Comment on

"Lands of Opportunity: Differences in the Geography of Income and Wealth Mobility in the United States" by Binder, Risch, and Voorheis

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Introduction

The paper offers an anatomy of the geography of income and wealth mobility across generations in the United States by linking data from the 2000 Decennial Census with administrative records. This dataset, containing 3.4 million linked parent-child pairs, is the first for the United States rich enough to allow precise estimates at the county level. The paper is well executed, interesting, and moves the literature forward.

I make one comment and two suggestions for future research after describing the regression framework. First, I discuss how one set of the results suggests that homeownership may have large negative effects if households realize bad shocks and that these transmit across generations. Second, I suggest that future research study a) whether differences in geographic mobility drive patterns in geographic economic mobility and b) which variables predict economic mobility at the county level.

Rank-Rank Regressions with Extensive Margins and Point Mass:

When studying outcomes, the authors face problems using the standard measure of intergenerational wealth persistence. A large literature uses rank-rank regressions, where parents' (p) wealth percentile predicts children's (c) wealth percentile:

$$Rank_c = \gamma + \beta Rank_p + \epsilon.$$

The constant (γ) measures absolute mobility, and the slope (β) measures relative mobility. However, this measure is poorly defined when variables have point mass (many households with identical values, e.g., no income) or are unobserved for some households (e.g., no home values for renters). The paper addresses this issue by introducing two slightly different regressions.[2] The parameter δ measures the effect of the parent being in the extensive category (e.g., owning a house), and α measures the average outcome of

[1] The views expressed in this paper are solely those of the author and do not necessarily reflect the opinions of the Board of Governors of the Federal Reserve System or the Federal Reserve System.

[2] Note that this may have important implications for the results since homeownership rates vary widely within the United States. Taking New York City as an example, Richmond County (Staten Island) has a homeownership rate of about 70 percent compared with only 20 percent of households in Bronx County.

children with the worst-off parents (e.g., lowest-value homeowners). I find this distinction helpful and that it allows for a richer representation of economic persistence.

The Adverse Effects of Homeownership

Homeownership is often considered unambiguously good and frequently necessary to live the American Dream. However, the correlations presents a striking finding that cautions against this view for outcomes following the Financial Crisis.

Children of the worst-off homeowners (α) in counties with the largest price drops during the Financial Crisis have 15 percentage points lower homeownership rates than those who had the smallest price drops. The direction of the effect is perhaps not very surprising: one can easily imagine the lowest housing wealth homeowners facing the largest price declines would be more likely to be underwater and so have less wealth to help their children become homeowners and that the children are less likely to desire homeownership.

At the same time, children of renters (δ) in counties with the largest price drops have 7 percentage points higher homeownership rates. The implication is stark: had the worst-off parents instead been renting, their children would have been approximately 22 percentage points more likely to become homeowners. Again, the result is not surprising: for households who were renting, larger price declines should translate into lower rents (increasing disposable income), higher probabilities of future homeownership (since prices are lower), and a climbing of the wealth ranking (since owning households lost wealth).

Finally, at the intensive margin of housing wealth (β), there is little evidence of house price declines mattering for mobility.

On net, the blanket advice that homeownership is good is likely not true: marginal homeowners who face bad shocks could often be better off had they remained as renters. In practice, marginal owners have all their wealth in a single highly levered investment in an illiquid asset. When these households who are on the brink of default are then hit by bad shocks, the losses are big enough to transmit to the next generation.

“Should I Stay or Should I Go?”

The paper attributes children's outcomes to their childhood county (where their parents lived), which can be problematic. Imagine two children born to parents residing in Gary, Indiana. One child remains in the county and buys a house in 2010, when they are approximately 25, and experiences approximately no real price growth by 2020. The other child moves to the Bay Area and buys a house in 2010, where real house prices grew 50 percent by 2020. Both of these children have their wealth credited to the county of origin.

A large literature has established that geographic mobility is important for economic mobility (see, e.g., Chetty, Hendren, and Katz 2016 and Nakamura, Steinsson, and Sigurdsson 2022). One can imagine two counties with high economic mobility, as measured in this paper, for two very different reasons. In one county, economic mobility is high because of policies that reduce the importance of one's parents. In another county, economic mobility is high because the children of poor parents have bad enough prospects that they all moved. Clearly, the policy implications are different depending on which mechanism is more important.

One way to understand these issues would be to, for example, control for the fraction still residing in the childhood county or present results differently for stayers versus movers. An interesting extension would be to look at the economic mobility by the child's location as adults, which would help differentiate whether economic opportunity arises from the geographic origin or destination.

What Drives Cross-County Differences

The paper documents a set of striking facts on the geography of economic mobility, the proverbial lands of opportunity. Having learned about the geography of economic mobility, a natural follow-up is: which factors determine mobility and its geography? Understanding these predictors could have large policy implications.

