for all

FALL 2023

INTERVIEW: Kathryn Edin on the sources of deep disadvantage in America

RESEARCH: Why patients drive long distances and what it means for improving access to health care

DATA DIVE: Taking stock of homelessness in America

THE MAGAZINE OF THE OPPORTUNITY & INCLUSIVE GROWTH INSTITUTE

People need a place to live

FEDERAL RESERVE BANK OF MINNEAPOLIS

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2023 Institute Research Conference

October 5, 2023

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The magazine of the Opportunity & Inclusive Growth Institute

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FROM THE DIRECTOR

BY ABIGAIL WOZNIAK

The human element behind good data

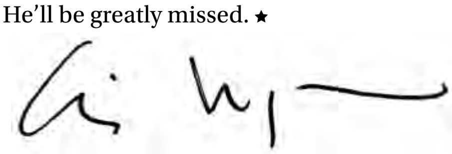
It's no surprise that economists rely on data to do their work. What is surprising are the great lengths that economists and other social scientists go to in order to get the right data to answer big questions. There are many examples from our Institute team alone. One researcher has painstakingly collected paper publications from hundreds of U.S. counties to create a new dataset on welfare programs and local public health care spending. Another has combed through a federal database built with information on incarcerated persons from years of state records. More than one of us has worked closely for years with a partnering agency or firm to confidentially analyze their records for insights on how their programs affect employees or clients.

These examples underscore the dedication and creativity getting the right data can require. But they also illustrate how obtaining the right data depends on human relationships. Assistants and archivists work together to digitize paper reports from a half-century ago and ensure their safe return to the repository. Local officials work with their colleagues to report information to what may feel like a faceless database. And partner agencies and firms place their trust in researchers (backed up by data protection agreements) to use their information to construct credible analyses.

Our nation's official statistics also depend on relationships. In this case, the most important relationship is with the public, since it is ultimately members of the public who have to share their information if researchers are to have reliable data. Some of our Institute economists experienced this firsthand when they contributed to a massive, volunteer-run data collection effort: the annual Point-in-Time counts of homeless and unhoused people. The PIT counts, as they are called, rely on cooperation between volunteers and people experiencing homelessness to produce data that help direct a year's worth of funding for supportive services for this population. Participating in this effort helped Institute economist Andrew Goodman-Bacon better understand how to synthesize research around homelessness for the article "People need a place to live" in this issue.

You'll be hearing more from the Institute in the coming months about the value of data. We've begun sharing new data on how income is distributed and evolves for Americans, an effort made possible by a research partnership with Census Bureau economists. We won't be able to talk to individual respondents for that project, since it is built on millions of tax records. But we will keep in mind the individuals represented in the data as we make this resource available. We're committed to making it as accessible as possible—for expert researchers, for decision-makers who need easy access to this information, and for individuals who might visit the website to see what stories the data have to tell. We're excited to share more about this new resource in the future.

In closing, I want to acknowledge the passing earlier this year of a long-time advisor to the Institute and the Minneapolis Fed, Bill Spriggs. The back page of this issue features one of the statistics Bill often used as a teaching point for his fellow economists. He reminded us that when our theories don't explain the data well, it's time to revisit those theories with a more critical eye. He'll be greatly missed. ★



WE ARE/DIGITALVISION VIA GETTY IMAGES

Spreading the (research) word

BY LISA CAMNER MCKAY

To academics, a finding is usually an output, the conclusion of a lengthy process. A founding goal of the Institute has been to connect researchers with policymakers, analysts, community groups, and the public, introducing research findings into important debates and deliberations. In other words: Make an *output* an *input*.

When Institute visiting scholar Marina Mileo Gorzig and co-author Deborah Rho decided to study the impact of a 2020 Minneapolis policy limiting how landlords could screen prospective tenants, "we hoped the results would reach policymakers," Gorzig said, "but at that point we didn't have connections to open that dialogue." So when Gorzig visited the Institute, she was enthusiastic for help scheduling a briefing with five senior Minneapolis city officials.

"I felt we were able to explain a lot of the details of the study they were really interested in," Gorzig said. The sharing of information went both ways, as Gorzig and Rho learned about how the new policy was enforced from the people tasked with that enforcement. Gorzig now hopes to engage policymakers in dialogue earlier in the process in the future.

Early dialogue was one of the reasons Senior Institute Economist Andrew Goodman-Bacon was keen to join Minneapolis Fed colleagues in Community Development and Engagement in an evaluation of the Minneapolis Guaranteed Basic Income pilot program, which is providing 200 families with $500 a month for two years.

"The partnership with the city allowed us to design the pilot as a randomized control trial—the gold standard of empirical research," Goodman-Bacon said. That means the researchers can more confidently determine the causal impact of the monthly payments on households' welfare. They are presenting their analyses to Minneapolis city leaders as well as making them available to the public on the Minneapolis Fed website.

Most economics research takes place outside of formal partnerships, but the people who might benefit don't typically read the economics journals where findings are published. "My view is that if you're an academic who's engaging with research that is policy relevant, it is not going to reach the people it needs to reach unless you actively take steps," said former visiting scholar Emily Nix. "It's a shame we don't do that more, because some of this work is powerful and could help improve policy and people's lives."

Nix experienced that impact firsthand. After publishing an op-ed in the *Washington Post* describing how economic control and coercion often precedes physical violence in abusive relationships, more than 1,500 readers left comments or emailed Nix directly in response.

"I had people who emailed me saying, 'This has happened to my family member and I wish I had read your article before, because then I would have known that these behaviors are red flags.'"

Economics has a lot to say. Taking time to forge relationships and communicate the findings is necessary to make sure people hear. ★

The research community at the Institute includes visiting scholars, consultants, economists, research analysts, and research assistants. These scholars bring a diversity of backgrounds, interests, and expertise to research that deepens our understanding of economic opportunity and inclusion as well as policies that work to improve both. We talked with four of them about their work.

FRANCESCO AGOSTINELLI

Assistant Professor of Economics, University of Pennsylvania

MODELING PEERS, PARENTING, AND PANDEMICS

As a teenager, Francesco Agostinelli learned it matters which crowd you roll with.

In a small city on Italy's east coast, "I went to a middle school that was, let's just say, not known to be particularly good," Agostinelli said. "I don't think many economists have come from this school!" In that environment, he credits his group of friends with altering his life's trajectory. From the outside, his pack might not have seemed like a great influence, "but I learned skills that you need to survive."

Twenty-five years later, the critical role of peers is a recurring theme in Agostinelli's research. And while many researchers justifiably focus on interventions in early childhood, the Institute visiting scholar says the teen years can also be pivotal, largely because of these peer effects—a point the pandemic abruptly drove home.

Agostinelli's expertise put him in a strong position to model how school shutdowns, parents' varying capacities to work from home, and isolation from friends would interact to create long-lasting damage that widens inequality. In the model, high school freshmen from low-income households see their academic achievement fall markedly when schools close—the equivalent, on average, of dropping from straight B's to getting C's in half of their classes.

"The inequality of knowledge has increased, which we think predicts the probability of finishing college and lifetime wages," Agostinelli said. Even if students return to in-person learning after a year, his model shows that by graduation, low-income students have closed only half of the learning gap opened by the pandemic shutdown. School quality and parenting matter, but Agostinelli and his co-authors find that isolation from peers is the most powerful factor.

School quality and parenting matter, but Agostinelli finds isolation from peers is the most powerful factor in a pandemic shutdown.

In another paper, Agostinelli models a familiar tension for parents: How much do you meddle with the crowd your kid hangs out with? In the model, parents with varying "authoritarian" tendencies interact with teens' preferences to befriend "cool" versus "nerdy" kids. These interactions hold implications for academic success and expanding income diversity in schools.

As he untangles the infinitely complex ways that kids acquire skills, Agostinelli stresses the essential interplay between data and theory. Just as a novel dataset can inspire the questions we research, an intuitive theory can inspire the data we set out to collect. Much like parents and teenagers, "measurement and theory," Agostinelli said, "should speak to each other."

—Jeff Horwich

MARCUS CASEY
Associate Professor, University of Illinois at Chicago

A BEAUTIFUL DAY FOR A NEIGHBOR

By the time he turned 18, visiting scholar Marcus Casey estimates, he had lived in eight different neighborhoods in Illinois, Indiana, and Texas, as his family moved from one place to another in their quest to balance the neighborhood features they desired and the rent they paid.

"With all those changes, I became interested in how different policy environments, different economic environments, the different aspects of living in these different places—how do they affect people's later outcomes?" Casey said.

A large literature in economics shows that neighborhoods shape employment and income, social networks and job referrals, the quality of schools and access to health care. Because neighborhoods matter, Casey seeks to understand factors that lead people to live where they do.

Take race. "Racial stratification remains a defining feature of every major city in the United States," Casey and his co-authors write in a paper examining whether households that receive a new neighbor of a different race just one or two doors down are more likely to move than are residents who are farther away on the same block.

They find that both White and Black households are more likely to move when a near neighbor of a different race moves in. Interestingly, it is Black homeowners under 40 years old and White homeowners over 60 years who react most. This suggests that focusing on the quality of social interactions may be important to maintaining stable, integrated neighborhoods.

Another factor that influences where people live: money. In the 1990s and 2000s, gentrification of urban neighborhoods priced out many residents, but they could often move nearby, much like Casey's family did. "Nowadays, however, because we've restricted the supply of new housing so much, people can't just move to the next neighborhood necessarily," Casey said, because low supply plus high demand translates to very high prices. In Washington, D.C., Casey finds that gentrification has led the city's lower-income residents to be increasingly concentrated in the northeast and southeast sections of the city—neighborhoods that are declining on many social and economic measures—which has consequences for its residents' outcomes later in life.

And in what Chicago neighborhood does Casey live now? In a city this segregated and unequal, there are too often trade-offs between a neighborhood's quality and its diversity. "I don't want to isolate my children, but at the same time, I don't want to subject them to places lacking amenities," Casey said. "It's complicated."

—Lisa Camner McKay

TIMOTHY BEEBE
Interim Dean and Mayo Professor, University of Minnesota School of Public Health

HEALTH CARE DELIVERY RESEARCH, REIMAGINED

When a field of practice treats the term "research" as pejorative—too slow, too inaccessible, too expensive—you know you have a problem. When that field is health care delivery, you have a public health problem.

"There's strong evidence that it takes about 17 years for clinical research to make it to the bedside, and only about 14 percent of what is known makes it at all," said Institute advisor and sociologist Timothy Beebe, citing with ease some of the uneasy statistics that have made health care the focus of his career.

Self-described as a "survey methodologist with quantitative skills and a short attention span," Beebe spent 13 years at Mayo Clinic in Rochester, Minnesota, learning how to embed researchers in health care and systematize innovation to bridge that gap. The infrastructure he worked to help build is representative of a field of study now called "learning health system sciences."

"We as academics have studied our health care delivery system, but we've studied it from afar. It's called the study *of* health care delivery," said Beebe. "The 'learning health system sciences' perspective is the study *in* health care delivery."

