

## **Evidence of First Generation Neighborhood Effects from Moving to Opportunity and Implications for Housing Policy**

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*In the mid 1990s, the Department of Housing and Urban Development (HUD) implemented an experimental demonstration called Moving to Opportunity (MTO). The program intended to measure the benefits to families from moving out of unsafe, high-poverty neighborhoods and into low-poverty neighborhoods, regarded as better quality neighborhoods. These effects were referred to as neighborhood effects.*

*MTO also intended to test the effectiveness of housing policy tools to improve the well-being of such families. More specifically, the demonstration set out to test the ability of rental voucher programs to improve outcomes by subsidizing mobility to low-poverty neighborhoods. Since access to a voucher may not always lead to a neighborhood-enhancing move, these so-called program effects are not the same as neighborhood effects.*

*Research revealed a lack of program effects on measures of economic self-sufficiency for adults that moved with MTO and this was interpreted to imply an absence of positive neighborhood effects when it came to economic outcomes. This interpretation questioned to some extent the potential influence of moving to safer, better quality environments on the welfare of families living in the most disadvantaged urban neighborhoods in the country.*

*However, our recent work (Aliprantis and Richter, in press) revisits MTO, finding large neighborhood effects on economic outcomes for adults, albeit only accruing to the relatively small share of households encouraged by MTO to move to better quality neighborhoods. This work, together with other research that has found large program effects on earnings for second-generation adults - those who moved as young children with MTO - offers a new perspective on the potential positive influence of sound housing policy. Taken together, this work strongly suggests that by improving housing and neighborhood environments, social policy today can effectively open up opportunities for adults and children marginalized by a history of segregation institutionalized in past housing policy.*

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***Note:** This report is based on the work by Aliprantis and Richter (in press). An accompanying Federal Reserve Bank of Cleveland Economic Commentary by Dionissi Aliprantis is forthcoming (Aliprantis, in press).*

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Rothstein’s “The Color of Law: A Forgotten History of How Our Government Segregated America” (Rothstein, 2017) documents the explicit ways in which post-depression era housing policy racially segregated the housing market.<sup>1</sup> Writing policy with explicit references to “inharmonious racial groups”, the Federal Housing Administration refused to insure mortgages in predominantly Black neighborhoods while simultaneously subsidizing construction for the development of subdivisions with the requirement that they not be sold to Black households. Five decades after the passage of the Fair Housing Act of 1968, spatial segregation by poverty and race persist, defying the nation’s ideal of being a land of opportunity for all.

The persistent concentration of poverty and race is well documented by Sharkey (2009). He finds that 29% of black children born between 1955 and 1970 grew up in neighborhoods where more than 30% of households were poor, compared to only 1% of their white counterparts. Thirty years later, 31% of black and 1% of white children born between 1985 and 2000 were raised in neighborhoods above the 30% household poverty rate.

We can think of two distinct channels through which place-based factors affect outcomes: Poverty of place may translate in high negative environmental exposures, such as lead in deleterious housing and street violence. Most likely, it translates into access to low quality schooling for children. This first channel encompasses the geography, environment and institutions of neighborhoods. Poverty of place may also offer people fewer social connections leading to a job and higher levels of toxic stress influencing relationships in school and with the police, to name a few. Social scientists denote any pathways under these two channels neighborhood effects (Galster, 2012).

Broadly speaking, neighborhood effects refer to the influences of the social and physical environment on

human development and wellbeing. In urban America, neighborhood environments, influenced by the policies described in Rothstein (2017), vary widely in wealth, safety and opportunity.

