Essays on places and economic inequality

This dissertation includes three essays examining economic inequality and its relationship with local economies across the United States. Differences between local areas play an important role in perpetuating economic inequality, despite people's ability to move freely between areas in the US. The essays contribute to our understanding of the magnitude of economic inequality within the United States and of policy responses, particularly those that focus on local areas.

Chapter one: Local Ties in Spatial Equilibrium

Chapter one examines the implications of the hypothesis that people tend to stay in declining places because they have families, friends, and other local ties that keep them from moving.

Places that have received negative shocks tend to house people who were born nearby, since locals are less responsive to changes in wages and housing prices. This leads to a type of hysteresis where places that have experienced negative shocks in the past will have smaller migration responses after additional shocks, since their population will be selected to have stronger local ties.

An important policy implication, which applies across a wide class of models of spatial equilibrium, is that lower migration elasticities make subsidies to declining areas less distortionary. I find that subsidies are 1/5 as distortionary in declining places, where people have stronger local ties. In areas where residents have stronger local ties, subsidies have smaller effects on where people would like to live. This suggests that place based interventions will be less distortionary than would be the case if people did not have local ties.

Chapter two: Housing Inequality

This paper uses US Census data, going back to 1930, to measure inequality in the price of people's houses. The main finding is that this housing inequality decreased from 1940 to 1960, but has been rising since 1970. Housing inequality is correlated with income inequality, which suggests that increases in income inequality have been reflected in people's houses.

Increases in housing inequality from 1970 to the present are best explained by an increasing willingness to pay to live in particular neighborhoods within cities, as opposed to living in larger houses. Changes in the characteristics of houses explain very little of the increases in inequality that occurred from 1970 to 2000. A geographic decomposition shows that there is more inequality between houses within a city than there is inequality in the mean price of houses between cities. Similarly, the changes in inequality that we observe are mostly because of the inequality of housing prices within cities.

Chapter three: Family Ties and Worker Displacements

This paper shows that job displacements, including layoffs, have smaller effects on earnings for people who live close to their parents. This provides an economic reason why people may be reluctant to move from their birthplaces.

The strongest reason that people who live close to parents earn more after job displacements is that living close to parents can lead to better job offers. It is difficult to completely rule out other channels, however. Parents could facilitate their children's job searches by subsidizing their unemployment, or they could encourage their children to search harder for new jobs.

Conclusion

Local labor and housing markets play important roles in generating and sustaining economic inequality. People appear to face significant barriers that keep them from moving to places with higher real wages. Housing markets also suggest that there are increasing advantages to living in particular areas, and that there is a limited supply of these areas.

Policies that aid local areas can address inequality, and these essays suggest that doing so will lead to only modest distortions.