Beebe transitioned to the University of Minnesota in 2016 so that his lessons learned at Mayo could improve outcomes for more patients across Minnesota.

"We want to treat the whole state as a learning health system—constantly learning, constantly sharing information, overcoming some of the competitive barriers," Beebe said. "That's where the 'public health' comes in—really taking a population health perspective."

For example, early in the pandemic, scholars from the University's fledgling Center for Learning Health System Sciences assembled a team that reviewed emerging literature on blood clots in COVID-19 patients. The team then delivered simple computer alerts in real time reflecting the newest clinical practice guidelines for doctors treating COVID patients. The intervention resulted in fewer intensive care unit admissions and lower mortality for patients receiving care in line with updated guidance.

"It's a different way of doing research that maps onto the pace of the practice, and really, it's almost like a dating service," said Beebe. "We want to connect health care providers and administrators with researchers, so they are situated to co-create knowledge and bring it to the bedside not in 17 years, but in 17 months, or 17 weeks, or 17 days."

—Danielle Cabot

RAVEN MOLLOY
Deputy Associate Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System

TRACKING A "MOVING" MYSTERY

As one of the people overseeing the Real Estate Finance Section at the Fed, Raven Molloy and her team provide inflation-focused policymakers with up-to-the-minute insights on mortgage credit conditions and housing prices.

In her own research, she tracks a slower-moving phenomenon operating in the background: Americans aren't moving.

In a well-oiled economy, workers should be able to match their skills with the right jobs, wherever those jobs might be. Market incentives should emerge to move people to where the jobs are, while economic pressures drive jobs and people to where housing costs are more affordable.

In the U.S., these people-flows have slowed to a troubling degree. "Long-distance migration rates have been falling for decades," said Molloy, who sits on the Institute's System Affiliates Board. Internal migration has plateaued in recent years "at such a low level, you'd think you can't go much lower."

> **"Long-distance migration rates have been falling for decades ... [to] such a low level, you'd think you can't go much lower."**
>
> —Raven Molloy

Despite the anecdotes of tech workers ditching the Bay Area for Boise, Idaho, recent evidence suggests even a major economic shock like COVID-19 did not widely inspire people to relocate much beyond the suburbs. That echoes Molloy's findings from the Great Recession.

What does this mean for the economy more generally? "If you don't have people moving around, that makes it harder to spread shocks across space," said Molloy, because those economic shocks are concentrated in already-struggling places. This reinforces persistent disparities between vibrant boomtowns and depressed regions—particularly in the Midwest and Deep South. Molloy says it's important to understand this vast variation in conditions since the Fed's tools for conducting monetary policy can have different effects on different communities.

When Molloy and co-authors examined net flows in migration prior to the pandemic, the results were surprising at first. Net migration rates out of struggling cities didn't look much different than out of strong ones; if anything, on net people seemed to move *out* of areas with better employment prospects. Housing costs, intuitively, could be another big factor driving people to relocate, but housing supply constraints (which affect housing costs) did not appear to reduce migration flows.

One factor that *did* seem to matter: distance. Even when they do leave town, "people are much more likely to move close by, like within the same state," Molloy said. "We have ties to other people, we have ties to the community." How can policymakers support a vibrant economy and shared prosperity when Americans seem so inclined to stay put? It's another worthy mystery for Molloy and her team at the Fed.

—Jeff Horwich

2023–24 Institute Visiting Scholars

The Institute annually invites selected scholars from many disciplines to pursue research while in residence at the Minneapolis Fed.

Rodrigo Adão
Associate Professor of Economics
University of Chicago Booth School of Business

Lukas Althoff
Postdoctoral Fellow
Stanford University

Joseph Altonji
Thomas DeWitt Cuyler Professor of Economics
Yale University

Bocar Abdoulaye Ba
Assistant Professor of Economics
Duke University

Brian Bucks
Section Chief, Credit Information Policy
Consumer Financial Protection Bureau

Marcus Casey
Associate Professor of Economics
University of Illinois at Chicago

Kathrin Ellieroth
Assistant Professor of Economics
Colby College

Sheridan Fuller
Economist
Board of Governors of the Federal Reserve System

Michael Keane
Wm. Polk Carey Distinguished Professor of Business
Johns Hopkins Carey Business School

Karen A. Kopecky
Economic and Policy Advisor
Federal Reserve Bank of Cleveland

Emily Leslie
Assistant Professor of Economics
Brigham Young University

Marta Morazzoni
Assistant Professor of Economics
University College London

Aurélie Ouss
Janice and Julian Bers Assistant Professor of Criminology
University of Pennsylvania

Marta Prato
Assistant Professor in Economics
Bocconi University

Matthew Rognlie
Assistant Professor of Economics
Northwestern University

Jesse Rothstein
Carmel P. Friesen Chair in Public Policy and Professor of Economics
University of California, Berkeley

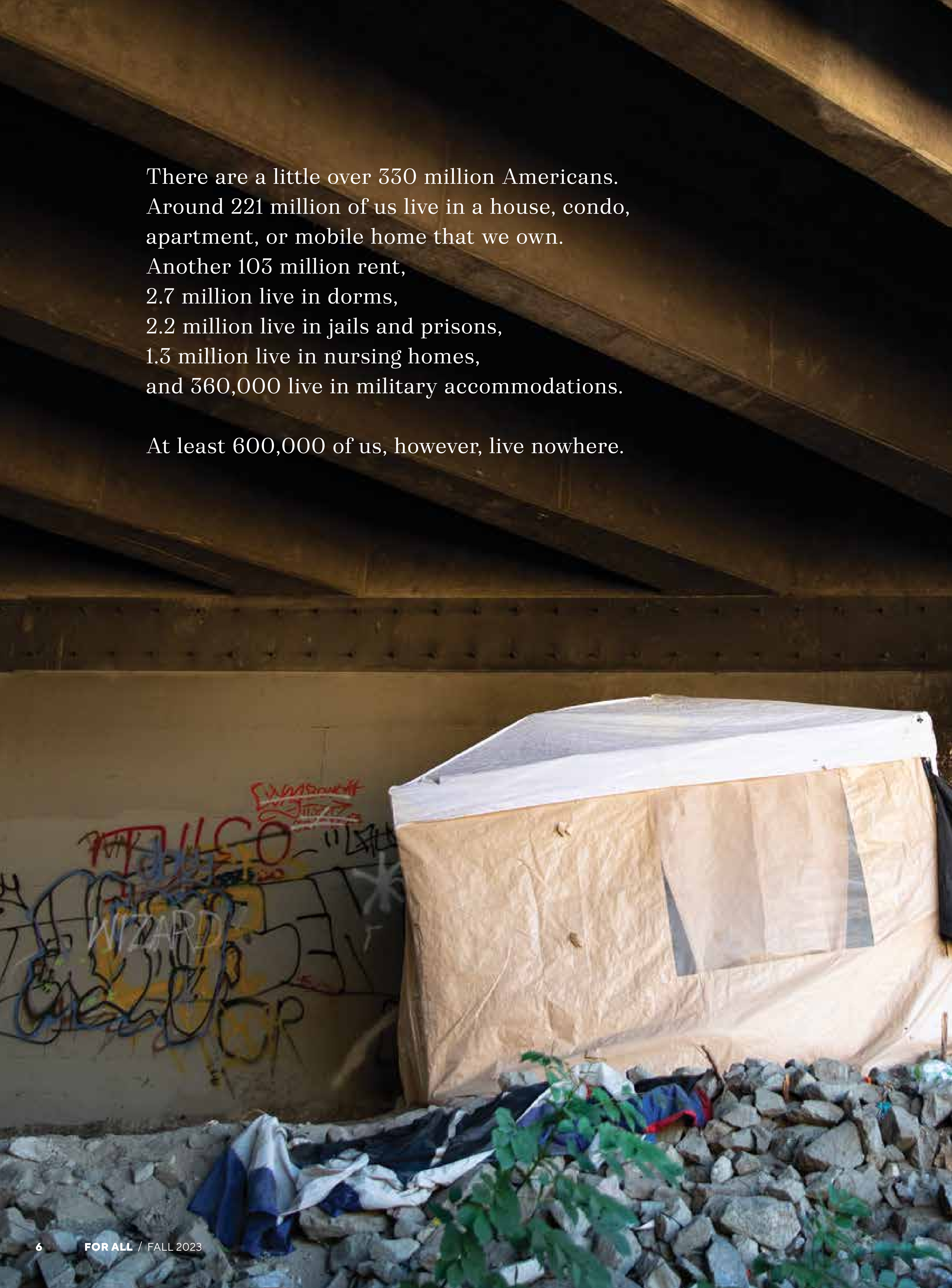
Isaac Sorkin
Assistant Professor of Economics
Stanford University

Brittany Street
Assistant Professor of Economics
University of Missouri

Conor Walsh
Assistant Professor in Economics
Columbia Business School

There are a little over 330 million Americans.
Around 221 million of us live in a house, condo, apartment, or mobile home that we own.
Another 103 million rent,
2.7 million live in dorms,
2.2 million live in jails and prisons,
1.3 million live in nursing homes,
and 360,000 live in military accommodations.

At least 600,000 of us, however, live nowhere.



People need a place to live

BY ANDREW GOODMAN-BACON

Of course, nobody lives nowhere. Homeless people live in the woods, on commuter trains, in alleys, doorways, parks, encampments, or cars. Some crash with friends or relatives. Others get vouchers to spend a few nights in a motel. Many live in shelters.

What do 600,000 homeless people mean for America? Labor markets, housing markets, and a suite of public policies aimed at low-income and homeless people put a roof over most of our heads, but they do not eliminate what is one of the hardest facets of American life. Many people do end up on the street. Many more fear that they will.

"Homelessness captures the well-being of some of the most vulnerable in the country," said Krista Ruffini, assistant professor at Georgetown University and co-author of a recent summary article on homelessness interventions. "It is illustrative of what's going on at the very bottom of the income distribution and so it warrants a policy response."

But what might a solution to homelessness look like? Increasingly, economic research considers not only outreach teams serving people on the street, service organizations expanding shelter space, or counselors addressing addiction but also broad changes to markets and safety nets that involve–and affect–all of us.

"I had a luxury apartment about 10 minutes from here, a very nice apartment.… The woman who was renting [us] that house, she was evicted from that home because it turned out that the rent money we were giving her, she was using it to gamble.… Came home from work one evening, police outside. 'Sir, you gotta get your stuff.'"

"I am currently two years in for my bachelor's now. … My major is supply chain management, working towards becoming a logistics manager. I'm working towards my goals, regardless of what my circumstance is here."

ENNIX BLACKMON

Photos on pages 6–7, 8, 9, and 12 are by Sam Comen, with interviews by Aaron Schrank, produced in 2022 in California as part of a larger project titled *Unhoused*.

For the chronically homeless, research tells us what to do: Give them housing.

