

# *Making Our Neighborhoods, Making Our Selves:* A Review Essay

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**Abstract:** This essay reviews *Making Our Neighborhoods, Making Our Selves*, in which George C. Galster provides an overview of the literatures on neighborhood formation and neighborhood effects. I see two clear ways that *Making Our Neighborhoods* will serve as a reference strengthening these literatures. Given the state of the literature on neighborhood effects, which is often still at the stage of testing the existence and magnitude of such effects, the author's framework for classifying the types of heterogeneity we might observe in neighborhood effects will be a valuable tool for researchers. And since the literature on neighborhood formation approaches the issues from a disparate set of fields, the author's presentation of individual actors shaping neighborhood dynamics while using ideas of equilibrium, belief formation, equity and efficiency, and unpriced externalities should help unify understanding of the economic approach to neighborhood formation. While the author certainly does not shy away from race, I argue that several parts of the presentation would be clearer if they were tied more directly to racial segregation.

**Keywords:** Neighborhood, neighborhood formation, neighborhood effect

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# 1 Overview

We often imagine how different our lives would be had one detail been different. What if I had missed my flight and not made it to my job interview? What if I had gone to a different school? What if I had grown up with a younger sibling instead of an older one?

One of the most natural questions to pose along these lines is: What if I had lived in a different place? The policy questions that follow are: Can we change environments for many people, whether by moving people or by changing policies in the places they live? How different would outcomes be if we changed environments in these ways?

Looking across countries helps to provide a broad outline of the answers to these questions: We know that the differences in East and West Germany or North and South Korea were created by policy choices. And we know that had a West German lived in East Germany, or had a South Korean lived in North Korea, they almost certainly would have earned much lower incomes. We similarly know that a woman's well-being, measured most basically in terms of her existence, is shaped by our choices today, as vividly illustrated by differences in sex-ratios across countries (Sen (1990), Sen (1992)). The ability to attribute outcomes to policy choices is typically less clear when considering choices within countries, even if these choices can also lead to similarly disparate outcomes.

George C. Galster's book *Making Our Neighborhoods, Making Our Selves* is a unified approach to thinking about the policy questions above, with a focus on the contemporary United States. Galster's approach to neighborhood dynamics will be familiar to economists but might serve as an introduction to these models for readers from other fields. Galster studies a housing submarket model that characterizes neighborhood change in terms of general equilibrium, a departure from some other models of neighborhood change like the "invasion and succession," "life-cycle," and "filtering" models. He thinks about the tradeoff between equity and efficiency, and he thinks about these opposing forces as being driven by individual self-interest in a market that does not entirely price in the externalities generated by residential sorting.

I see *Making Our Neighborhoods* becoming a standard reference for social scientists interested in neighborhoods, representing the breadth and depth of knowledge that has spent decades accumulating in the mind of one of the field's top researchers. This review will highlight a few points where I as the reader felt that emphasis could have been placed differently. That a reader would prefer some points to receive greater emphasis is inevitable for a book spanning several literatures, including housing and neighborhood sorting, belief formation, neighborhood effects, and policy; always including both theory and empirics. My main point of emphasis will be to push Galster's discussion towards an even greater emphasis on race and residential segregation. This is not to deny that Galster devotes a great deal of attention to race and writes masterfully on the causes and consequences of residential segregation. However, Galster is focused on the contemporary US, where most of our serious social problems are driven by racial inequality and residential segregation, and where the events of 2020 seem to have created a new willingness to address the source of these problems.

Thinking about race greatly clarifies the key issues in nearly all of the topics in Galster’s analysis. Consider, for example, that race is even today a stronger predictor of the type of neighborhood in which a household resides than are its income, wealth, or other household demographics (Aliprantis et al. (2019)). Residential segregation leads Black children to grow up in neighborhoods with a lack of opportunity that is not experienced by white children (Wilson (1987)): In many metros like my home city of Cleveland, the 90th percentile tract-level poverty rate experienced by white households is the median poverty rate experienced by Black residents (Aliprantis (2019)). But these facts are largely refinements of the basic picture of continued racial segregation painted by maps showing our cities as they are. Figure 1 shows the segregation in two US cities by representing each individual’s 2010 residential location in the Census by race and ethnicity.