Policy can aim to reduce poverty through programs that operate at the individual level, such as making available resources for food, shelter, health care and educational opportunities to low-income families. But policy has also considered whether providing low-income households with access to better environments may improve outcomes through the neighborhood effect pathways, particularly given the extreme conditions of distress and disinvestment of some of our inner city urban neighborhoods. Policies of this type would focus on addressing institutional and group-level mechanisms related to school financing, neighborhood quality, safety, and societal racial biases in addition to individual-level mechanisms. Without disputing the relevance of both determinants of poverty - individual level factors and neighborhood effects - the question relevant for policy is to what extent can a change in neighborhood environment be a leverage to improve outcomes for low-income families living in unsafe and low-opportunity neighborhoods.

#### MTO DEMONSTRATION AND RESEARCH FINDINGS

Moving to Opportunity (MTO) was inspired by the promising results of the Gautreaux program. In 1976, a class-action lawsuit brought on behalf of Dorothy Gautreaux led the Supreme Court to order the Department of Housing and Urban Development (HUD) and the Chicago Housing Authority (CHA) to remedy the extreme racial segregation experienced by public-housing residents in Chicago. As a result, families awarded Section 8 public housing vouchers were granted the ability to use them beyond the territory of CHA, either in city neighborhoods that were forecast to undergo “revitalization” or in less segregated suburban neighborhoods (Polikoff, 2006). Gautreaux offered

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<sup>1</sup>Provision 233 of the 1936 Underwriting Manual of the Federal Housing Administration (Federal Housing Administration, 1936) was one of the many clauses designed with this purpose. “The Valuator should investigate areas surrounding the location to determine whether or not *incompatible racial and social groups are present* [emphasis added], to the end that an intelligent prediction may be made regarding the possibility or probability of the location being *invaded by such groups* [emphasis added]. If a neighborhood is to retain stability it is necessary that properties shall continue to be occupied by the same social and racial classes.” <https://hdl.handle.net/2027/mdp.39015018409246>

strong suggestive evidence of neighborhood effects because relative to city movers, suburban movers from Gautreaux were more likely to be employed (Mendenhall et al., 2006) and their children were more likely to complete high school and attend college.

But neighborhood effects are hard to isolate from the individual-level determinants of poverty. By simply comparing employment rates, for instance, among households living in low and medium quality neighborhood environments, we could be confounding the influence of place with that of individual characteristics. As an example, individual health problems may reduce income available for rent due to having to pay for medical services, limiting access to quality neighborhoods. Health problems may also directly affect individuals' chances of employment. So the relationship between neighborhood quality and employment could be impacted by individual-level factors such as health, making it difficult to isolate the effect of the environment on employment.

In theory, assuming households in the population are perfectly compliant, we could learn about neighborhood effects by randomly assigning households to neighborhoods of different quality levels and tracking their future outcomes. Since this is neither ethical nor realistic, researchers designed MTO as an experiment that randomly assigned housing mobility vouchers to participants and sought to derive neighborhood effect estimates from such experiment.

Between 1994 and 1998, HUD enrolled 4,604 eligible applicants in Baltimore, Boston, Chicago, Los Angeles, and New York. Household eligibility was based on low-income status, having at least one child under 18, residing in either public housing or in a Section 8 project-based unit in a census tract with a poverty rate of at least 40%, being current on their rent, and not having a criminal record (Orr et al., 2003). Families were randomly allocated into one of three treatment groups: The experimental group was offered housing vouchers

that could only be used in census tracts with poverty rates of less than 10 percent. We call these subsidies MTO vouchers. Housing counseling was also offered to assist families in this group. A year after this move, however, the 10% poverty condition was waived. Families in the Section 8 only group were provided with no counseling, and were offered Section 8 housing vouchers without any restriction on their place of use. And families in the control group continued receiving project-based assistance. As a primary or secondary reason for moving, about 77% of enrollees mentioned "to get away from drugs and gangs" (Sanbonmatsu et al., 2011).

MTO also intended to evaluate program effects - the ability of rental voucher programs to improve outcomes by subsidizing mobility from these dangerous neighborhoods to low-poverty neighborhoods. Researchers estimated two types of what we consider to be program effects. For the following, we focus on employment as the outcome measure and on the experimental and control groups only. The Intent to Treat (ITT) effect was the effect on employment of being offered an MTO voucher versus maintaining a public housing voucher. This estimate assesses the ability of the poverty-restricted MTO voucher program to improve employment outcomes.

