

## Executive summary

- Where you grow up in Australia affects your income later in life — not just because of what it says about who you are, but because of what it does to you.
- Where you grow up matters most in the teenage years.
  - Moving to a new area a year earlier in your teens closes around 4% of the gap between your expected outcomes in the destination versus the origin.
- Where you grow up matters partly because it is often where you end up working — a booming, busting or run-of-the-mill region.
- But place may also matter, particularly in your teens, because of who you grow up with — both your childhood peers and your adult role models.
  - Your peers’ parents have an influence around a fourth the size of your own parents on your income rank at age 24.

### Where you grow up matters...

It’s long been known that kids growing up in some areas tend to do better than those growing up in others. A crucial question for policy is why. Do places with better outcomes just have more able and motivated families? Or is it better schools or jobs allowing kids to flourish?

Past research has delivered mixed results. Kids growing up in the same neighbourhood have been found to have similar social and economic outcomes (Sharkey and Faber (2014)). But early experimental studies typically found little evidence this was driven by the neighbourhoods themselves — it could be that families with similar skills and aspirations sort into neighbourhoods, and this drives the similarities between their children later in life.

Recent work has revisited this question in the United States and found good evidence that neighbourhoods do matter (Chetty and Hendren (2017); Chetty et al. (2016)). This paper uses similar de-identified Australian Tax Office data and comes to the same conclusion. But it also provides new insights as to *when* places matter and *why*.

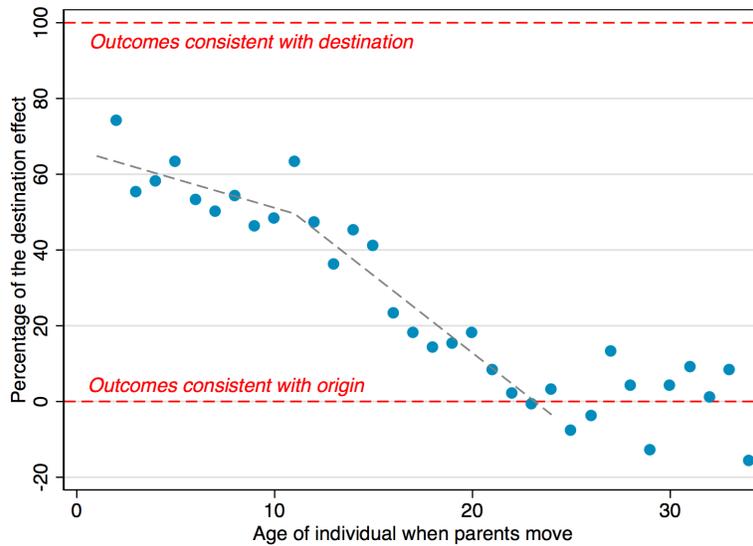
### ...and it matters mostly in the teenage years.

Following the innovative approach of Chetty and Hendren (2017), I look at children who move neighbourhoods and see whether their outcomes, as measured by their rank in the income distribution at age 24, mirror the children they left behind or the children they joined. Intuitively, the earlier a child moves, the more they should end up looking like those they join, relative to those they left behind.

The main results are in Figure 1. Moving earlier makes a difference, and moving at birth would close around 70% of the gap between destination and origin. This suggests most of the differences between places are due to the effect they have on the children, rather than being driven by the families themselves.

Figure 1 also suggests that place is most influential in the teenage years. Each year in a destination in your teens moves your expected outcomes around 4% closer to those in your destination (relative to your origin). The costs of moving — such as changing schools — are highest in the these years as well.

Figure 1: How much of the effect of your destination you get, based on when you move



Notes: Shows where the outcomes of those who move lie relative to the permanent residents of their origin and destination, after accounting for the costs of moving. For example, those aged in their 20s when their parents move to a new location have little to gain or lose, while those aged 2 pick up around 70% of the difference between their origin and destination, for better or worse.

## Why might place matter? Jobs and peers.

Why does it matter where you grew up? Answering this is central to thinking about if and how policy may help level the playing field.

First, where you grow up matters because it is often where you end up working, which could be a booming or busting region. Up to half the effect of place could be explained by the local labour market you end up working in. Delivering widespread economic growth, and removing barriers to people to moving to opportunity are thus potentially important.

Second, where you grow up matters because it influences who you grow up with. If the other kids born in your postcode and year happen to come from richer families, you tend to do better. More specifically, if your peers' average parent income percentile rank is 10 points

higher, you tend to end up 0.2-0.3 points higher yourself by age 24. This is around a fourth of the influence of your parents at that age. Why might your peers' parents matter? Perhaps they simply reflect the aspirations, abilities and behaviours you're likely to find in your peers. But they may also serve as role models, mentors or job contacts themselves. Segregation of neighbourhoods and schools may well suppress opportunities in subsequent generations as well.

## References

- Chetty, R. and Hendren, N. (2017). The impacts of neighborhoods on intergenerational mobility I: Childhood exposure effects.
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- Sharkey, P. and Faber, J. W. (2014). Where, when, why, and for whom do residential contexts matter? Moving away from the dichotomous understanding of neighborhood effects, *Annual Review of Sociology* **40**: 559–579.