People

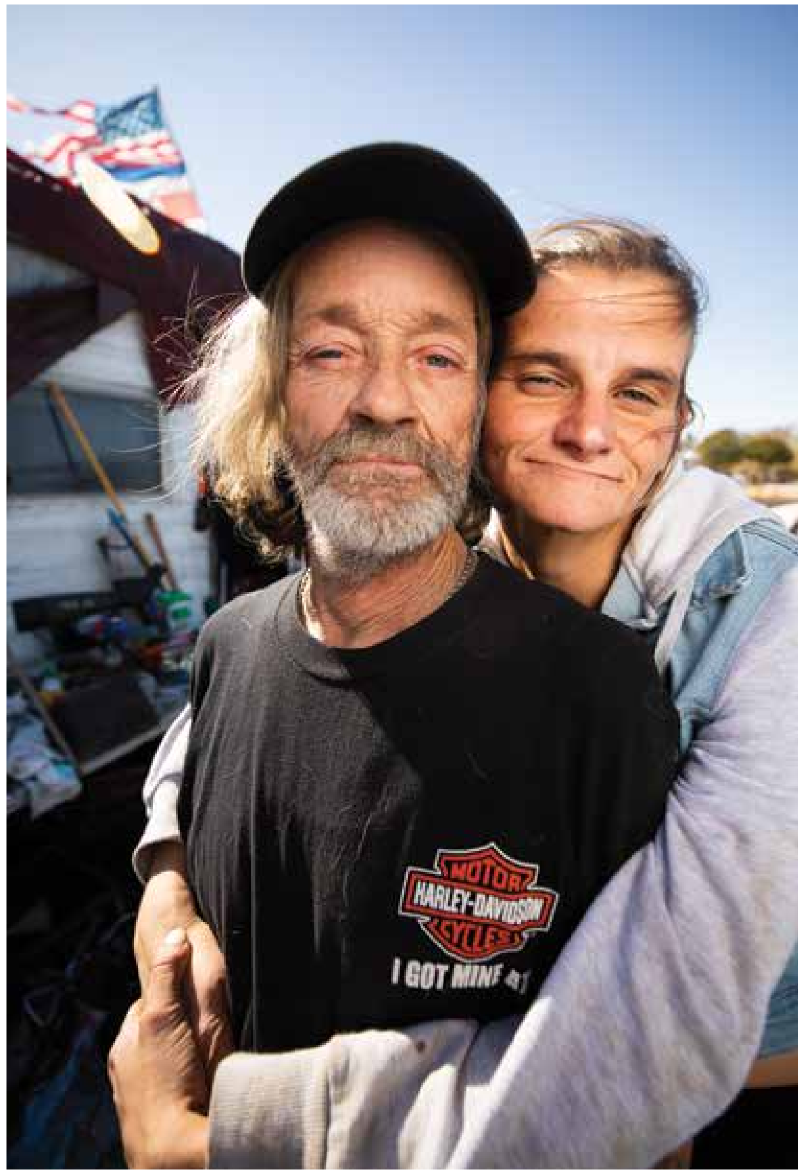
When I sat down in a St. Paul, Minnesota, men's warming shelter one night in January 2023, I met a stream of men with nowhere else to go. I had signed up to help the Department of Housing and Urban Development (HUD) count America's homeless population. Many men arrived on foot and waited in the cold until doors opened. Some showed up after their work shifts ended. A shuttle driver stopped every so often to drop off more men who would not have been safe on a night with temperatures in the teens.

"I think of homelessness as a late 20th century, early 21st century phenomenon," said Brendan O'Flaherty, a Columbia University economist who has been studying homelessness longer than almost anyone. In his 1996 book, O'Flaherty recounts how in New York City, social scientists uncovered so few people sleeping on the street in 1964 that they stopped counting. Researchers in Chicago and Newark found a similar situation. But by the 1980s a homelessness problem was obvious. One HUD report concluded that there were between 250,000 and 350,000 homeless people in 1984. In the first attempt at a nationwide homeless count, the Census Bureau found 228,000 homeless people in March 1990. Its methodology, however, may have missed half of the unsheltered population. By 2007, HUD mandated that local areas conduct the modern Point-in-Time counts.

It was not hard to count the 30 or so men in the warming shelter that night in January, but counting *all* the people experiencing homelessness in the Twin Cities—or the country—is much easier said than done. Even defining homelessness presents a major challenge. In the U.S., if you sleep outside in shelter not designed for habitation (like a bus station), in an emergency shelter (including domestic violence shelters), or in a longer-term homeless shelter, you are homeless. You are not homeless if you are an adult staying with friends or family, but if you are a student doing so, you are homeless. You are not homeless if you sleep in a hotel that you pay for with your own money, but you are homeless if you pay with a public voucher. You might not be homeless if you live in an RV, but you are homeless if you live in a car.

The second difficulty comes in applying this definition. Many unsheltered homeless people cannot be found. Others, like two men I spoke to, refuse to be counted. And because HUD counts people who are homeless on one night, they miss the majority of people who are homeless for brief periods during a year. A 2018 study suggested that the number of people across the state of Minnesota who experienced any period of homelessness in a year was about 2.5 times as many as were homeless on a given night.

Despite the conceptual and practical hurdles, shelter workers, public employees, and volunteers counted about 5,000 homeless people in the counties containing Minneapolis and



"Go look at the price of an apartment. What was $800 is now $1,200. They want first, last, and a deposit. They want credit ratings over 700. One out of 20 people I know may pass that. Most people burned up their credit already. That's why they're here. So now you built this wall [and] they're boxed out. How do you get them back into society?"

CHARLES HAKE WITH DAUGHTER JENNIFER

ELIZABETH FLORES/STAR TRIBUNE VIA AP PHOTO

St. Paul in January 2023, a number mostly unchanged since 2007. That number is 2 percent of people in poverty and about 0.3 percent of Twin Cities residents, which is about two-thirds higher than the national rate.

Whether this is a small or large number depends on your frame of reference. But the deep costs of homelessness for the people who experience it and the way this population affects other people and public systems add up to a substantial problem.

need

Homelessness imposes costs on all of us.

For most, these costs are indirect. Seeing people openly use drugs or in mental distress can be scary or dangerous. That fear has implications for many public services. For example, a few hundred homeless people ride the Twin Cities light rail, which is legal, warm, and open almost all night. Their presence, however, puts off riders and requires so much attention from transit workers that the state is considering boosting security to "reset" the culture and perception of the system.

Other costs relate to space. Unsheltered homeless people live in public places by definition, but parks and sidewalks full of tents are no longer really parks and sidewalks. From January 2022 to March 2023, Minneapolitans made more than 1,700 calls to 311 to register complaints about homeless encampments. One such call, detailed in a City of Minneapolis report on homeless encampments, stated "the children in the school have not been able to play at the playground due to the presence of these individuals, their drug paraphernalia, and human feces."

Polling suggests that the burden of homelessness is widely felt. The overwhelming majority of respondents to recent polls—typically more than 80 percent—agree that homelessness is a major issue, and in areas with large homeless populations, like California and Oregon, a plurality of respondents think it is *the* most important issue.

Ultimately, though, the Americans who are homeless suffer the most. In 2018, half of homeless people in the Twin Cities earned less than $600 per month, putting them in the poorest 5 percent of the population. One-quarter of homeless adults in Minnesota were physically or sexually attacked while homeless. Between 2017 and 2021, people who used homeless services in Minneapolis died at three times the rate of similarly aged Minnesotans.

Because we all experience these costs, albeit to wildly differing degrees, we share a need for solutions. The United States Interagency Council on Homelessness provides one vision in its 2018 Federal Strategic Plan: Make homelessness "rare, brief, and one-time." This would shrink homelessness counts, protect vulnerable people from becoming homeless, and alleviate burdens on public budgets and spaces. But devising such policies, especially given the diversity of the homeless population (described in the Data Dive on page 28), is daunting. Increasingly, researchers are taking on that task.

a place

For the chronically homeless, including people whose substance use or mental illness creates the largest costs to their communities, research tells us what to do: Give them housing.

In 2018, half of homeless people in the Twin Cities earned less than $600 per month, putting them in the poorest 5 percent of the population. Between 2017 and 2021, people who used homeless services in Minneapolis died at three times the rate of similarly aged Minnesotans.

Instead of offering temporary housing and mandatory treatment, the predominant approach in the 1980s, the approach called Housing First immediately gives people a stable place to live. Specific rehabilitation services are offered but, crucially, not required.

Randomized trials repeatedly show that Housing First keeps people housed. One study took a group of families staying in homeless shelters and offered some a permanent housing voucher, while others received the shelter's normal services. After three years, 16 percent of the permanent housing voucher group had been homeless or doubled up with friends and relatives in the previous six months, compared with 34 percent of the families receiving the usual care.

Another study of homeless veterans with psychiatric or substance use disorders came to similar conclusions. And Elior Cohen, an economist at the Kansas City Fed, conducted a large-scale study of applicants for homelessness assistance in Los Angeles County and found that housing reduced the probability of homelessness by two-thirds after 2.5 years.

Perhaps the most striking feature of Housing First, though, is that in some cases it does more than just house people who are homeless. Mothers offered permanent housing reported lower rates of intimate partner violence (a major finding given that one-third of homeless women are fleeing domestic abuse), less psychological distress, better food security, and fewer behavioral problems with their children. Cohen found that in Los Angeles, providing housing reduced criminal activity and increased employment. What's more, these positive impacts do not appear to involve a trade-off for Housing First clients: People given housing and voluntary treatment services do not report higher rates of drug or alcohol use than people made to complete treatment programs first.

On the strength of this evidence, Housing First programs are the main way that local providers treat homelessness today—a big shift from 40 years ago. True, permanent housing costs more than the usual care offered by shelter services, because agencies must pay landlords for as long as recipients remain eligible. But to the extent that secure housing stabilizes clients' lives, it sometimes lowers public spending in other domains.

Housing First, however, cannot realistically eliminate homelessness in the U.S. Too many people live on the precipice of losing their housing. HUD found that in 2019, 44 percent of low-income people spent over half their income on rent. They are housed, but unstably—an unexpected medical expense or a job loss could push them into homelessness. So even if policymakers want to or could house every person who is homeless today, what would happen tomorrow?

to live securely

"I used to think, like many other people, that homelessness was a mental health problem," said Ayse Imrohoroglu, economics professor at the University of Southern California Marshall School of Business. "But then I realized that a very large fraction of the homeless are homeless due to shocks, and economists know how to deal with shocks." Inspired by the soaring homelessness around her in LA, Imrohoroglu decided to study homelessness not with randomized evaluations but with economic theory.

With co-author Kai Zhao, Imrohoroglu constructed an economic model of people who not only purchase homes, rent apartments, consume, save, and work but also lose jobs, get sick, and sometimes become homeless. By building in interactions with policy and housing markets, the model shows that preventing homelessness is key, and the reasons why people become homeless shape which policies keep them housed. Rent subsidies for the cheapest units or expanded housing voucher availability, for example, ensure affordable options for people who might otherwise have been homeless for a short time. However, these programs do little for people unable to work for long periods. Income support, especially for those with health problems, can protect this group from chronic homelessness, but to do so on a large scale, this protection needs to be both generous and well targeted to poor people.