The longer you look at the maps, the more questions arise naturally. Why is economic mobility relatively low within but high outside large Midwestern cities such as Detroit, Chicago, and Minneapolis, when the pattern is the opposite in some East Coast cities like New York and Boston? Why do some counties with large public universities appear to have lower housing wealth mobility, while others do not (see Figure 1)? These counties vary widely in urbanity, price growth, population, and demographics, making it difficult to tell which factors matter most.

Regressions of mobility measures on county-level observables, such as homeownership rates, price growth, demographics, population density, education infrastructure, and industrial composition, would help tease out which variables correlate with mobility. Such analysis would move us from descriptive geography toward understanding the mechanisms that generate opportunity, with clearer implications for policy.

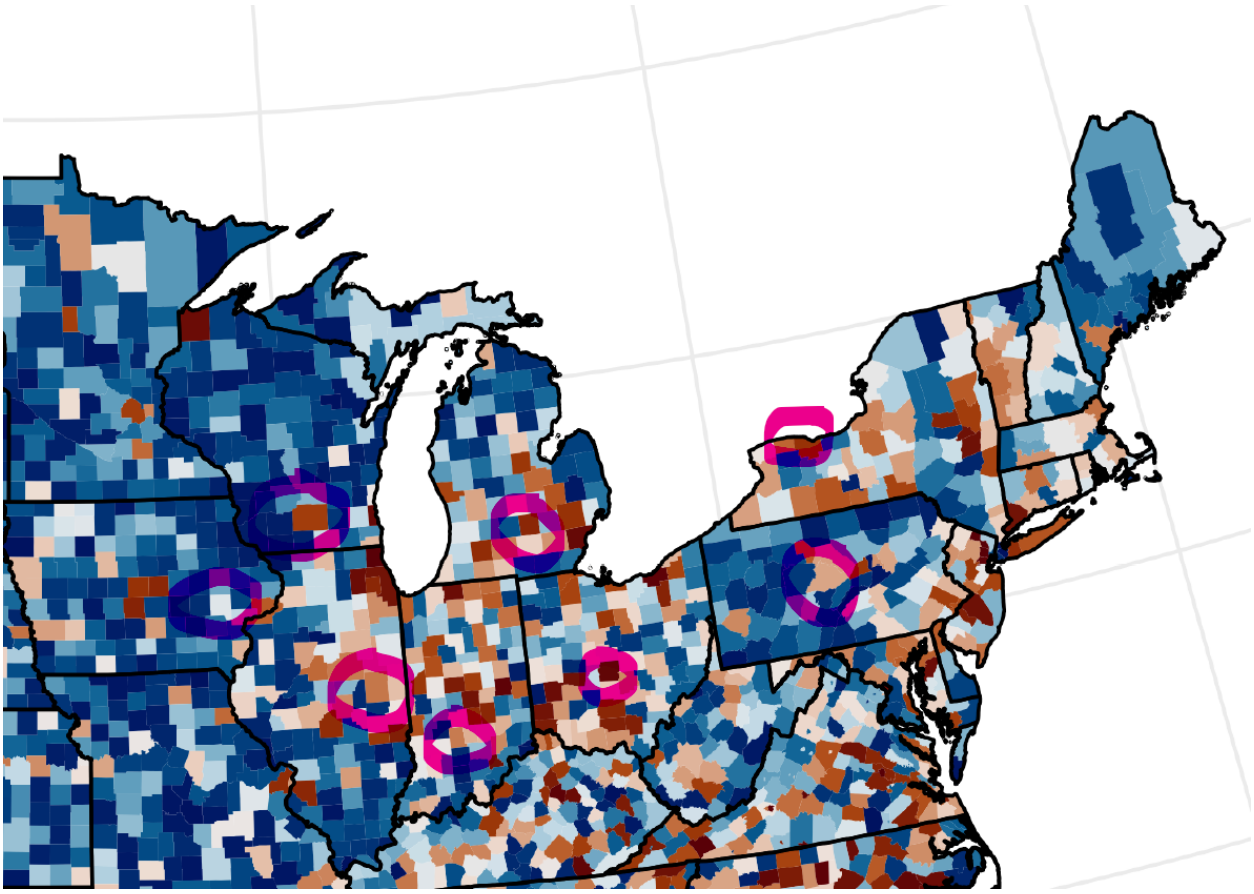

Figure 1: Example of Unexplained Geographic Patterns. Why do counties with large public universities have lower economic wealth mobility than surrounding areas? The pink circles highlight the University of Iowa, UW-Madison, University of Illinois, Indiana University, Michigan State University, Ohio State, and Pennsylvania State University. *Source:* Figure 5(a) in the paper.

Conclusion

This paper moves our understanding of the geography of economic mobility by documenting the differences and similarities in wealth and income persistence across generations.

References

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