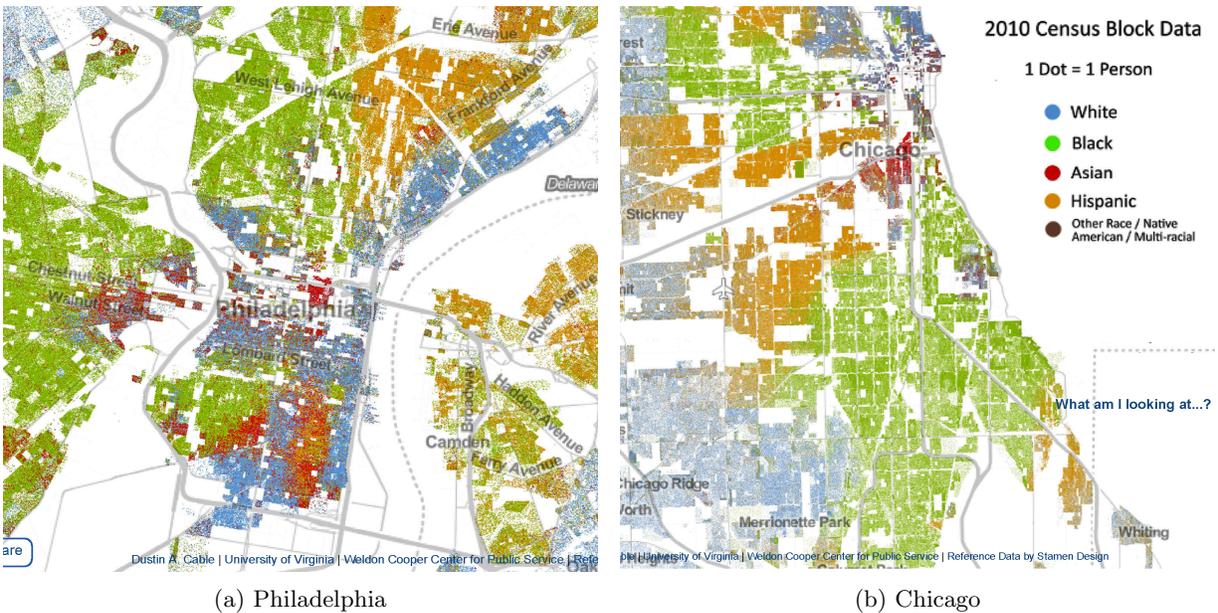


Figure 1: Individuals’ Residential Locations, by Race and Ethnicity

Note: These figures are from the Racial Dot Map (Cable et al. (2013)), displaying data from the 2010 United States Census made publicly available through the National Historical Geographic Information System (NHGIS).

Why are our neighborhoods still segregated? Especially if it was recognized by the NAACP in 1953 that “Residential segregation is the crux of the whole question of segregation” (Meyer (2000), p 141) and by Robert C. Weaver in 1955 that legally desegregated schools would be of little value in the presence of “racially defined neighborhoods” (Meyer (2000), p 141).<sup>1</sup> While the lack of social interaction across race is obviously an important factor (Pew Research Center (2019)), I think the main reason we have not solved the issue of segregation is because policies doing so will generate a Pareto improvement only in the long run, at least in terms of consumption. It is necessary that we have eliminated segregated lunch counters and water fountains, but these changes were relatively costless for those engaged in the discrimination because they involved changing future

<sup>1</sup>Weaver was the first African American to earn a PhD in economics from Harvard (Meyer (2000), p 54) and served in the Kennedy and Johnson administrations.

behaviors. I hope that this review’s attention to race will focus attention on what I consider to be the critical questions of the moment: What are we to do when addressing the source of highly unequal neighborhoods – changing the past behaviors that have generated two separate societies – will impose a short-term cost? And what should we do if we are not certain that a proposed, and potentially costly, policy will bring about the desired change?

## 2 Defining the Term “Neighborhood”

If we want to think about how we shape our neighborhoods and how our neighborhoods shape us, we first have to define what we mean by the term “neighborhood.” Neighborhood effects are typically thought of as effects operating through space, whether through people or through the physical environment. The social aspect of these effects can make it difficult to be precise in our use of language when using the term “neighborhood.”

Galster points out that the current practice in the literature is working with what you have to work with, meaning that researchers typically define neighborhoods in terms of the information available in the data set being studied. This does not seem to have changed in the years since Durlauf (2004) pointed out that this practice assumes the scale at which neighborhood externalities operate without the appeal to any substantive criteria, whether theoretical or empirical.

This practice might begin to change in the near future. It is hard to imagine that researchers will stop using administrative boundaries when studying neighborhood effects. However, it is not hard to imagine that new data sets will usher in new ways of thinking about neighborhoods. In this respect, the theoretical discussion of neighborhood externalities could end up being one of the most important contribution of the book.