Data also support the importance of *preventing* rather than just *curing* homelessness. For example, every year 75,000 people call a Chicago hotline that provides a few hundred dollars to people facing eviction, but because funds are limited, only a fraction of them get help. About 3 percent of the callers whose requests get no money because they happen to call when funds are already exhausted use homeless services in the following six months. The share is less than 1 percent for callers who do get financial help.

Because homelessness is so hard to predict—even among those who call prevention hotlines—help has to be broadly available to reach the people who might actually become homeless. It also has to help people afford the housing that is available at prevailing prices. Another line of thinking, however, focuses on the price side of the equation, widening the scope of homelessness discussions to include housing markets themselves.

"I had to move because I had a couple of floods in my apartment. Landlord didn't fix it. It started to mold. …They do have senior apartments, but some want three times your security. Well, nobody has that laying around. I make two times the rent. I make $2,200. And I lived in a motel for a while thinking I can find me an apartment and move in. Nope. That didn't work out either. So I ended up here in a shelter until I could find me a place that I can afford."

MARILYN FORTE

and affordably

A collection of suggestive evidence supports the idea that housing markets are responsible for homelessness. For instance, city-level homelessness is more related to rents than it is to poverty, substance use, or mental illness. This is not to say that individual challenges don't matter—they do—but the housing view emphasizes that when rents are high, even small disruptions can make people homeless. Turning a story about housing markets into effective homelessness policy is difficult, however. "The best policy is probably to reduce housing prices," O'Flaherty said, "but we don't know how to reduce housing prices."

One common housing market reform to lower prices involves making it easier to build by removing regulations. Housing economists suggest two ways that new market-rate construction, which many zoning reforms seek to encourage, might ultimately lower the prices faced by people at risk of homelessness. First, through the movement of tenants: New units attract residents who vacate other units, creating more vacancies that must be filled, and so on. Upjohn Institute economist Evan Mast, in research presented at a Minneapolis Fed 2019 Institute conference, traces those moves and shows that higher-rent construction creates substantial vacancies for people in the middle of the income distribution.

Second, through housing deterioration: Studies show that as a property ages, its price falls and it tends to pass to poorer people. This "filtering" of housing down the income distribution is another link between construction now and housing supply for lower-income people later.

Both stories capture some truth, but a direct connection with homelessness is hard to establish. Mast found that up to 15 percent of moves created by new market-rate construction were made by people living in the poorest 20 percent of neighborhoods, but it was impossible to learn if any of them would have been homeless had they not moved. Nationally, one 2007 study found positive correlations between the stringency of a state's housing regulations, housing cost burdens, and homelessness. But this is at best a long-run relationship, because building takes time and filtering takes even more time.

A fundamental factor that keeps deregulation from being a quick and effective homelessness policy is that building is very expensive. The average new home in 2022 cost $168 per square foot to build, putting the cost of a 1,600-foot house (close to the 25th percentile size in 2022) at $268,800, well out of reach of lower-income Americans.

As a result of high costs, most new affordable housing gets built because of subsidies. Consider the Minneapolis Public Housing Authority's current plan to build 84 new units. Officials estimate a total cost of $34 million dollars, or over $400,000 per unit. To fund it they tapped pandemic relief funds from the City of Minneapolis, economic development grants from the City and the Metropolitan Council, federal loans earmarked for affordable housing, Low-Income Housing Tax Credits (LIHTC), and traditional mortgage financing.

The housing built with these subsidies does reduce homelessness, to an extent. Research by Boston Fed economist Osborne Jackson and University of Michigan economist Laura Kawano shows that LIHTC-funded developments increase the supply of affordable housing in a neighborhood and reduce county-level homelessness rates. Kevin Corinth, an economist at the American Enterprise Institute, found that 100 new beds in permanent supportive housing units, which incorporate rehabilitation services on-site, reduced aggregate homeless counts by about 10 people.

But these reductions in homelessness are not very large and come at a high cost, which limits what subsidy dollars can do. Reducing those costs is therefore key to getting housing markets to serve low-income people more effectively. Localities could start allowing single-room occupancy buildings, In the U.S., people are homeless when poverty and instability collide with expensive housing. Reducing building costs is therefore key to getting housing markets to serve low-income people more effectively.

Corinth points out, lowering per-unit costs by making the units smaller. In Minneapolis, a new transitional housing space, Avivo Village, does just that by providing 100 indoor tiny homes, which cost just $22,000 per unit to build.

Minneapolis Fed economist James Schmitz has another idea: Let factory housing in. Manufactured housing, in which entire structures are produced efficiently en masse and delivered to a site, cost just $88 per square foot in 2022—half the cost of site-built housing. Today just 9 percent of new housing in the U.S. is manufactured housing, but places where it is most common, like Mississippi, have some of the lowest homelessness rates in the country, according to data Schmitz gathered from the Manufactured Housing Institute.

Manufactured housing faces many barriers, however, said Libby Starling, senior community development advisor at the Minneapolis Fed. Legal restrictions limit where such homes can go. It's difficult to tailor mass production to hundreds of local building codes. But breaking through these barriers may not only reduce homelessness, said Schmitz, it could have implications for the location, size, and cost of housing for many of us.

Policymakers across the world struggle with issues of housing affordability and homelessness, albeit very differently. Two-thirds of Viennese renters live in public housing, much of it gorgeous. Turkey technically has only a small homelessness problem, Imrohoroglu told me, because very poor people build shacks and consider themselves housed. In the U.S., people are homeless when poverty and instability collide with expensive housing. But whether it is best to take on poverty or housing remains an open and vital question.

Franklin Delano Roosevelt, in the midst of the homelessness crisis created by the Great Depression, proposed a second Bill of Rights which included the right of every family to a decent home. "We cannot be content," he argued, "no matter how high that general standard of living may be, if some fraction of our people—whether it be one-third or one-fifth or one-tenth—is ill-fed, ill-clothed, ill-housed, and insecure." Today homelessness is an acute disaster for some and a nuisance for others. The conditions that create it, however, matter deeply for all 330 million Americans who share a simple reality: People need a place to live. ★

TED SOQUI/SIPA VIA AP PHOTO

With extensive fieldwork and meticulous research, sociologist Kathryn Edin tells the stories of

DEEP

DISADVANTAGE

IN AMERICA

As a child, Kathryn Edin recalls riding in the car as her mom drove around their rural Minnesota county, picking up children to bring to Sunday school and youth group. Their church had no money to hire a parish worker, but Edin's mom did the job anyway, extending assistance and support to kids whose families were experiencing trouble, who were involved in the juvenile justice system, who were in foster care. "This was our social network," Edin explains.

Poverty has always been salient for Edin, a sociology professor at Princeton University and an Institute advisor who has spent her 30-plus-year career as a sociologist chronicling the experiences of America's poorest people and places. Her research often involves analysis of large datasets of economic variables and health outcomes. But what comes across most powerfully in Edin's research are the stories she tells about the people she meets.

"I don't want to write about a place or characterize a place without knowing something about it," Edin said. "It's as much the things you notice as the things people say." Edin integrates these perceptions with large data, historical archives, and immersive interviews to chronicle the lives of Americans and the social forces that shape them.

BY LISA CAMNER MCKAY

LISTENING CLOSELY

Throughout your career, you've driven to places you've never been to and started talking to the people who live there. What do you tell people about what you're doing? How do you know what questions to ask?

I think friendliness, respectfulness, and curiosity are the keys. Curiosity always. I'll drive around the county courthouse, find a diner, and sit down. People ask, "Where are you from? I see your license plate, it's from Tennessee." I answer, "That's the airport where I rented this car." "So what are you doing here?" "Well, I'm writing a book about so-and-so. Could you tell me your story?" And suddenly you're sitting there two hours later having heard this amazing story of someone's life.

I recognize that I get to do this in part because I present as a White, blonde, heterosexual, nonthreatening person. It is a privilege to be able to do this kind of thing. Not everybody would be safe doing that.

You are a principal investigator of the American Voices Project, whose mission is "to listen to people from across the country to find out how they're doing." What was the motivation for this project, and what are your hopes for what you and others will be able to do with the information that is collected?

In the early to mid-2000s, I think many of us social scientists became worried that we were not really speaking to the series of cascading crises of our times: the rise of populism, the opioid epidemic, the historic decline in fertility, the retreat of working-age males from the formal economy. Social scientists have been late to the table in all of these cases. Our monitoring systems—our surveys and administrative data sources—they weren't ideal for this purpose. But ethnography really is.

The problem is that ethnography is usually underfunded, if it's funded at all. Our dream was, What if there was an ethnographic corollary to the General Social Survey or the Panel Study of Income Dynamics that would

PHOTO BY ROBIN RESCH

become a permanent part of the data infrastructure, a way to hear the voices of a representative sample of Americans? This would, hopefully, allow us to be able to detect signs of emerging crises.

So far, the American Voices Project has captured about 2,700 American voices through immersive interviews that last many hours. We also have administrative data consent for about 80 percent of the sample, meaning we can access government data such as labor market participation, earnings, and benefit receipt for the participants, so we can create a panel and follow them into the future.

Ethnography is a form of qualitative research that sociologists and anthropologists use to develop a deep understanding of the social institutions and relationships of a particular group of people. It is conducted in person and on location, meaning the social scientist travels to the place they want to study and observes the particular behavior, relationship, or interaction they are interested in. The social scientist will often ask questions and record their observations in a systematic way.

Has your initial analysis identified any themes or crises that social scientists should be talking about?

It's still early. But one of the principal investigators, Corey Fields, identified a sharp racial divide in how Black Lives Matter was being interpreted. White Americans were treating the rise in calls to racial justice as an exercise in building their own awareness, whereas Black Americans had the view: Enough already, what are we going to *do*? There was an impatience with the "awareness" project. In some ways we can all point to ourselves and say, yeah, maybe we were doing more navel-gazing than planning how we could actually address racial injustice in a meaningful way.

A second theme that has emerged is a social withdrawal across a broad swath of Americans. Across any number of American subgroups, the sense of withdrawal from institutions is quite notable in the data. This is different than people feeling "the government doesn't work for me" or feeling a sense of inter-group competition, what we might call "sour grapes" that other groups are getting ahead. This is much more pervasive in society, and it's really a self-isolation—people withdrawing from all social institutions.

FAMILY MATTERS

One institution that has seen important shifts over the last 50 or 60 years is the family. For instance, there's been an increase in the number of children born to parents who are not married, particularly in lower-income communities. For a long time, conventional wisdom said that many fathers are intentionally absent, fleeing as soon as they find out there's a baby on the way. That's not what you find, however. How do these men see their role as fathers?

