grow up with more affluent neighbors. Adults in these poorer neighborhoods have lower employment rates and worse health. To what extent are these outcomes attributable to living in the disadvantaged neighborhoods, as opposed to the direct effects of the family and the individual characteristics of the residents of such neighborhoods? The answer is critical to the design of education, health, housing, and other social policies aimed at assisting low-income families.

Jeffrey Kling, Jeffrey Liebman, and Lawrence Katz address the question in Experimental Analysis of Neighborhood Effects (NBER Working Paper No. 11577). Their study is based on evidence from the Moving to Opportunity (MTO) demonstration, a randomized housing mobility experiment in which families living in high-poverty, inner-city, public-housing projects were offered housing vouchers to help them move to private housing units in lower-poverty neighborhoods.

MTO is a demonstration conducted by the U.S. Department of Housing and Urban Development (HUD) in five cities: Baltimore, Boston, Chicago, Los Angeles, and New York. Through MTO, public housing residents with children were eligible to participate in a lottery resulting in random assignment to one of three groups. A control group received no new assistance, but continued to be eligible for public housing. A Section 8 group received a traditional housing voucher (known as a Section 8 voucher), without geographic restriction. An experimental group received a Section 8 voucher, restricted for one year to a census tract with a poverty rate of less than 10 percent, and mobility counseling. The random assignment to groups took place from 1994 to 1997.

Of these households, 85 percent were headed by an African-American or Hispanic woman. In their analysis of data from 4248 households, the authors draw upon baseline surveys, administrative earnings and welfare records, and a 2002 survey that collected data four to seven years after enrollment in MTO. In 2002, the families offered housing vouchers through MTO lived in safer neighborhoods with significantly lower poverty rates than those of the control group not offered vouchers.

The authors find that neighborhoods do seem to have independent effects on youth education, health, and behavior, but that these effects are complex. Girls fare significantly better in multiple dimensions after they move to more affluent neighborhoods. In the experimental and Section 8 groups, the girls showed improved mental health, better educational outcomes, and reductions in risky behaviors relative to the control group. In contrast, boys appear either to be unaffected or to be affected negatively by such moves. The boys in the experimental and Section 8 groups experienced higher rates of substance use and suffered a large increase in non-sports injuries relative to the control group.

Moves to lower-poverty neighborhoods also appear to generate a nuanced pattern of effects on the adults in the MTO demonstration. The authors find no significant overall effects of neighborhood moves on adult employment, earnings, or public assistance receipt. These results could reflect the weak job growth of the neighborhoods to which the experimental group moved. Although the offer of housing vouchers appears to have no detectable effects on several aspects of physical health (general health, asthma, physical limitations, and hypertension), the authors find significant reductions in obesity associated with MTO moves.

In addition, the MTO intervention generated substantial and significant mental health benefits for the adults in the experimental group. Using both voucher groups in analyses, the authors demonstrate that larger changes in neighborhood poverty rates are associated with larger improvements in mental health in an almost linear fashion. Overall, there is a consistent pattern of improvements in specific aspects of mental health for both groups offered vouchers relative to the control group. For example, the authors find large and
significant reductions in psychological distress and increases in feeling “calm and peaceful” for the experimental group relative to the control group. The mental health benefits may have important spillover benefits, particularly to children who have been found to have more problems in school and more behavior problems when their mothers are experiencing mental health problems. Taken together, these findings suggest that health concerns may need to return to the more prominent place in housing policy discussions that they held 60 years ago — with a new emphasis on the importance of mental health.

— David R. Francis

Is Religion Good for You?

A number of researchers have found striking correlations between religion and various measures of well being. For example, religious participation is correlated with lower levels of deviant behavior and better health. And, attending religious services weekly, rather than not at all, has the same effect on individuals’ reported happiness as moving from the bottom to the top quartile of the income distribution.

However, the same factors that determine religious attendance may also determine these outcomes; for example, it may be that happier people go to church, not that going to church makes you happier. In Religious Market Structure, Religious Participation, and Outcomes: Is Religion Good for You? (NBER Working Paper No. 11377), NBER Research Associate Jonathan Gruber seeks to solve the problem of estimating the effects of religious participation on earnings and other economic measures.

His solution draws on the fact that individuals are more likely to attend religious services if they live near others of their religion (that is, where there is a “higher density of co-religionists” in Gruber’s terms). Catholics who live in more heavily Catholic areas attend church more than those who live in less Catholic areas. Further, living near others of one’s religion can be predicted by living near others in certain ethnic groups that share the religious preferences of your ethnic group. For Italian Catholics, for example, living near persons of Polish extraction will mean being more likely to be near other Catholics than, say, living near persons of Swedish extraction. Yet living near persons of Polish rather than Swedish extraction should not affect any other aspect of the Italians’ life, so that any effects of living near such “complementary” ethnic groups should reflect religious attendance only.

Gruber first uses data on religious preferences, ethnic heritage, and religious participation from the General Social Survey to show that the people living in an area with a higher density of co-religionists are more likely to participate in religious activities. This is true even after controlling for general differences in religiosity across areas and across ethnic groups. Moreover, they are no more likely to participate in other civic or social enterprises, suggesting that this co-religionist density measure is having effects only through religious participation.