As examples, consider what Robert Sampson has promoted as “ecometrics” in his influential book *Great American City* and subsequent work (Sampson (2017)). Sampson describes new data in the form of community surveys, a form of ethnography comprised of systematically videotaping city streets, network analysis of community leaders and organizations, coding civic events in newspapers, and field experiments measuring social norms. Possibilities for related new types of analyses can also be seen in the availability of new data sets coming from administrative data (Chetty et al. (2020)); cell phones (Büchel et al. (2019)); social media (Caetano and Maheshri (2019)); credit records (Davis et al. (2019)); consumer reference data (Diamond et al. (2019), Mast (2019), Phillips (2020)); and detailed micro data (Reed and Brummet (2021), Bratu et al. (2021)). As we can observe outcomes with increasing resolution, one can only hope that Galster’s framework gains some traction in framing empirical research on neighborhoods, which very rarely deals with these considerations in a substantive manner.

Galster pushes the reader to think in detail about neighborhoods by characterizing neighborhood externalities, and therefore our definition of neighborhoods in a given context, in three ways.

The first way of characterizing a single neighborhood externality in terms of space is *congruence*, or how closely administrative boundaries correspond to the boundaries of the given externality. We

might imagine that a neighborhood externality operating through schools would correspond closely to school district boundaries; teacher performance might vary discretely across a school district boundary, and this is likely to show up in the price of housing and the types of peers who sort into those boundaries. In contrast, one might have a very difficult time finding differences across administrative boundaries for a neighborhood externality operating through spatial mismatch, depending on the location of both employers and the public transportation.

The second way of characterizing a group of neighborhood externalities across outcomes is *generality*, or how closely the boundaries of the given externalities correspond to one another. Does a geographic area exert similar influences on an individual's physical safety, their exposure to lead, and the schools they attend? Might education reform or school choice break the generality of the school externality from the other residential-based externalities?

And the third way of characterizing a single externality across individuals is *accordance*, or how similarly the externality affects different types of people. A 40-year old, six-foot tall white male might experience different obstacles when walking through the same area than an adolescent Black male or a five-foot tall female. List et al. (2019) is a recent study that is actually able to speak to the issue of accordance by comparing the neighborhood-level social interactions of Black and Hispanic children.

In some circumstances it could be worthwhile to characterize the interaction between *generality* and *accordance*, seen in terms of the distinction between physical and social distance. For example, students attending a private school might be physically close to their neighborhood peers but socially quite distant from them. Similarly, a student who just moved to the suburbs might be physically close to their new schoolmates but socially connected with the peer group from their old neighborhood or school.

Galster revisits some additional ways of characterizing neighborhood externalities in his Chapter 8 discussion of the administration of neighborhood dosage. I think several of these notions might be fruitfully appended to Galster's early framework. The most relevant for me when defining the term "neighborhood" would be the notion of *spatial extent*, or *scale*. We know that exposure to very local violence impacts children's outcomes, whether measured as a homicide in their block group (Sharkey (2010)), violent crime on their own block face (Sharkey et al. (2014)), or seeing someone shot or shot at (Aliprantis (2017)). However, violence measured at the scale of children's county, while varying considerably, does not affect their outcomes (Aliprantis (2017)). Galster likely focuses his early discussion on three ways of characterizing externalities for the sake of tractability. Depending on the application, though, one could imagine similarly useful insights yielded from an analysis of his additional notions of *frequency*, *duration*, *intensity*, *consistency*, *trajectory*, *spatial extent*, *passivity*, and *mediation*.

## 3 Making Our Neighborhoods

### 3.1 The Housing Market and Neighborhood Change

Galster’s description of neighborhood formation should serve as a standard reference for urban economists. He stipulates that a given neighborhood is characterized by the flows of resources into and out of that neighborhood, where “resources” includes residents, property owners, institutions, and investments. Galster characterizes these flows as being driven by the individual-level decisions of property owners searching for financial returns and households demanding housing and neighborhoods. These flows are the source of neighborhood change, allowing neighborhoods to downgrade or upgrade across a spectrum of segmented housing quality submarkets, where quality is a description of the bundle of buildings, lots, neighborhood amenities, institutions, and residents. A notion of *accordance* is useful here, as Galster notes that households need not evaluate quality in the same way or even agree about its components.