We have a lot of data from both surveys and the extensive ethnographic work we've done in multiple cities using very large samples that children have become a key source of meaning and identity for men. Parenthood is part of masculinity in a way that the evidence shows it wasn't in prior generations. Previously, a lot of fathers saw the mother-father bond as essential and they were connected to their children and their responsibilities as fathers through the mothers. But men, and maybe even especially less-advantaged men, don't think that way anymore. Many see that father-child bond as the essential bond and the mother-father bond as less important. So fatherhood has become more important to some men just at the time when fewer of them are living stably with their children, which creates real dilemmas.

What we saw in our ethnographic work was men who were actively fathering, but they weren't fathering all of their children. They were investing in children for whom the transaction costs were lower. Having to go through a tough and contentious relationship with the mom to get access to their children raises those costs.

These men are often fathering "social" children as well, the biological children of other fathers who might be incarcerated, or out of contact, or in contact but not living in the house. Our ethnography finds this is a tremendously meaningful relationship both to men and to kids. But, many fathers were simultaneously not involved with some of their biological kids. So it isn't as if you can divide the fathers into the demons and the angels. People are both.

> **"I have to say, this was a total surprise because we were expecting urban areas to be among the most disadvantaged. Instead, we see four huge concentrations of disadvantage that are largely rural."**

AMERICA'S IMPOVERISHED PLACES

You've written about what life is like for America's poorest families. In your ninth book, published in August, you turn your attention to America's poorest places. Why is it important to study impoverished places in addition to the people who live there?

In 1987, the year I started graduate school, the landmark book *The Truly Disadvantaged* by William Julius Wilson was published. This book was monumental in that it argued something simple that really changed social science research in America—and, eventually, policy. It said, if you were a poor kid, it was worse to grow up in a poor community than a mixed-income community—that where you grew up mattered, that outcomes weren't only the result of family income.

At the same time, there was a growing body of research into the social determinants of health, which shows how poverty and place get under your skin and manifest themselves in deleterious health outcomes. Together, these ideas were pointing to the fact that to understand any number of economic outcomes, it might well be the case that the place you grew up or the place you were living was as consequential as your genes or the quality of health care you received or even your own behavior.

By the time my co-authors and I started to study place, it wasn't new, but almost all the research on place was happening at the neighborhood level and not at the community level—that of a city or county. If you study neighborhoods, you never end up studying rural America, which is about 70 to 80 percent of the land mass of the United States. Inadvertently, I returned to my rural roots just by allowing rural America back in to the study of place.

Your first task in this project is to identify where America's most deeply disadvantaged places are. That means coming up with a concept of an impoverished place that you can measure across the entire United States. How do you measure disadvantage?

When we measure poverty, what we're really trying to measure is well-being. We wanted to include income because it tracks very closely with all measures of material hardship. For

On the road

"The day our dean of research at Princeton said we could return to doing in-person research [in 2021]," Edin said, "we jumped in the car and did a 14-state road trip to 150 of the top 200 most disadvantaged places." That included Pearsall, Texas, which claims to be peanut capital of the world.

Top right: Edin teaches sociology classes at Princeton that investigate the causes and consequences of poverty in America.

PHOTOS COURTESY OF KATHRYN EDIN AND TRUSTEES OF PRINCETON

the book, we chose the percentage living below the federal poverty line and the percentage living below half the federal poverty line—the very poor.

But we also wanted to bring in direct measures of well-being. Income measures are cyclical—they rise and fall with the economy. Health measures, in contrast, are cumulative. Just because the unemployment rate goes down doesn't mean that a lifetime of living under harsh conditions is going to go away. These are the things that get under your skin. So we included the percentage of infants with low birth weight and average life expectancy in each place.

And then there is the structure of opportunity in a place, which we captured with the likelihood that a low-income child in each place will enter the middle class in adulthood.

When you map your index of deep disadvantage for the roughly 3,600 counties and cities in the United States, what patterns do you see? Where are the most disadvantaged areas located?

I have to say, this was a total surprise because we were expecting urban areas to be among the most disadvantaged. Instead, we see four huge concentrations of disadvantage that are largely rural. The largest is the historic Cotton Belt, with 60 of the top 100 most disadvantaged places. These are the very counties that had the highest rate of enslavement in the rural South. That's followed by the historic Tobacco Belt, which runs through Virginia down into the Carolinas. The third area is central Appalachia, which is western West Virginia and eastern Kentucky. That's the bituminous coal region, which was especially exploitative. Finally, there's South Texas, which is home to huge underground aquifers. That plus the mild weather, at least prior to climate change, led to the largest production of irrigated vegetables in the nation.

You describe these places of deepest disadvantage as "America's internal colonies." That word choice is powerful, suggesting a system of power and subjugation. When you look at the history of the most deeply disadvantaged places, in what ways do they resemble colonies?

First, the economies are all dominated by a sole commodity, which pushed out any kind of economic diversification. Second, the expectation of the land-owning class was to build great wealth on the backs of subjugated, cheap labor. In contrast, in the upper Midwest, you'll see many farms, most of them homesteads, most about the same size, with similar-size houses. Farming was hard, but people made a fine living—they got by.

In contrast, in the internal colonies, the vast majority of those doing the labor had very little power. Until the 1960s, in practice most laborers lacked voting rights. The mine owner told you how to vote in Appalachia. In South Texas, there were White primaries and poll taxes that kept Hispanics away from the polls. And of course, these tactics and others were used in the historic Tobacco and Cotton Belts to keep Black Americans from voting. So there was an extreme denial of citizenship in these places.

The result is a very distinctive class structure: a small cadre of the haves, virtually no middle class, and then a large mass of landless laborers who had very few rights and experienced incredibly harsh labor and living conditions.

Was this a matter of more greed in certain times and places? Why did the economies evolve so differently in these internal colonies?

Well, there's a very different logic between extraction and investment. I grew up in a farming community, and while my family didn't farm, my grandparents did and most of our neighbors did. You invest in the soil, you rotate your crops, you hope to pass your farm on to future generations. So you invest in and care for your asset. Extraction is different—it's really about taking the money and running. And if you look at cotton, for example, people were moving westward, literally destroying the soil as they went. This didn't have to happen. In fact, you can grow cotton just as profitably as a small-scale venture, much like the family farms in the upper Midwest. But it didn't play out that way.

Even now, we argue, there are new forms of extraction occurring in these areas. In South Texas, for example, fracking is everywhere, and it's draining the very aquifers that are necessary to sustain agriculture. It is draining the future of the place.

We also make the claim that in central Appalachia, where the opioid crisis has been at its worst, the economy has become captured by a new commodity: the commodity of pain. A whole slew of secondary industries has sprung up, particularly pharmacies and health clinics, which one could argue are extracting the very health of the people. For example, in Manchester, a tiny little town in eastern Kentucky with around 1,500 people, there are 13 pharmacies. Now, why do you need 13 pharmacies? That's extractive rather than investment logic.

> **"In these communities of deepest disadvantage, there has been a collapse of social infrastructure. The bowling alley, the beauty salon, the roller rink, the playground… have faded away, collapsed."**

Drug use appears to be both a cause and a consequence of deep disadvantage.

This was a theme that bubbled up inductively from our respondents. We chose to visit Clay County not because it was the epicenter of the opioid epidemic—we didn't even know that—but because of its place in our index of deep disadvantage. And when we went there, that's what everyone wanted to talk about. People kept saying over and over that the reason people were dying from overdoses is that, "There's nothing to do here but drugs."

At first, our reaction was skeptical—I didn't believe it could be true. But we took the claim seriously, and it turns out that in these communities of deepest disadvantage, there has been a collapse of social infrastructure. The bowling alley, the beauty salon, the roller rink, the playground—they get plowed under by the powers that be to expand the width of the highway—more and more of the community institutions have faded away, collapsed.

Existing data on the loss of these institutions over time are flawed. But if you measure the loss of these institutions over time—what the sociologist Eric Klinenberg calls "social infrastructure"—that decline is as strong a predictor of deaths due to overdose as other, more obvious factors, such as changes in the unemployment rate.

HELPING EVEN ONE PERSON

How do you stay hopeful when your research confronts some of the worst failings of our country?

In the time that I've spent in the rural South among African Americans and Mexican American families, people living in deep disadvantage and poverty, there's an attitude of gratitude. Students will sometimes say to me, "Well, I learned about Maslow's hierarchy of needs, and I don't understand how the people you talk to can have all the feelings you say they have because their basic needs aren't being met."

And I say, "Well, I have found people have the same hopes and dreams and aspirations as everybody else." Here's a telling story. At the end of my research for *$2 a Day: The Art of Living on Virtually Nothing in America*, which was a tough, tough book, I went back to each respondent at the end of our interaction and I asked, "What was it like participating in this study?" These are the poorest people in America. And to a person, they said something like this: "If my suffering can help even one person, it will have been worth it." That holds me accountable. ★

World-class research can be lengthy and complex. Here, we present key findings, methods, and policy implications from several studies by Opportunity & Inclusive Growth Institute scholars and their colleagues. These examples represent a fraction of the Institute's growing body of research. For our full library, visit minneapolisfed.org/institute/publications/working-papers.

ILLUSTRATIONS BY ANDREA UCINI

The state of income inequality

Where are income gaps narrowing—and where are they growing?