Researchers also estimated a Treatment on the Treated (TOT) effect, or the effect of transitioning to a neighborhood with poverty rate below 10% with an MTO voucher relative to those who would have made a similar move, but were assigned to keep their public housing voucher. Not surprisingly, voucher assignment did not always lead to a move and an MTO voucher move did not always translate into a neighborhood-enhancing move across multiple markers of well-being other than the poverty rate. So neither of the program effect estimates could be directly equated to neighborhood effects. However, some research sought to infer neighborhood effects from ITT effect estimates<sup>2</sup> and TOT effect estimates.<sup>3</sup>

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<sup>2</sup>The Moving to Opportunity for Fair Housing Demonstration Program Final Impacts Evaluation report (Sanbonmatsu et al., 2011) states "Therefore, we think the proper interpretation of the neighborhood effects question that can be answered by MTO is: What are the effects on the outcomes of this very disadvantaged inner-city sample of public housing families from helping them make moves that change neighborhood conditions by about as much as what we could imagine any actual policy ever achieving in the real world?"

<sup>3</sup>Katz et al. (2011) states "... from the perspective of the neighborhood effects literature, it is also desirable to have an estimate of the impact of actually moving to a new neighborhood, rather than simply of being offered the opportunity to move. Under several

While the TOT does measure the effect of a particular change in neighborhoods, this difference is solely defined by the 10% poverty threshold specified by the MTO program, which we argue does not serve to assess the influence of better neighborhood environments on relevant outcomes like employment. Thus, we regard the TOT as another type of program (threshold) effect that is not too informative about neighborhood effects.

Evaluations of MTO revealed a lack of program effects on measures of economic self-sufficiency and this was generally interpreted as evidence of weak neighborhood effects when it came to economic outcomes.<sup>4</sup> This interpretation questioned to some extent the potential influence of housing policy that supported access to safer, better quality environments on the economic self-sufficiency of families living in the most disadvantaged urban neighborhoods in the country.

#### A NOVEL APPROACH TO LEARNING ABOUT NEIGHBORHOOD EFFECTS FROM MTO

In contrast to the argument that changes in neighborhood characteristics enabled by the MTO voucher were large and therefore informative about neighborhood effects,<sup>5</sup> a study by Quigley and Raphael (2008) found that the reduction of the neighborhood poverty rate for the experimental group amounted to a change from the 96th percentile of the poverty distribution to the 88th percent. These researchers argued that such changes could not be expected to yield detectable effects and found MTO to be uninformative about the potential effects of neighborhoods on employment.

Thus, our approach to learning about neighborhood effects from MTO uses a richer measure of neighborhood quality and a more refined measure of neighborhood transitions (Aliprantis and Richter, in press) than those used in past research. In order to identify changes in neighborhood quality that could be informative of

neighborhood effects, we calculate an index of neighborhood quality that goes beyond the poverty rate to account for the following characteristics: poverty rate, education attainment, rate of single headed households, female unemployment rate, and employed-to-population rates for males. Even among low poverty neighborhoods we can find low quality neighborhoods along the other dimensions of our index.

We also use a novel model to estimate the effect of a more refined neighborhood transition, one most commonly induced by the MTO voucher. That is, we estimate neighborhood effects of moves from the first to the second decile of our neighborhood quality index, where deciles are relative to all census tracts in the nation.<sup>6</sup> At the start of the program, 67 percent of our estimation sample lived in a neighborhood whose quality was below the first percentile of the national distribution. Transitions through MTO may have seemed large relative to baseline, but small when compared to the national distribution. Transitions to higher deciles were much less common with the MTO voucher so neighborhood effects from those transitions cannot be estimated.