Galster argues forcefully that the driver of neighborhood change is the housing market (p viii), allowing him to make his first fundamental proposition that most forces causing a neighborhood to change originate outside the boundaries of that specific neighborhood (p 81). For example, the housing market equilibrium is determined at the metropolitan level rather than the neighborhood level, so that household sorting across cities can generate large changes in a neighborhood. Similarly, relativistic considerations within cities tend to drive neighborhood location choices, so the neighborhoods in a city collectively impact the trajectories of specific neighborhoods. The location of employment centers, the flow of international immigrants, and even the impact of natural disasters in other neighborhoods are all given as events capable of impacting a specific neighborhood.

Galster’s fundamental proposition – that neighborhood change is driven by the housing market, with most related forces originating outside a given neighborhood – is clearly correct. In my view, this points to the value of insights gained from equilibrium sorting models (Kuminoff et al. (2013), Epple and Sieg (1999)). Important insights can be gained from models focused on housing (Bayer et al. (2016), Epple et al. (2020)), but also from models focused on neighborhood attributes that strongly impact the housing market, like schools (Epple and Romano (2003), Bayer et al. (2007)), racial composition (Bayer et al. (2014), Bayer and McMillan (2005)), and natural amenities (Lee and Lin (2018)).

It is worth re-emphasizing the evidence in favor of Galster’s proposition that neighborhood change is most commonly driven by forces related to the housing market that originate outside a given neighborhood. Here, though, I think it is useful to highlight a few cases in which change has come from within a neighborhood. I highlight these cases not to counter any points made by Galster, but rather because we are at a time when many important initiatives are being led by local initiatives, like Promise Neighborhoods, efforts for evicted tenants to have a right to counsel, and efforts to ensure lead-safe housing. I think it is important to remember that it is possible for residents to join together in a common effort to effectively improve their neighborhood.

One borderline case, in which change is coming from both within and outside of a given neigh-

borhood, is the grassroots movements working to change zoning laws.<sup>2</sup> Recently Minneapolis, Oregon, and California have all passed new zoning laws to allow for the building of multi-family units on what were formerly single-family lots. Likewise, a group of 15 cities in Massachusetts to agree to build more rental housing. These new laws will change neighborhood sorting patterns in important ways (Kulka (2019)).

A clearer case where neighborhood formation was determined by neighborhood residents has to do with the construction of the US Interstate Highway System. While the overall effects of the US Interstate Highway System appears to be positive, operating primarily through a decline in transportation costs, local effects were and are heterogeneous. Freeway construction led to the depopulation of central city neighborhoods (Baum-Snow (2007)), and neighborhoods near highways suffer from noise and pollution (Anderson (2000)). As well, transportation costs across freeways are high (Brinkman and Lin (2019)), which helps to coordinate expectations in the maintenance of neighborhood segregation, much like railroad tracks (Ananat (2011)). In Shaker Heights, Ohio, an inner-ring suburb of Cleveland, community groups led by “garden ladies” successfully fought the construction of highways that would have divided neighborhoods and destroyed parks (Richmond (2017), McGraw (2017)).

Finally, one might consider the remarkable decline in violent crime that has occurred over recent decades in the US. While acknowledging that this decline has many sources, Sharkey (2018) provides evidence that the growth of community organizations that took place in the 1990s was likely a major contributor to the decline in violence.

### 3.2 Belief Formation and Neighborhood Change

Galster then describes how beliefs contribute to the rise and fall of neighborhoods through the individual-level decisions of property owners. Incorporating realistic belief updating into a dynamic equilibrium model of neighborhood formation is hard. We know that there is a tradeoff in the ability to allow for heterogeneous beliefs and the ability to empirically distinguish between equilibrium models (Al-Najjar and Shmaya (2015)). We also know that forward-looking behavior is crucial for generating the types of neighborhood dynamics observed in the data, especially with respect to racial segregation (Aliprantis and Carroll (2018)). These two results together suggest that, at least in the case of equilibrium models with empirical content, it is difficult to move beyond rational expectations beliefs that coincide with the Data Generating Process. This makes it difficult, both theoretically and on the computer, to work on models with more than two neighborhoods without simplifying assumptions that are likely to be biting when applied to the real world.

There is good reason, then, to believe that many aspects of belief formation important for neighborhood formation will need to be studied outside of models with heterogeneous agents that are also fully dynamic and general equilibrium. Thus it would seem appropriate to start the discussion, as Galster does in Chapter 5, by way of a three-stage conceptual model rather than a

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<sup>2</sup>It is clear that restrictive zoning was used as a tool to maintain segregation; see Chapter 6 of Meyer (2000) or Chapter 3 and page 75 of Rothstein (2017).

mathematical model. Galster first describes a model of rational inattention in terms of applying a syntactic filter to data to determine what is noise and what might contain information. If data pass the individual’s syntactic filter, they are then assessed by a semantic filter that assesses the credibility of the information contained in the data. Finally, acquired data that are judged to be credible are used to update beliefs in the final, pragmatic stage.