BY LISA CAMNER MCKAY

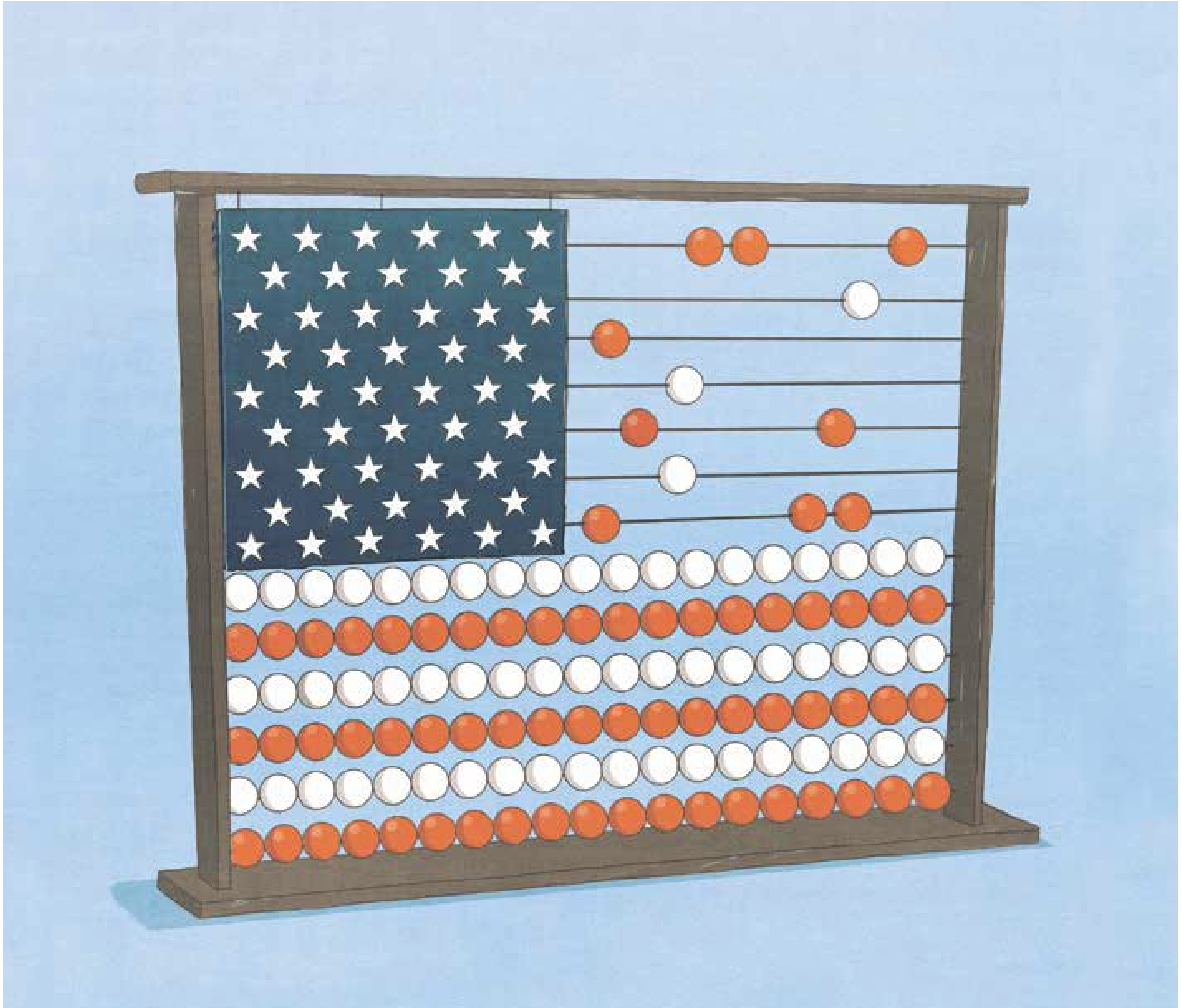
The extent of income inequality is a defining characteristic of a society. How unequal a society is, and how that inequality has changed over time, can tell us a lot about opportunity and inclusion, about power and influence.

Because income inequality is a key to understanding a variety of economic outcomes, it is important to be able to describe that inequality well. However, most analyses to date rely on survey data, which have limitations, particularly when it comes to high earners. First, high earners tend to underreport their income on surveys—perhaps on purpose, to seem more "average," or because they focus on only one income source. Second, to preserve anonymity, many surveys use "top coded" data, meaning that respondents who report income above a certain value will all be assigned that top value.

A rich, new dataset that combines income from tax returns with demographics from the U.S. census allows former Institute visiting scholar Kevin Rinz and co-author John Voorheis to provide a new and detailed picture of inequality. Their data, which they've shared publicly, can be used to compare income distributions across states, by gender, and by race. Comparing incomes not just at the mean or median but across the full income distribution shows where inequality is growing or narrowing, who is flourishing and who has been left behind. Ultimately, this lets us identify more precisely where inequality exists, an essential step in diagnosing what is causing inequality.

Why income inequality matters

In addition to ethical concerns over fairness, inequality has practical economic, political, and social consequences. Some research suggests that higher levels of income inequality reduce a country's



aggregate economic growth because they decrease household spending and limit educational opportunities for the children of the less well-off. The unequal distribution of income constrains how much the pie grows for everyone.

In a country as large as the United States, with a federal system of governance, regional inequality matters too. Just over half of federal revenue comes from individual taxes—a share that has increased as corporate taxes have declined. Which states are net contributors and which states are net receivers of federal dollars is in large part a function of the incomes of the residents of the states. Incomes also impact local housing prices, and how housing prices vary across the country plays a role in where people can afford to live—and thus what labor market and other opportunities they might have access to. How one state performs, Rinz noted, "doesn't just affect that state. It affects the populations of other states, the mobility among and between states, the location of economic activity, and possibly the productivity of firms and the varieties of products available."

Slow but steady income convergence—except at the top

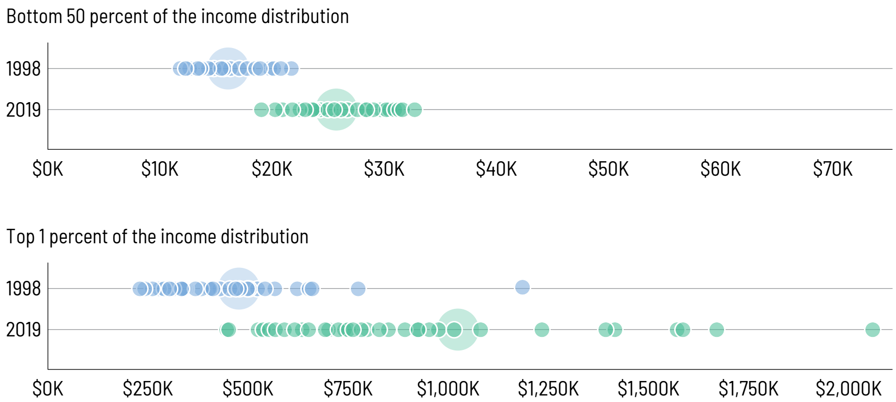
Using their new dataset, Rinz and Voorheis show that state income distributions grew more similar between 1969 and 1979, but since then, they have been slowly moving apart. The economists then compare different parts of the income distribution to determine whether higher-income, middle-income, or lower-income people are driving the divergence. They find that state income distributions actually have continued to converge over the past 40 years for the bottom 85 percent of the income distribution.

At the top, however, state incomes have become less similar (see figure). In fact, the top 1 percent of the income dis-

STUDY AUTHORS

KEVIN RINZ and JOHN VOORHEIS,
U.S. Census Bureau

WHERE INCOMES ARE CONVERGING AND DIVERGING IN THE DISTRIBUTION



Each small dot is the average income for the indicated part of the income distribution for a state. The large dot is the average across all 50 states. For the bottom 50 percent of the income distribution, average incomes increased between 1998 and 2019 but the dispersion stayed almost the same. For the top 1 percent of the income distribution, the dispersion increased notably.

Source: Rinz and Voorheis, State-Level Income Distribution Data, https://kevinrinz.github.io/data/state_income_data.zip

> "It was striking to see more explicitly how consistently Black income distributions lag White income distributions. It's not limited to certain states. It's not limited to certain parts of the income distribution. It's everywhere."
>
> —KEVIN RINZ

tribution accounts for half the total divergence. Among the very rich, inequality across places is growing: The incomes of the wealthiest people in the wealthiest states are growing faster than the incomes of the wealthiest people in less-wealthy states. Among everyone else, inequality is diminishing, though slowly.

New evidence on the Black-White income gap

With the income distribution for every state in hand, Rinz and Voorheis then start to look at the distributions of different groups within states. Do all groups in high-income states earn above-average incomes? Or only some groups?

Their analysis finds there is a clear ordering: White residents of high-income states have the highest incomes; next are White residents of low-income states; then Black residents of high-income states; and finally, Black residents of low-income states. This analysis indicates that the Black-White income gap at the national level is not due to the fact that Black Americans tend to live in states with lower incomes; rather, other forces are at play.

TAKEAWAYS

- New study uses tax data to assess income inequality at different points of the income distribution
- Incomes continue to converge across states, except among highest earners
- Black incomes lag White incomes in every state

"It was striking to see more explicitly how consistently Black income distributions lag White income distributions," Rinz said. "It's not limited to certain states. It's not limited to certain parts of the income distribution. It's everywhere."

Next steps: Identifying causes

By comparing incomes across the full income distribution—of different states, of White and Black households—Rinz and Voorheis identify patterns of inequality not captured in analyses of averages. With this information, researchers can then start to ask, What explanations make sense of these facts?

"I think if you take the facts in our paper seriously," Rinz said, "for any proposed mechanism, you would want to ask, How would that cause top incomes to become less similar and why would that apply primarily to White earners?" For instance, what role might fast-growing wages in the IT sector play, or local regulations on housing supply that drive up home prices? Of course, there is likely to be more than one factor at work, including a legacy of racial discrimination.

Because identifying where inequality exists is key to determining its causes—and solutions—it is valuable to continue the work of creating new measures of inequality across places and people. Rinz and Voorheis are contributors to a joint Census Bureau and Opportunity & Inclusive Growth Institute project to assemble localized measures of earnings and income. This large, detailed dataset can be used to answer many new questions. For instance, what is the racial and ethnic composition of the top 2 percent of men with the highest incomes in Minnesota, and how does it compare with the top 2 percent of women? In what regions have women experienced the greatest income mobility? The new dataset will launch later this fall. ★

Want low-income kids to succeed in college? Give money and *lots* of notice. (Like, 18 years.)

How education subsidies can disrupt cycles of inequality—if parents can see them coming

BY JEFF HORWICH

New parents might not be thinking about sending their baby to college, but they know one thing: It's likely to be expensive. Maybe out of reach.

Years from now, they might get some help paying for college. But most financial assistance comes up very late in the game, making it hard to plan. A new Institute working paper finds that a college subsidy known by parents far in advance—ideally, before the child is born—is especially powerful when it comes to setting up low-income kids for success. Over time, their success can help upend stubborn patterns of inequality that persist across generations.

To reach this conclusion, the economists turn to an extraordinary dataset to disentangle the big and small ways parents shape their children's economic futures. At the heart of their findings: Parents invest more time, energy, and resources in their child's educational success if they expect their kids will go to college. The economists' life-cycle model suggests that

STUDY AUTHORS

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A subsidy or scholarship when the child is at the end of high school, which suddenly makes higher education feasible, cannot make up for years of anticipating a future without college.

targeting these parental expectations early, with money, can make a large difference in lifetime earnings.

Seven Up! for statisticians

The economists make use of the National Child Development Study (NCDS), an ongoing effort to follow the childhood, working life, and retirement of every baby born during one week in 1958 across England, Scotland, and Wales.

"This really is a remarkable dataset," said University of Cambridge economist Eric French, a former visiting scholar with the Institute. "To the best of my knowledge, it's the only dataset in the world that tracks the same set of individuals from birth to retirement and actually collects economic information." French likens it to the hard-data version of the celebrated documentary *Seven Up!* and its eight (so far) sequels, documenting the lives of the same 14 people as they grow.

The NCDS provides researchers detailed data on the lives of about 9,400 individuals. Beyond education, employment, family, and income data, the NCDS records standardized test scores, measures of emotional intelligence, and—crucially—a range of survey questions that capture the child's learning environment at home. These surveys included not just parents but teachers, who were asked to give their opinion on the parents' parenting.

"By age 16, we have a pretty good handle on how you're going to do"

Before exploring education subsidies, the economists use their data to measure just how much of our lifetime earnings can be predicted at early ages. For men, "20 percent of the variability in lifetime income alone is explained just by the characteristics of the parents at the time of birth," French said. "By age 16, we have a pretty good handle on how you're going to do over the course of your lifetime—which I think we should consider, in some ways, troubling."

