Discussion of

"The End of the American Dream? Inequality and Segregation in US Cities"

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Within-City Inequality and Spatial Sorting

- The role of sorting between cities in generating income inequality is now well-established.

- Facts:
  1. **Most of the income inequality** in the U.S. is observed across (segregated) neighborhoods ***within*** *cities*.
  2. **Inequality and segregation** are **correlated** across cities, and growing together.

- (Different) model:
  - Across cities, (main) mechanism = access to labor markets
    - Also plays a role within cities (Davis and Dingel's Spatial Knowledge Economy, 2019)
  - Within cities, neighborhoods share labor markets. So, mechanisms are, instead:
    - access to social capital/information (**networks**)
    - access to human capital (**education**)

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Does within-city spatial sorting amplify income inequality?

- Model:
  - OLG with endogenous human capital accumulation and residential sorting.
  - Complementarities between education and local human capital spillovers.
  - Increasing returns to human capital amplified by non-homothetic housing demand.
- Quantitative analysis:
  - Calibrate to 1980/1980-2000 averages and feed in 1980-1990 shock to college premium
    - Leverage neighborhood spillover estimates (Chetty and Hendren, 2018)
    - Matches growth in income inequality very well, also predicting most of the increased segregation.
  - Counterfactual shuts down residential sorting: ~ 70% of inequality growth remains
- Key takeaway: residential sorting plays an empirically important role in exacerbating inequality growth

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“End of the American Dream?”

- The baseline model predicts that intergenerational mobility is decreasing over time.
  - Rank-rank correlation increases from 0.25 in 1980 to 0.42 in 2010
- What role do diverging investments in location (and education) play in this reduced social mobility?
  - How much of the reduction in intergenerational mobility persists when local spillovers are “globalized”?
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How to Revive the American Dream?

- The paper focuses on the role of spatial sorting in widening inequality and reduced economic mobility.
- But the model *could* be used for policy analysis:
  - "Bussing" or universal education
  - Transportation infrastructure investments
  - General redistribution
- Beyond this, policy analysis will require more research on the exact mechanism(s) at play:
  - which elasticities still need to be estimated to unpack the Chetty & Hendren (2018) spillover estimates?
  - are households aware of these choices or are they myopic/choosing based on other factors?

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Residential & Experienced Segregation

- Are the local spillovers about where people live or where they socialize?
  - Like education, who to socialize with + where to live are related decisions.

- In the theory, potentially just labeling:
  - Is this social segregation part of residential segregation or the education investment?

- In the counterfactual, social decisions may look different education investments due to spatial frictions.
  - If individuals can't segregate residentially, would they still segregate socially (Athey et al (2020))?

- *Related issue*: intersection between race and income segregation, and racial inequities more generally.
  - Low-income minorities with few opportunities for upward social opportunities that satisfy their within-group racial preference, might be the least likely to benefit from network/neighborhood effects modeled here.

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Important Paper

- New facts, elegant theory, quantitative answers (in spite of sparse micro evidence on mechanisms).
- Bottom line: segregation has real consequences exacerbating growth income inequality.
- “Call to arms” to unpack the “neighborhood” effect on human capital accumulation.

Additional notes for authors

- The calibrated model matches the growth in inequality very well (Figure 10), perhaps too well?
  - The model is only fed a single adjustment to the returns to college.
  - Does the calibration of the 1980-2000 averages (Chetty and Hendren and Chetty et al. intergenerational mobility and returns to neighborhood spillovers) contribute here?
- The calibrated model predicts that return to college is increasing (0.31 to 0.55):
  - How much of this is SBTC? Does this match the data? (Gini coefficient matches data well)

Additional notes for authors

- "Investments" in education and residential location, which affords local externalities.
  - Homothetic demand for education?
  - Non-homothetic demand for residential location (varying price sensitivity) - but general preference shock does not increase attractiveness of A more for high-income households.
- Heterogeneity in parental income and local preference shock, and child's ability (all known).
  - What if the child's ability is unknown?
- Skill premium in 1990 matched to college premium one period after the shock (using cutoff on continuous education).
  - Q: If matching a discrete skill premium, is it necessary to make education continuous?

Additional notes for authors

- The assumption that low education children don't benefit from spillovers is necessary to get the monotonic decision functions.
  - Are there related equivalent propositions for the model with continuous education choice (super-modularity?).
- Mechanism decomposition:
  - What calibrated parameters adjust to match the targeted moments when there is no spillover?
  - Those parameter differences must explain the difference between these results and the results in the counterfactual when beta = 0, so might yield some insight.