The Macroeconomic Effects of Neighborhood Policies: A Dynamic Analysis

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Discussants: Edward Glaeser, Diego Daruich

Guillermo Ordoñez opened the discussion by asking what defines a neighborhood, following up on Diego Daruich's discussion. He pointed out that if neighborhoods primarily affect children through schooling, then private schooling and school choice may be important margins of adjustment. However, if the most relevant mechanism is instead peer interaction or social networks, he thought that social media and nonlocal interactions could make neighborhoods less relevant for that channel than in the past. Edward Glaeser added that spatial mobility differs sharply across the income distribution, citing his work using cell-phone tracking data. In particular, he noted that children in poorer households move less than children in richer households.

In response to Ordoñez's point, Veronica Guerrieri acknowledged the large body of empirical work that investigates the different channels underlying the neighborhood externality they incorporate into their model. She explained that their paper does not attempt to engage directly with this issue; instead, they discipline their quantitative model using estimates from work by Raj Chetty and coauthors that leverages quasi-experimental evidence to estimate the impact of early childhood exposure to better neighborhoods on future income. Guerrieri acknowledged that there may still be issues of endogeneity underlying these estimates but argued that they are the best available causal estimates of the effect of early exposure to neighborhoods on future earnings. She explained that because the work by Chetty and coauthors does not pin down the channels, they chose to abstract away from specific mechanisms in the model and instead focus on capturing how children's average expected future wages depend on the characteristics of the neighborhoods in which they grow up. She closed by agreeing with a point from Glaeser's discussion that it would be useful to introduce more nonlinearities into the spillover function, while noting that the model already allows for nonlinearities in how ability and related characteristics enter wages.

Alessandra Fogli emphasized that since the model contains market failures, there is a clear role for policy. However, following up on a point from Glaeser's discussion, she noted that it is difficult to address the possibility that some neighborhoods may be inherently bad for human capital accumulation, within the model, without knowing what drives these differences across neighborhoods. Fogli then noted that Glaeser first inspired them to work on the general equilibrium impacts of policies aimed at moving children to neighborhoods with more opportunity. She interpreted his discussion of their paper as encouraging them to instead think more deeply about the specific market imperfections, rather than focus on the impacts of the policies themselves. She then explained that the specific imperfection they focus on addressing in this paper is that some families cannot afford to live in good neighborhoods. She added that they initially considered focusing on Head Start, which specifically targets poor children, but felt that this approach was met with resistance because the empirical literature shows that simply investing in education does not always generate high returns, reiterating a point from Daruich's discussion. She explained that these considerations led them to leverage the newest evidence from this literature, which documents large variation in the returns to different types of public-schooling investments, and that they use this variation to help discipline the quantitative predictions of their model. She concluded by stating that she views their paper as a first attempt to open the black box of which investments are most effective and to use micro estimates to quantify the equilibrium effects of these policies.

Glaeser clarified that his suggestion was for the authors to consider a broader range of treatment-effect estimates, particularly for the place-based investment policies. Guerrieri agreed with Glaeser's suggestion and elaborated on the existing robustness exercises in the paper, in which they vary the key parameters governing the returns to different policy interventions in the model. She explained that the conclusion that place-based investment policies tend to generate the largest long-run gains appears robust. Fogli elaborated on this point, adding that among the policies they considered, only place-based investments trigger an endogenous compositional response aligned with the direct, intended effect of the policy, while the other policies generate endogenous responses that work against the intended effect. She emphasized that this result does not depend on the calibrated parameters and wrapped up the discussion by stressing that policymakers often focus on the target population while neglecting the behavior of non-recipients.

Cristina Arellano asked how the model speaks to current policy debates over housing unaffordability and wondered whether it could provide a structural measure of unaffordability. Guerrieri agreed that unaffordability is an important point and connected it to Daruich's discussion, which considered possible gentrification from neighborhood vouchers and related policies. She added that it would be interesting to jointly analyze the effects of place-based investments and housing vouchers in a version of their model with a richer housing sector that includes government housing projects.

Antoine Hubert de Fraisse pointed out that families choose neighborhoods for many reasons beyond educational returns. He stressed that understanding the motives underlying households' initial location decisions and the determinants of neighborhood formation may be even more important for understanding the general equilibrium effects of policy. Guerrieri agreed with his point, connecting it to Daruich's earlier discussion regarding families without children. She cited empirical evidence showing that some neighborhoods experience large house-price responses to changes in school quality, suggesting that some families do sort based on returns to education. She acknowledged that households also respond to other considerations, such as amenities and preference shocks, which they attempt to incorporate into the model. Finally, she noted that they also have a model extension with endogenous amenities, which allows them to speak to some of the potential repercussions of these policies for families without children as well.

Returning to a point from Daruich's discussion on heterogeneity in housing supply elasticities, Guerrieri acknowledged that two neighborhoods can have similar average incomes but underlying differences in school quality and therefore may still be affected differently by policies. Fogli also followed up on Daruich's comment, agreeing that the housing supply elasticity is a critical parameter for policy analysis and one they took very seriously when calibrating the model to the data. Finally, she added that it would be useful to endogenize the number of neighborhoods going forward, since this is another margin that may be important for the equilibrium consequences of policy.