Outcomes for women are less certain through early life, at least for this cohort born in 1958. But they converge with men after marriage (because women with more education are more likely to marry a high-earning partner).

Earnings are closely tied to parental education. Reading and math scores for children of better-educated parents are already much higher when first measured at age 7, and the gap widens over time. Of children whose fathers had some college, 46 percent went to college themselves, compared with just 13 percent of children whose fathers did not have a high school diploma. All told, children of college-educated fathers earn one-third more than those whose fathers did not graduate from high school.

Children of more-educated parents also receive more financial support and inheritances from parents. However, the economists find that these monetary gifts are not nearly as important as higher levels of education and the early parental investments that help build skills.

TAKEAWAYS

- Financial help for college usually comes only after parents and students have made decisions based on expectations of attending (or not)
- A rare dataset tracking thousands of kids from birth to retirement lets economists measure parental activities and their importance to lifetime outcomes
- Announcing college subsidies to low-income parents even before children are born can shift early behaviors and counteract persistent patterns of inequality

With a different outlook, parents get prepared

When it comes to lifetime earnings, high cognitive skills help. More education also helps. No big news there. But the economists document the extent to which skills and education are even stronger together—a high level of "dynamic complementarity." High skills (measured in this case at age 16) have a much larger lifetime financial return for kids who go to college. These college returns-to-skill are magnified by the increased likelihood of marrying someone with higher education.

In their model, the economists presume young parents are rational and aware of these facts. If parents do not expect that college is likely for their child, "that's going to mean that the expected return to all of these parental investments—sending kids to a better school, reading to the kids, making sure the kids get to class on time—the return to all of that is going to be lower," said French.

A subsidy or scholarship when the child is at the end of high school, which suddenly makes higher education feasible, cannot make up for years of anticipating a future without college. Some students might now indeed be inspired or enabled to go. But sending kids to college who aren't fully prepared does little to close the intergenerational earnings gap.

However, the economists see a far different result in their model when they provide that same subsidy for all children, with one difference: Parents are aware of it from birth. A preannounced subsidy of 30,000 pounds (about $37,500) more than doubles the number of children going to college. Because lower-income parents are now more likely to send their children to college, they invest more in their children's learning environment at young ages, imparting the skills that will help their child more fully benefit from higher education.

Across all students, the early subsidy raises average lifetime wages by almost 16 percent. Unlike the late subsidy, one that parents know about from birth raises more than enough additional tax revenue over time (through increased earnings) to offset the cost of the aid.

"It's not that it breaks the cycle" of intergenerational inequality, French said. "But it certainly reduces the persistence in a nontrivial way."

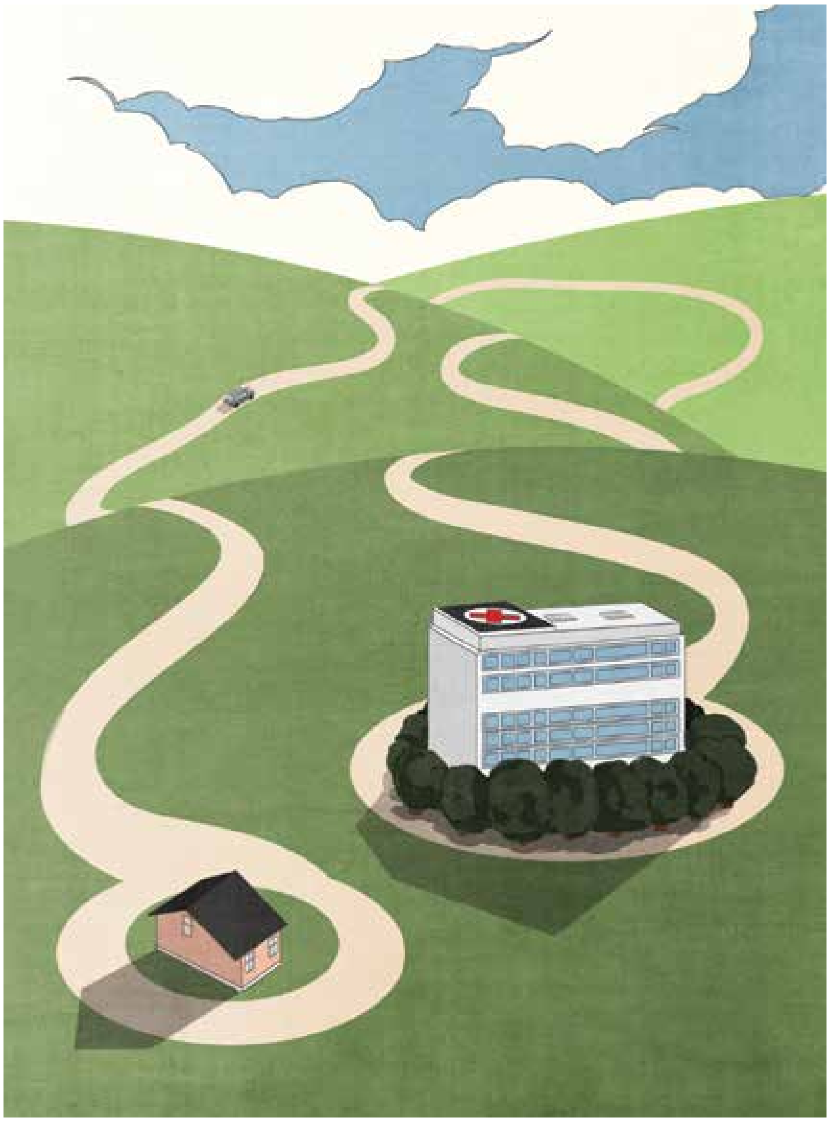
Setting expectations: "Baby bonds" and free in-state tuition

The findings call to mind recent state and local policies designed to get new parents saving for and thinking about college right from the start.

In 2022, California joined a small number of states that create and seed an up-to-$100 college savings account for every newborn. "California is telling our students that we believe they're college material," said California Gov. Gavin Newsom, in announcing the CalKIDS program. In 2020, St. Paul, Minnesota, became the first U.S. city to launch its own such program, CollegeBound Saint Paul, with a $50 deposit.

Simply putting new parents in the right frame of mind could have some value. But parents are likely well aware of the daunting expense of college. "All of these little savings accounts," French said, "could get blown away by those costs."

A few states have gone further, promising to cover all in-state public college tuition for students from low-income families after they exhaust other financial aid. A majority of states now make a similar promise for community college. To the extent that these programs are well publicized and shape parents' expectations for college-bound kids, French's research illustrates how they might begin to combat entrenched inequality. ★



Bring health care to people or people to health care?

Patients drive long distances for medical care. Analyzing why has implications for how to improve access. **BY TU-UYEN TRAN**

A close acquaintance of Mark Jones recently made a six-hour drive from her home in northwest Minnesota to Minneapolis for surgery.

Many small community hospitals dot this largely rural region, and several larger regional hospitals are less than two hours away. But they didn't offer what she needed.

More and more rural residents are driving to distant hospitals, said Jones, who is executive director of the advocacy group Minnesota Rural Health Association. "It's quite the burden," he said, with travel costs, time off work, and being far from friends and family.

STUDY AUTHORS

JONATHAN DINGEL and PAULINE MOUROT, University of Chicago Booth School of Business; JOSHUA GOTTLIEB and MAYA LOZINSKI, University of Chicago Harris School of Public Policy

For many health economists, this phenomenon illustrates the disparity between rural and urban health care, which they blame on a shortage of doctors in rural regions. But Jonathan Dingel, a former visiting scholar with the Institute and University of Chicago Booth School of Business economist, thought it possible that rural patients are traveling to urban hospitals because the quality of medical services there is better than at home. That is, they're engaging in trade.

Using millions of Medicare claims, Dingel and his colleagues show in a recent Institute working paper that this is the case.

"Once you recognize that there's trade, that means that improving production in a region is not the same thing necessarily as improving consumption in a region," he said. "We can be more creative in thinking about the potential set of policy instruments that we might use to improve medical access."

In other words, if the goal is to improve rural residents' access to high-quality medical services, pouring more resources into rural hospitals may not be the best policy. The better policy could be subsidizing travel to urban hospitals.

The inherent advantage of larger markets

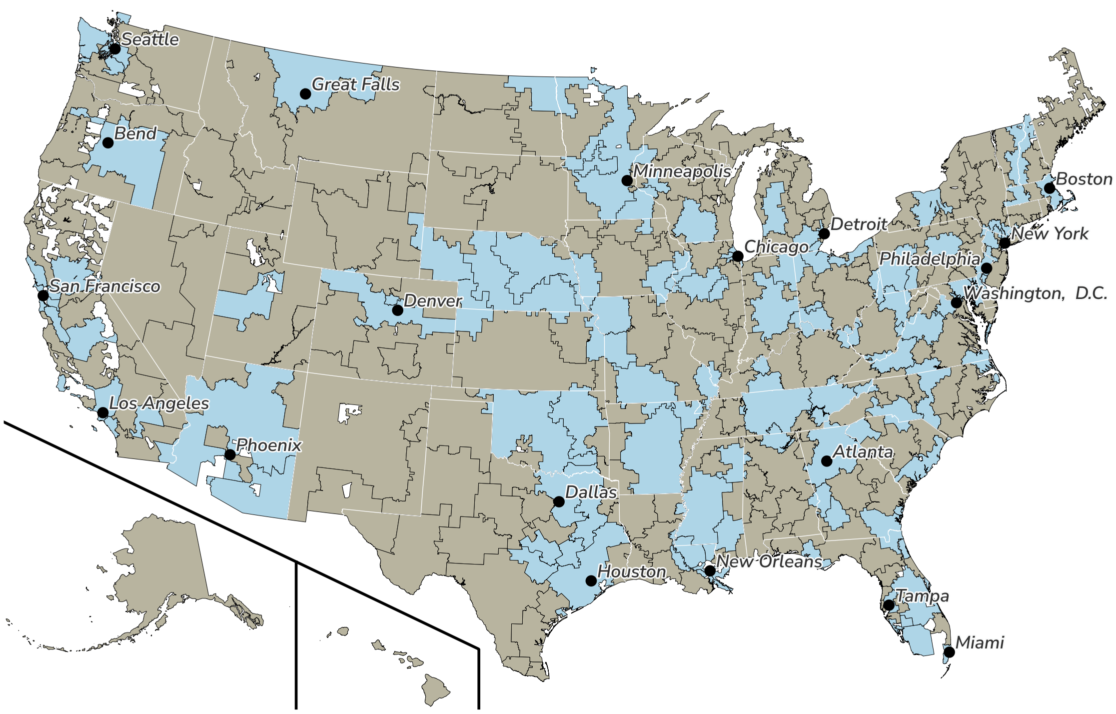
To arrive at their conclusions, Dingel's group analyzed 229 million medical services billed to Medicare in 2017.