Galster’s discussion of belief formation in the context of neighborhoods, along with his review of the empirical evidence, is another strength of the book. After the theoretical discussion above, he discusses some insights from behavioral economics that Marsh and Gibb (2011) consider to be particularly relevant for the housing market. These behavioral insights include notions of *status quo bias*, *loss aversion*, *experienced versus prospective utility*, *anchoring*, and *downward trend reversion*. Galster combines these insights with empirical evidence, often from surveys, to form his second and third fundamental propositions. These are 2) information about one’s current neighborhood should have more weight (a) than identical information about another, prospective neighborhood, and (b) if that information is about decline rather than improvements; and 3) people interpret the share and growth of a neighborhood’s Black population as representing a great deal of information about that neighborhood’s future trajectory in terms of characteristics like crime and property values.

The housing market is one example where understanding belief formation is critical for understanding, and therefore being able to predict, choices.<sup>3</sup> One of the most promising directions in the literature is the possibility for empirically testing models of social learning (Chandrasekhar et al. (2019), Golub and Sadler (2016)). It is clear that family and social networks have a major influence over location outcomes (van der Klaauw et al. (2019), Büchel et al. (2019)); understanding how information about the housing market and neighborhoods flows across those networks could greatly improve our understanding of location decisions (Ferreira and Wong (2019), Morales et al. (2019)). Likewise, understanding the ways that beliefs about neighborhoods coordinate through race could help in the design of policies favoring one equilibrium over others. Galster’s theoretical and empirical discussions on the formation of neighborhood expectations are a great resource for researchers interested in contributing to this literature.

### 3.3 Nonlinear and Threshold Effects

In Chapter 6 Galster considers models that can generate nonlinear, threshold relationships in multiple aspects of neighborhood dynamics. After summarizing relevant empirical evidence, Galster summarizes this branch of the literature in his fourth fundamental proposition: Mobility and housing investment decisions, as well as neighborhood externalities, are often triggered nonlinearly. The result is that large changes in decisions or large neighborhood effects are often only realized if neighborhood expectations or conditions pass a critical value. A particularly illustrative example discussed is the finding from Galster et al. (2008) and Meen (2005) that in both the US and England, property values decline in a highly nonlinear way as poverty rates increase.

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<sup>3</sup>Schooling decisions are another example; see Manski (1993), Giustinelli and Manski (2018), and Wiswall and Zafar (2015) for discussions of this literature.

Galster returns to the issue of threshold effects when he discusses policy interventions in Chapter 10. One of the points he makes is that given a fixed budget, policies will be more effective if they strategically target marginal neighborhoods. When threshold effects are present, this means targeting neighborhoods near the threshold. Clearly, our ability to identify thresholds is a critical component of such a policy strategy.

One aspect of threshold effects that I do not believe is widely appreciated, at least because I did not appreciate it myself, is that threshold effects could interact with Universal Basic Income (UBI) in interesting ways. A perennial problem in supporting Black-owned businesses is that if such businesses locate in Black neighborhoods, the density of disposable income will tend to be lower than an otherwise-identical white-owned business. The population density in many majority Black neighborhoods is quite high, and so the density of disposable income could rise rapidly in such neighborhoods under UBI policies. This could have a major impact on the retail environment, and attractiveness to business investment, in many neighborhoods.

A related point that I think could have been highlighted in this chapter would have been the idea of multiplicity, which is that you can have the same people, physical environment, and social institutions in a neighborhood and yet have multiple equilibria (Brock and Durlauf (2001)). This issue matters even thinking in terms of partial equilibrium models of tipping (See the discussion in Chapter 9 of O’Flaherty (2015)).

### 3.4 Race, Initial Conditions, and Current Conditions

As I have stressed from the beginning of this review, I believe that a greater emphasis on race would clarify many if not all of the key issues related to neighborhood formation and neighborhood effects in the US. Here I consider the reunification of North and South Korea to be a useful thought experiment. Imagine that North and South Korea were today to join together to form a single country. What do we think would happen if reunification were simply a matter of the two countries removing their border by taking away the De-Militarized Zone (DMZ)? North Koreans have faced distorted incentives and dysfunctional governance for two or three generations, and yet I think most reasonable observers would consider it implausible to imagine that North Koreans could simply integrate into South Korean society without major initiatives encouraging that integration. The question is: Just how far is this analogy from the American experience since the Civil Rights era?

