In this edition of “Highlights,” HCEO’s biannual publication, we look ahead to our full fall and winter programming schedule. “Highlights,” which is also available for download on our website, aims to share the important research of our 500 members with a wider audience.

HCEO recently completed three rigorous Summer Schools on Socioeconomic Inequality - in Chicago, Guangzhou, and our first-ever in Moscow. Enclosed you will find an overview of our Chicago session.

In the coming months, we look forward to Inequality: Measurement, Interpretation & Policy, Markets, and Health Inequality workshops, all taking place in Chicago. HCEO will be represented at the Festival for New Economic Thinking in Scotland, a conference organized by our funder, INET.

As always, we thank you for your interest in HCEO’s mission to connect cross-disciplinary experts in the study of inequality. This issue provides just a snapshot of the work of our members, so be sure to check our website and follow us on social media to stay up to date.

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First Time Reader? Flip to page 22 to learn about who we are and what we do.
Black children growing up in the U.S. are exposed to violence in their communities at a much higher rate than their white peers. Studies have shown that children of color are twice as likely as white children to be assaulted with a weapon, and black children in particular are three times more likely to be exposed to gun violence and twenty times more likely to witness a murder. In a recent HCEO working paper, MIP network member Mario Small and his co-author Anjanette Chan Tack explore how the exposure to such violence effects childhood friendship formation.

Small and Chan Tack note that much of the literature on childhood friendship formation studies those growing up in more stable environments. Most studies on neighborhood violence focus primarily on gang involvement, or the prevalence of antisocial behavior among violence-exposed youth. Yet, as a paper by David Pyrooz and Gary Sweeten estimates, nationwide only 2 percent of youth belong to gangs. In “Making Friends in Violent Neighborhoods: Strategies among Elementary School Children,” Small and Chan Tack seek to bridge the gaps in these areas of research.

For the paper, the researchers interviewed 72 parents, teachers, and students from two Chicago elementary schools located in violent neighborhoods. The names of the schools, Brown and Goodwin, as well as those of the interviewees, have been changed for confidentiality. Students at both schools were primarily African American and from low-income households. Chicago was something of an ideal city for this research, as a recent uptick in school closures and high residential mobility means that many children in the district recently changed schools. In the period of this study, 7 percent of Chicago Public Schools students transferred. Brown had a relatively high in-year mobility rate, at 17.4 percent, while Goodwin had a rate of 5.3 percent. Despite these differences the friendship process was basically the same.

“It turns out there was no difference,” Small says. “The reason was the violence was so overwhelmingly a part of their lives, that every aspect of their relations to others – their socialization, their friendships, their best friends, all of it – was one or another way implicated in their attempt to manage violence.”

Interestingly, the original intent of the project was not to study violence. Instead it began as “an investigation of the relationship between school mobility and how students form network ties.” In the interviews, the children were asked to describe their school and neighborhood. They “repeatedly and without prompting turned to the topic of violence.” Small says the “extent to which their lives were so dominated by violence that they couldn’t think of friendship outside of it” was a complete surprise.
“Children perceived violence to be pervasive and unpredictable in both settings, and shifting from one to the other did not especially change feelings of safety,” the paper notes.

Their responses led Small and Chan Tack to wonder: “How do such environments affect the way that children think about friendship?” They found that children responded to the threat of violence by forming friendships strategically. The authors identified five strategies that students adopted: protection-seeking, avoidance, testing, cultivating questioners, and kin-reliance. The findings indicate that “one consequence of violence is the very heterogeneity of strategies deployed.”

More than half of the children interviewed reported using two or more strategies when choosing friends. “Children are forced to be maximally strategic, and therefore highly adaptable, in their decision-making, since no strategy was fool-proof and the threats of the context itself were dynamic,” the authors write.

Small says one finding was particularly disheartening: the extent to which the elementary school girls “were actively and openly concerned about sexual assault.” Around the time of the study, two children reported being sexually assaulted near one of the neighborhood schools. The kids referred to such assailants as “raper men.” For added context, during the study period, the neighborhood around Brown had 200 reported sexual assaults and Goodwin had 50.

“Imagine your 11-year-old comes to you and says they’re scared about making sure they have the right friends because they need protection from rapists,” Small posits.