Those claims showed that $1 in $5 went to pay for medical services performed outside the patients' home hospital markets. The smaller the market's population, the more rural it tends to be and the more its residents "import" medical services, meaning they travel to another market to purchase those services (see map). In fact, rural markets are much more likely to be "net importers," meaning residents spend more on medical services outside the region than outside patients spend on services inside the region.

Dingel's group used a common health economics definition of a hospital market as a region where most patients go to the same large regional hospital for advanced, nonemergency medical services. In some parts of the U.S., regional markets can be vast. For example, patients in the Billings, Montana, market may drive as many as 375 miles to reach their regional hospital.

When those patients seek to import medical services from another market, they may drive much farther. According to Dingel's calculations, the average patient in the Billings metropolitan area travels 625 miles for medical services.

HOSPITAL MARKETS THAT ARE NET IMPORTERS AND EXPORTERS OF MEDICAL SERVICES



Imports are the amount spent by residents within a region on medical services produced outside that region. Exports are the amount spent on medical services provided within a region by residents from outside that region. Net importers are regions where the value of imports exceeds the value of exports, and net exporters where the value of exports exceeds that of imports.

Source: Jonathan Dingel, Joshua Gottlieb, Maya Lozinski, and Pauline Mourot, "Market Size and Trade in Medical Services," Institute Working Paper 68 (2023).

If the goal is to improve rural residents' access to high-quality medical services, the better policy could be subsidizing travel to urban hospitals.

The key to understanding why they drive such long distances is in the concept "economies of scale." Dingel's group found that the more a market produces a medical procedure, the higher the procedure's quality. That gives larger markets an advantage because they have more demand, which leads to more production. On average, a 10 percent increase in production, measured in dollars billed to Medicare, leads to a 6 percent increase in quality, inferred from the distance patients were willing to travel beyond the nearest region offering the same procedure.

One of the drivers of this phenomenon is doctor experience. For any given procedure, doctors in larger markets are likely to have performed it more times than doctors in smaller markets have. The patient base for the procedure is likely to be larger in larger markets, allowing doctors to specialize in that procedure instead of having to perform many other prodcedures as well. The Medicare data show that patients will seek out experience.

"Practice does make perfect," Dingel said. "Doctors that are repeatedly doing the same procedure are going to be better at that procedure than somebody who is rusty and hasn't performed it very often."

The best bang for the subsidy buck

The advantage large markets have in quality and patients' willingness to travel for that quality has implications for policymakers who have long favored subsidizing rural health care to maintain access for rural residents.

Dingel's group modeled several subsidy scenarios. In one, they increased Medicare reimbursements by 30 percent in Paducah, Kentucky, a rural market that is a net importer. They did the same in Boston, an urban market that is a net exporter. The significantly higher payments to doctors led to a significant increase in the quality of medical services for both markets. But the number of patients who benefited decreased in the Paducah scenario and increased in the Boston scenario.

The difference is in surrounding markets, which together have a much larger population than either Paducah or Boston. In the Paducah scenario, quality increased in Paducah enough to keep more Paducahans at home but not enough to attract outside patients. But with fewer Paducahan patients traveling to surrounding markets, production and quality in those markets decreased, affecting more patients than just those in Paducah.

In contrast, the increased quality in Boston attracted even more patients from surrounding markets. Production and quality decreased in those surrounding markets, but both their patients and Boston patients gained from higher quality in Boston.

From a patient perspective, subsidizing markets without an advantage in medical services can be a win for some and a loss for others, but subsidizing markets that have this advantage can be a win-win.

"There is a lot to be said about investing in nationally recognized centers for highly specialized procedures and the care that is associated with them because of the expense," said Jones. It's hard to justify providing these services in areas where demand isn't high, he said.

At the same time, he said, not everyone can afford to travel. "Rural residents are poor. It's another determinant in their health."

When Dingel's group modeled subsidies for travel, they found that travel increased from Paducah to surrounding markets and quality improved in those markets, a win-win for Paducahans and residents of the surrounding markets. The subsidies required for lower-income patients were higher than for higher-income patients to achieve the same level of health care access.

The working paper doesn't offer policy recommendations based on these results, but by treating medical services as a tradeable product, it opens the door for a different kind of policy discussion.

And those discussions are occurring.

Jones said he was at a conference chatting with some colleagues about the obstetrician shortage in rural areas when someone suggested an air service ferrying urban obstetricians to rural patients for high-risk deliveries.

It's not a perfect solution, he said, but recruiting doctors to rural areas hasn't been very effective either. "We need to be able to attract rural doctors, but thinking that we're just going to spend money and it will solve our problems—maybe [the air service] is the better way to invest our money."★

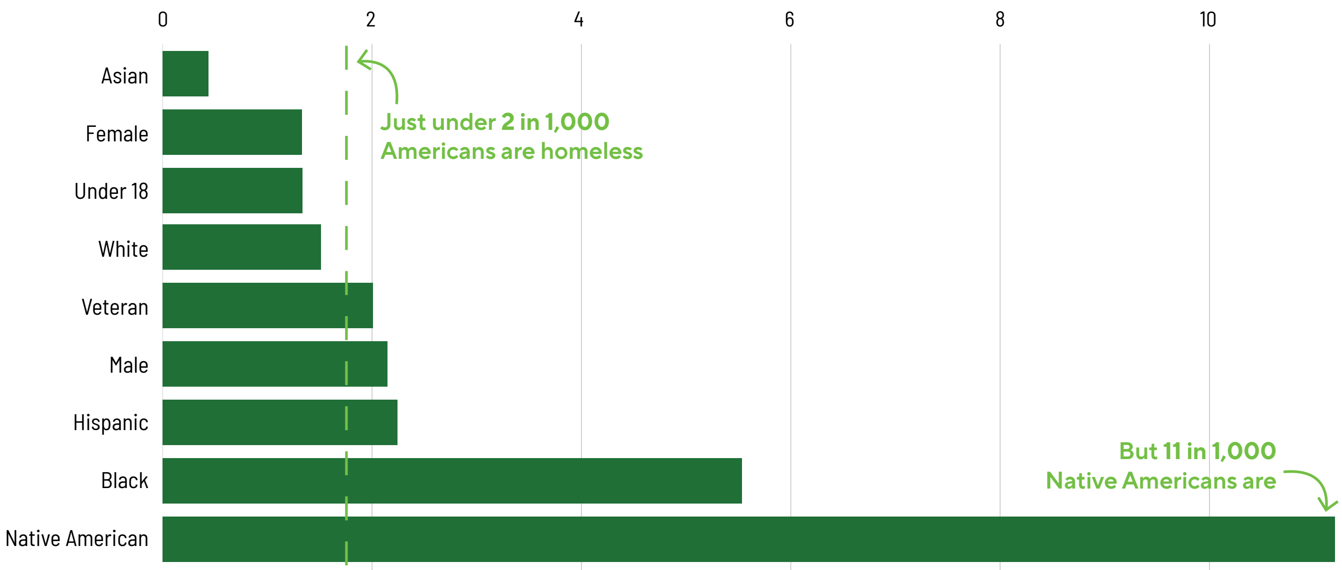
TAKEAWAYS ↗↗

- More populated areas offer higher-quality medical care than smaller markets because doctors specialize more
- The smaller the market, the more its residents travel to other markets for medical services
- Subsidizing patient travel is one way to improve access to high-quality medical care

TAKING STOCK OF HOMELESSNESS IN THE UNITED STATES

Who is homeless in the United States? Homeless individuals come from every demographic group, but not all groups are equally represented. Black and Native American individuals are more likely to be homeless than are individuals from other racial and ethnic groups. Men and veterans also have higher rates of homelessness than the U.S. average. Homeless people are less likely to be women or under the age of 18.

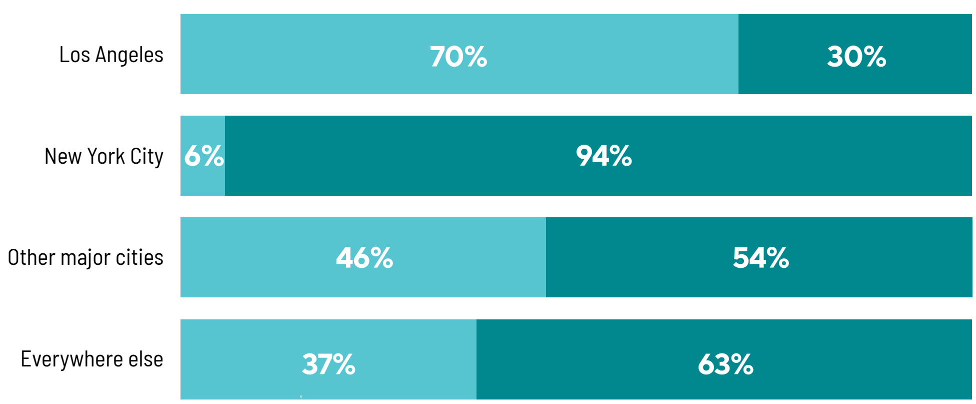
HOMELESSNESS PER 1,000 PEOPLE



HAVING A ROOF OVER YOUR HEAD DEPENDS ON WHERE YOU LIVE

The experience of being homeless varies by place. In Los Angeles, most homeless people live out on the streets—a quite different experience than in New York City, where a legal "right to shelter" has almost every homeless person under a roof. The rest of the country is in between, with homeless people in major cities less likely to be sheltered than those in more rural areas.

SHARE OF HOMELESS PEOPLE WHO ARE UNSHELTERED AND SHELTERED



"Other major cities" are the 50 largest U.S. cities by population, according to the Department of Housing and Urban Development, minus Los Angeles and New York City.

Homelessness data in the U.S. come from annual Point-in-Time counts, where armies of local volunteers spread out to count the homeless population. Counting all people in the homeless population poses a unique challenge when the people to be counted do not have a fixed address and may be suspicious of the motives of those conducting the count. This means our data about the homeless population are far from complete. Continuing to invest in efforts to take stock of homelessness is essential to understand how policies affect the housing security of different groups of Americans.

Source: Pew Research Center and U.S. Department of Housing and Urban Development

DAVID H. MONTGOMERY

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The Federal Reserve Bank of Minneapolis is home to the Opportunity & Inclusive Growth Institute and *For All* magazine. The Minneapolis Fed has a long history of research designed to inform policymakers. Some of the hallmark policy initiatives driven by pioneering research are studies around banks that are too big to fail and the powerful return on public investment in early childhood education. One of 12 Federal Reserve Banks, the Minneapolis Fed monitors the Federal Reserve's Ninth District economy to help determine the nation's monetary policy and strives to promote economic well-being.

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FINAL THOUGHT

IN MEMORIAM

"A tight labor market [is] the only thing that really moves the Black unemployment rate. … One cannot blame the Fed for the way in which our society is organized. One can hold the Fed accountable for making sure that it does pursue maximum employment, so that at least, given how the economy works, the Fed is not making it worse."

William Spriggs, speaking at a *Fed Listens* event in 2019. Spriggs served as a member of the Institute Advisory Board from its inception until his death in June 2023.

CAROLINE YANG FOR THE MINNEAPOLIS FED

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