We find large estimates of these transition-specific effects - from the first to the second decile neighborhood quality - on employment and labor market participation. Our findings are consistent with the theory that living in higher-quality neighborhoods improves adult labor market outcomes. The fact that our estimates of neighborhood effects are large for labor market outcomes, despite the relatively small improvement in neighborhood quality, strongly suggests that neighborhood effects matter. And they matter not only for children, as previous research has concluded, but also for adults. However, these benefits are realized by a small percentage of voucher holders. Not only was the MTO voucher take-up rate low at 43 percent, but an upward move in neighborhood quality was quite unlikely.

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assumptions (...), we can use treatment assignment as an instrumental variable to estimate the parameter commonly known as “the effect of Treatment-On-Treated” (TOT).”

<sup>4</sup>Research did find positive program effects on some measures of mental and physical health.

<sup>5</sup>“The key to our experimental evaluations of MTO is that random assignment to the experimental group generates large differences in average neighborhood attributes with the control group, as we document below. If neighborhoods matter, these large differences in average neighborhood attributes should lead to differences in average economic or other outcomes.” Ludwig et al. (2008).

<sup>6</sup>By focusing on changes from the first to the second decile, we factor out transitions that implied smaller changes in quality (from the first to the first decile or from the second to the second of neighborhood quality) and are less likely to have impacted employment outcomes.

Our estimates pertain to about 9 percent of program participants, which is itself a highly select group of MTO families. Consistent with our findings, Pinto (2019) also finds evidence of neighborhood effects from MTO on labor market outcomes. His revealed preference analysis draws information from participants' decisions to use or not use the voucher, finding evidence of relevant neighborhood effects.

#### HOW CAN MTO AND OTHER HOUSING RESEARCH INFORM SOCIAL POLICY TODAY

About three of every four low-income families eligible for housing subsidies receive no rental assistance. And according to an August 2019 report of the Center on Budget and Policy Priorities, the voucher program now assists about 37,000 fewer households than in early 2017 (Rice, 2019).

Encouragingly, two recent clusters of important research have fueled investment to test and implement the Creating Moves to Opportunity (CMTO) project<sup>7</sup> with the aim of helping families who receive Housing Choice Vouchers move to higher opportunity neighborhoods. These are defined as places that have historically high rates of upward income mobility for children of low-income families (Chetty et al., 2018).

One of these studies is precisely the recent work on MTO that finds “second-generation” program effects on labor market and education outcomes. That is, the benefits of moving with MTO accrue to the children of MTO movers, if they were under 13 years of age at the time of the move (Chetty, Hendren and Katz, 2016). A second area of research finds that reducing barriers to moving to high-upward-mobility neighborhoods<sup>8</sup> can be an effective strategy to reduce residential segregation by income and race (Bergman et al., 2019).

Our recent findings on “first-generation” neighborhood effects from MTO suggests that the benefits of these interventions will apply, not just to the next, but to the current generation of low-income individuals. Our findings also join the aforementioned work in calling for careful testing and implementation of locally-customized designs if housing mobility subsidies are to

be effective. Notably, neighborhood environments may also be enhanced through well-designed place-based housing programs, with positive spillovers potentially extending beyond families of subsidized housing units (Dillman, Horn, and Verrilli, 2017; Schwartz, Voicu, and Schill, 2006).

Despite being the richest country in the world, the U.S. features neighborhoods with outcomes similar to those in the poor countries. In some U.S. neighborhoods life expectancy and infant mortality underperform those expected in developing countries. The state of our urban landscape has been in part shaped by our history of segregation in housing policy and institutions. The research reviewed here highlights that housing policy today can improve the living environments of families and in so doing, serve as a means of reducing segregation and expanding opportunity for the benefit of our nation as a whole.

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<sup>7</sup><https://www.povertyactionlab.org/na/cmto>

<sup>8</sup>Supports include customized search assistance and short-term financial assistance to tenants, and landlord engagement.



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