One could answer this question by considering the six proximate causes of racial segregation that Galster lists in Chapter 7.<sup>4</sup> I would add a cause to Galster’s list that I believe changes our perspective on neighborhoods in the US: Initial conditions created by racism. If we consider “initial conditions” to be American society at the time of the 1968 Fair Housing Act, it would be entirely

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<sup>4</sup>These causes are class segregation; the spatial distribution of employment and job networks (Miller and Schmutte (2021), Miller (2018), Schmutte (2014), Hellerstein et al. (2011), Bayer et al. (2008)); racial preferences over residential locations (Aliprantis et al. (2019), Bayer and McMillan (2005)); housing market discrimination (Christensen and Timmins (2021)); racially discriminatory public policies (Rothstein (2017)); and misinformation (de Souza Briggs et al. (2010)).

reasonable to expect a form of permanent inequality given the magnitude of initial racial segregation and economic inequality. This expectation would be based on results from theoretical work on geographic poverty traps (Durlauf (1994), Durlauf (1996), Bénabou (1993), Bénabou (1996)). Related applied work focused on the context of racial inequality (Aliprantis and Carroll (2018), Badel (2015)) shows that one might expect permanent inequality from these initial conditions even with only the first proximate cause on Galster’s list remaining active – class segregation.

The generation of segregated neighborhoods matters tremendously, then, for the state of American neighborhoods today. In his recent book *The Color of Law*, Richard Rothstein makes a forceful argument that the segregation of neighborhoods was encouraged by the government, so that today’s segregation is best viewed as being *de jure* rather than *de facto*.<sup>5</sup> Rothstein bases his argument on the fact that the government had a critical role in generating segregation, through means such as police encouraging mob violence to deter Black households from leaving the ghetto rather than protecting African Americans’ right to choose where to live; building racially separate public housing in areas that were previously integrated; forcing suburbs and developers to adopt exclusionary zoning laws; guaranteeing loans only if they were discriminatory; state courts enforcing discriminatory covenants by evicting tenants; churches, universities, and hospitals remaining tax-exempt despite engaging in discriminatory practices; school boards drawing attendance boundaries with the aim of segregation; and other practices.

The segregation in Figure 1 looks different when one sees it as *de jure* rather than *de facto*. The active work undertaken to create segregated neighborhoods had enduring effects. This is not to say that private actions would not also have led to segregated cities (Shertzer and Walsh (2019)), or that we are only responsible for improving our society in the case that our government played an important role in coordinating segregation. But seeing the causes and consequences of segregation in the US for what they are gives additional imperative to integrating our society, and also helps to clarify the issues related to neighborhood formation and neighborhood effects in the contemporary US.

## 4 Making Our Selves

### 4.1 Neighborhood Effects

One of the major strengths of Galster’s book is the extensive summary of the literature on neighborhood effects on socioeconomic success found in Chapter 8. Galster starts with a model in which the process for achieving socioeconomic success is cumulative, path-dependent, and mutually-reinforcing over time. Galster then organizes a large number of neighborhood effect mechanisms into a much smaller set of broad mechanisms: social-interactive, environmental, geographic, and institutional. I imagine that Galster’s discussion of mechanisms, situated in such a wide-ranging discussion of the empirical evidence on neighborhood effects, will become a standard reference for researchers studying neighborhood effects. Galster’s survey of the literature includes a discussion

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<sup>5</sup>See also Chapter 9 of Meyer (2000).

of the empirical evidence that is specific to each mechanism, and concludes by summarizing the evidence on overall neighborhood effects after discussing the methodological obstacles that interpreting any of the empirical evidence must take into account.

Balancing the weight of the evidence on neighborhood effects against the ambiguity created by geographic selection bias is still *the* basic task for a reader of the literature on neighborhood effects. Galster’s review of the literature tends to focus on the weight of the evidence showing the importance of neighborhood effects. This view is summarized in his fifth major proposition, which is that neighborhoods strongly affect individuals through a variety of causal pathways (p 208). Galster acknowledges the ambiguity generated by geographic selection bias as a critical caveat to this fifth proposition, noting that neighborhood effects appear to be highly contingent and that our ability to identify them is imperfect. Before surveying the empirical evidence, Galster notes that “Obtaining unbiased, meaningful estimates of the independent, causal effect of an individual’s neighborhood context is a notoriously challenging enterprise. . . . [Due to] geographic selection bias [, . . .] Skeptics may rightly argue that unmeasured individual attributes drive the observed relationship, not the independent causal impact of the neighborhood in which the individual resides.” (p 197) This jibes well with a summary of the state of the literature Bryan Graham’s recent literature review on the same topic, which concluded: “Perhaps disappointingly, there remains substantial scope to conduct studies whose primary aim is simply to test for the presence, and measure the magnitude of, neighborhood effects. There is not yet even a loose disciplinary consensus on the rough importance of neighborhoods on life outcomes. We are even further away from answering the deep question motivating many neighborhood-effects researchers: what are the social costs and benefits of residential segregation” (p 490).