He then turns to the 1990 U.S. Census to measure the effects of co-religionist density on economic outcomes such as education, income, employment, welfare participation, disability, marital status, and number of children. Gruber’s results suggest a “very strong positive correlation” between religious market density, religious participation, and positive economic outcomes. “People living in an area with a higher density of co-religionists have higher incomes, they are less likely to be high school dropouts, and more likely to have a college degree.” Living in such an area also reduces the odds of receiving welfare, decreases the odds of being divorced, and increases the odds of being married. The effects can be substantial. Doubling the rate of religious attendance raises household income by 9.1 percent, decreases welfare participation by 16 percent from baseline rates, decreases the odds of being divorced by 4 percent, and increases the odds of being married by 4.4 percent.

“Doubling the rate of religious attendance raises household income by 9.1 percent, decreases welfare participation by 16 percent from baseline rates, decreases the odds of being divorced by 4 percent, and increases the odds of being married by 4.4 percent.”

— Linda Gorman
Tax Progressivity and Share Ownership

Countries differ widely in the extent to which corporate ownership is diffused and in the degree to which their populations participate in the stock market. Legal rules, politics, and behavioral factors all have been offered as explanations for these differences. The role of taxes in influencing stock ownership patterns has largely gone unexplored. This oversight is particularly surprising because Adolf Berle and Gardiner Means, who pioneered the notion of the separation of ownership and control in modern corporations, were motivated by the observation that highly progressive taxes imposed during WWI were associated with a sharp increase in the diffusion of ownership.

In Taxation and the Evolution of Aggregate Corporate Ownership Concentration (NBER Working Paper No. 11469), authors Mihir Desai, Dharmika Dharmapala, and Winnie Fung investigate how personal taxes have shaped the level of stock ownership concentration in the United States during the twentieth century. By extending the financial-equilibrium intuition developed by Merton Miller, the authors show that increases in the progressivity of a tax system lead to a greater personal tax burden on corporate debt, relative to equity. This induces more equity issuance and, consequently, a larger fraction of investors to hold equity. In short, the marginal investor becomes a lower income individual.

To test this notion, the authors develop a measure of corporate ownership concentration at the economy-wide level. They use dividend income, as reported on tax returns over the 1916–2000 period, as a proxy for stock ownership, and construct an index that summarizes the degree of concentration of stock ownership across households over this period. An alternative measure based on estate tax data provides similar results. These measures differ from those used in studies of corporate governance, which typically track the ownership concentration of a sample of large public corporations across countries or through time. As such, the authors argue that these measures are especially well suited to understanding the determinants of stock market participation across income groups and for understanding ownership concentration at the aggregate level.

In contrast to the typical portrait of the United States as having diffuse ownership patterns throughout the twentieth century, this index shows significant variation over time, with substantial diffusion of ownership after WWI and again through the 1950s. While diffusion persisted through the second half of the century, an increase in concentration of aggregate corporate ownership returned in the 1990s.

The analysis in this paper reveals that increases in the progressivity of individual income tax rates are associated with statistically significant and economically meaningful increases in the diffusion of corporate ownership.

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Foreign Investment in China

While foreign investors clearly are smitten with China, it appears that this infatuation has not lessened their affection for many other developing countries, contrary to conventional wisdom. In fact, China’s alluring qualities may be making certain other nations, particularly China’s Asian neighbors, more attractive than ever.

In Is China’s FDI Coming at the Expense of Other Countries? (NBER Working Paper No. 11335), co-authors Barry Eichengreen and Hui Tong report that the growing amount of foreign direct investment (FDI) in
China encourages greater investment in other countries, to the extent that they are part of the same interconnected global production network. The authors find that this complementary relationship is particularly evident in Asia, where China’s economic explosion seems to be driving investors to support a regional supply chain for feeding China’s burgeoning and varied enterprises.

Eichengreen and Tong show that as direct investment — led by Japan — in China has gone up, it also has increased in places like Singapore, a major supplier of goods used in Chinese manufacturing, and Indonesia, which provides raw materials and energy to China. For example, Eichengreen and Tong observe that in order “to reap the full benefits of building assembly plants in China, firms may also need to invest in component production” — such as electronic components used in Chinese manufacturing plants — “in Singapore or Malaysia.”

The positive effects of China’s expansion may also extend beyond Asia. Eichengreen and Tong point out there “there has been much discussion” that increased investment in Latin America is being fueled in part by China’s growing demand for that region’s raw materials. “The increase in FDI in China thus may be encouraging additional FDI in other countries rather than crowding it out,” they write.

Evidence that China’s boom is essentially generating greater investments elsewhere runs counter to an often expressed view that China’s rise has made it more difficult for other developing countries to attract foreign investment. However, Eichengreen and Tong point out that there are also instances in which investors appear to be giving certain countries — and also certain industries — the cold shoulder as they lavish attention on China.

For example, as Japan has increased its investments in China, it has decreased investments in the 30 countries of the Organization for Economic Cooperation and Development (OECD), which include Europe, Australia, Mexico, the United States, and Canada. Eichengreen and Tong believe that Japan has diverted investment away from OECD recipients because of a “desire to produce close to the market where the final sales take place.”

Within Asia, the authors also find a weaker effect of FDI in low-income countries like Pakistan and Bangladesh that compete with China in the production and export of labor-intensive manufactures like textiles and apparel than in high-income countries like Singapore that produce components for Chinese exports. In addition, Eichengreen and Tong report that while China’s growth has attracted more foreign investment to many of its neighbors, certain industries in these countries — namely food processing and chemicals — “are receiving less investment as a result of Chinese competition.”

“The growing amount of foreign direct investment in China encourages greater investment in other countries, particularly in Asia.”

— Matthew Davis