Galster considers three main approaches to empirically characterizing neighborhood effects, listing these approaches as econometric models using observational data; quasi-random assignment natural experiments; and random assignment experiments, often referred to as Randomized Controlled Trials (RCTs). While these are clearly the conventional approaches to quantitative study of neighborhood effects, I would add two important types of analyses to Galster’s list.

First would be qualitative analyses like those in Anderson (2000), Darrah and DeLuca (2014), Galster and Hesser (1982), and Galster and Hesser (1988) that have shaped many researchers’ thinking on causal effects in important ways. It is ironic that we have such difficulty using group-level averages to create credible counterfactuals for individual-level outcomes (Holland (1986)) when our personal experiences often allow us to create individual-level counterfactuals with ease. I can reflect on my own proclivity to go outside for a jog depending on whether it is summer or winter in Cleveland. Or how my young daughter would not have begun speaking French to me had we remained in Cleveland rather than taken a sabbatical in France. This outcome is such a clear neighborhood effect: It really did not matter what we did inside our home as long as she was getting French all day outside our home. While beliefs about counterfactuals need not be accurate, beliefs drive decisions, and there would seem to be potential for us to learn from a mix of qualitative and quantitative surveys that is currently under-exploited (McKenzie (2018), Giustinelli and Shapiro

(2019)).

In terms of the quantitative analysis of neighborhood effects, I think it is also important to consider models beyond those mapping into the Rubin Causal Model (RCM), such as models that include dynamics, general equilibrium, or both. Some examples from the literature include the types of models in Brock and Durlauf (2020), Aliprantis and Carroll (2018), Badel (2015), Fogli and Guerrieri (2019), and Hwang (2019). My own view is that thinking about neighborhood effects through econometric models mapping to the RCM alone highlights the limitations of prioritizing RCTs as the only standard of evidence.

RCTs allow us to identify causal effects from the RCM with credibility, and thus they are rightly prioritized in those cases in which causal effects from the RCM answer our questions. But causal effects are parameters in models. If a model requires ruling out the phenomenon of interest in order to achieve identification of its parameters, of what use is the identified parameter? This is precisely the question raised in Sobel (2006). Identification of causal effects in the RCM typically invokes an assumption of no interference, or the Stable Unit Treatment Value Assumption (SUTVA). Sobel (2006) illustrates how important this restriction can be in the context of identifying neighborhood effects with data from a housing mobility experiment. Sobel shows that in the presence of interference, the parameters in the RCM need not be invariant even to the realization of randomized treatments.

While results on identification when relaxing the SUTVA assumption tend to be negative (Manski (2013)), there are new approaches to identification (Lazzati (2015), Huber and Steinmayr (2020), Papadogeorgou et al. (2019)), including via the use of networks (De Paula (2017), Kline and Tamer (2018)). It is worth pointing out, however, that the literature has focused on relaxing SUTVA b in Angrist et al. (1996), while maintaining SUTVA a. Part a of SUTVA deals with selection into treatment, making the model asymmetric with respect to peer effects: peers can affect the outcome variable, but not the treatment variable. In the context of a housing mobility program this is clearly a very strong assumption, yet to my knowledge no progress has been made towards identifying causal effects while relaxing SUTVA a.

Staying within the confines of effects in econometric models linked to the RCM, Galster's discussion of the evidence as summarized in Table 8.1 represents an important reference point for anyone interested in surveying the literature. Here again, though, I would argue that an explicit discussion of race and segregation would help to clarify our view of neighborhood effects.

Consider the interpretation of Gautreaux and MTO, two of the most prominent housing mobility programs used to study neighborhood effects. My own view is that MTO helped participants move near the Berlin Wall or the Korean DMZ, but not actually across it, whereas Gautreaux was actually successful in getting participants over the line. One way of seeing this point would be to consider the fact that MTO tended to move residents from Black neighborhoods to lower poverty Black neighborhoods (Sampson (2008), Clampet-Lundquist and Massey (2008)), which matters because low-poverty Black neighborhoods in MTO cities were lower quality than high-poverty white neighborhoods in many dimensions (Aliprantis (2019)). Another way of seeing this perspective

would be to convert the raw poverty rates discussed in Fryer Jr and Katz (2013) to percentiles - especially percentiles for white Americans. And a final way of seeing MTO and Gautreaux from this perspective would be to compare the changes in school quality experienced by kids in Gautreaux (Rosenbaum (1995)), which was explicitly designed around race (Polikoff (2006)), with the changes experienced in MTO (Sanbonmatsu et al. (2006)), which was race-neutral.

It is not that Galster’s discussion of MTO or the rest of the literature in Table 8.1 is missing anything. The discussion of MTO on pages 200 and 201 is perfectly nuanced and thoughtful, as is the discussion of the rest of the literature on neighborhood effects in the contemporary US. But looking at the subject with racial segregation in the front of one’s mind seems to make the picture much clearer – at least for me. Given the current discussion of racial representation in the profession of economics (Coy (2020), Casselman et al. (2020), Nelson (2019)), it would seem that the literature studying neighborhood effects would be a primary example where the profession could reap benefits from having a diverse set of experiences and perspectives.

My only disappointment with Galster’s review of the evidence on neighborhood effects is that it was not more tightly connected to his earlier discussion of defining neighborhood effects. The discussion of the evidence is encyclopedic and should serve as a standard references for social scientists over the next decade. But I believe it would have added insight to the discussion, and it would have been instructive for researchers, for Galster to have interpreted the literature more in terms of the notions of *congruence*, *generality*, and *accordance* developed earlier in the book.

## 5 Policy Prescriptions

Galster establishes a goal of “circumscribed, neighborhood-supportive” policies that: 1) improve conditions in low-quality neighborhoods; 2) increase economic and racial integration; and 3) reduce residential mobility resulting from inefficient neighborhood transitions across race or class. Galster argues that “programmatically means are most likely to be efficient and equitable if they employ *voluntary, gradualist, option-enhancing* strategies” (p 264). The subjects of policy prescriptions and their approach to implementation are the main subjects that will need updating since the publication of Galster’s book.

Since the publication of *Making Our Neighborhoods*, the COVID-19 pandemic has changed the economics of neighborhood formation in fundamental ways. Since the arrival of the COVID-19 pandemic, work-from-home technology has proliferated. The consequences for migration patterns has already been felt (Whitaker (2021)), and the change in associated tradeoffs will likely reshape our neighborhoods, cities, and regions in ways that alter the productivity of our economy (Davis et al. (2021), Hsieh and Moretti (2019)). Which neighborhood amenities and industries will be most and least adaptive to these changes? How will housing supply policies change in response to changes in demand? Will conditions decline in lower-SES urban neighborhoods if neighboring, higher-SES neighborhoods lose population and themselves decline?

Race is another way in which the ground has shaken underneath our feet since the publication

of *Making Our Neighborhoods*. On the one hand, the set of *voluntary* strategies would seem to have grown since the publication of his book. Since the murder of George Floyd in May 2020 put race at the forefront of the national conversation, the nation seems to have taken steps in the direction advocated by both Richard Rothstein in *The Color of Law* and Ta-Nehisi Coates in *The Case for Reparations*. Both authors emphasize that they are less interested in any specific policy than the possibilities that would be created if we were to accept our past. Rothstein finishes his book as follows: “Undoing the effects of *de jure* segregation will be incomparably difficult. To make a start, we will first have to contemplate what we have collectively done and, on behalf of our government, accept responsibility” (p 217). Coates writes that when he uses the word *reparations*, he means “the full acceptance of our collective biography and its consequences. . . . What I’m talking about is more than recompense for past injustices—more than a handout, a payoff, hush money, or a reluctant bribe. What I’m talking about is a national reckoning that would lead to spiritual renewal.”

An obstacle to this kind national growth is the fact that residential segregation itself remains a major obstacle to awareness of its consequences. This is one way to see the perspective that “racism and segregation are really just two sides of the same coin” (Bayer (2019)). Residential segregation means that Black and white Americans live in separate worlds, or that we tend not to interact across race (Pew Research Center (2019)). The continued lack of interaction allows communications between Black and white Americans to be “garbled by stereotypes and the possibility of animosity” (O’Flaherty (1999)). The lack of interaction and clear communication makes it possible for white Americans of good will to learn very little about the experiences of Black Americans. Given the strength of political polarization in the US (Pew Research Center (2014)), perhaps the most effective policies for supporting racially-diverse neighborhoods would be first steps, like having students take part in blue-eye/brown-eye exercises and expanding the public spaces that allow for positive interactions across races (Anderson (2012)).

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