The paper notes more than once how strategic these children are forced to be in their everyday decision-making. Such high-stress environments can take their toll on later-life outcomes. Indeed, Small and Chan Tack write that the strategies these youth employ are “likely to have long-term consequences for trust, pro-social behavior, and interpersonal relations.”

“It’s not that hard to imagine why,” Small says.

The importance of understanding childhood friendship formation in such environments is crucial. Psychology literature has repeatedly shown that “failure to form successful, enriching friendships during childhood can lead to maladjustment, low educational attainment, and criminal behavior in adulthood.” The authors acknowledge that violent crime has fallen to historic lows in many places, yet in several cities, including Chicago, rates have risen in recent years. Chicago had 750 murders in 2016, the year the study was published.

Small believes more work is needed to gain a better understanding of the effects of exposure to violence. Such research could also help inform public policy, which tends to focus on reducing violence. “The exposure is just as important as reduction,” Small says. “I think we neglect the extent to which witnessing is itself a problem, because it’s happening at a time where kids are not just making friends but they’re learning how to make friends.”

Small hopes the paper helps further conversations around childhood exposure to violence and adult outcomes. “Some of the narratives have become so normalized,” he says. “Violence is something that’s easy to become desensitized to.

“The truth is, you know, these are children,” he continues. “These kids are forced to, not just grow up fast, but grow up in ways that many of us would consider unhealthy for just about anyone.”

For more Research Spotlights, visit: hceconomics.uchicago.edu/research
HCEO’s working paper series publishes research on the most pressing issues within human capital development and inequality, featuring contributions from members of all six networks. In order to further our agenda of disseminating research and fostering discussion, our papers are available for free download via the HCEO website and RePEc. To date, we have published over 225 papers, which have been downloaded over 13,000 times.

2015-014 How Risky Is College Investment?
Lutz Hendricks and Oksana Leukhina

This paper is motivated by the fact that nearly half of U.S. college students drop out without earning a bachelor’s degree. Its objective is to quantify how much uncertainty college entrants face about their graduation outcomes. To do so, we develop a quantitative model of college choice. The innovation is to model in detail how students progress towards a college degree. The model is calibrated using transcript and financial data. We find that more than half of college entrants can predict whether they will graduate with at least 80% probability. As a result, stylized policies that insure students against the financial risks associated with uncertain graduation have little value for the majority of college entrants.

2017-047 The Merit Primacy Effect
Alexander Cappelen, Karl Ove Moene, Siv-Elisabeth Skjelbred, and Bertil Tungodden

Do people give primacy to merit when luck partly determines earnings? This paper reports from a novel experiment where third-party spectators have to decide whether to redistribute from a high-earner to a low-earner in cases where earnings are determined by luck and merit. Our main finding is that the spectators assign strong primacy to merit in such situations, and as a result violate basic fairness conditions. We believe that the results shed new light on inequality acceptance in society, in particular by showing how just a little bit of merit can make people significantly more inequality accepting.

2017-054 The First 2,000 Days and Child Skills: Evidence from a Randomized Experiment of Home Visiting
Orla Doyle

Using a randomized experiment, this study investigates the impact of sustained investment in parenting, from pregnancy until age five, in the context of extensive welfare provision. Providing the Preparing for Life program, incorporating home visiting, group parenting, and baby massage, to disadvantaged Irish families raises children’s cognitive and socio-emotional/behavioral scores by two-thirds and one-quarter of a standard deviation respectively by school entry. There are few differential effects by gender and stronger gains for firstborns. The results also suggest that socioeconomic gaps in children’s skills are narrowed. Analyses account for small sample size, differential attrition, multiple testing, contamination, and performance bias.
New Working Papers

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<td>The Better is the Enemy of the Good</td>
<td>Christine L. Exley, Judd Kessler</td>
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<td>2017 067</td>
<td>Equilibrium Provider Networks: Bargaining and Exclusion in Health Care Markets</td>
<td>Kate Ho, Robin Lee</td>
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<td>Credit Growth and the Financial Crisis: A New Narrative</td>
<td>Stefania Albanesi, Giacomo DeGiorgi, Jaromir Nosal</td>
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<td>2017 063</td>
<td>Gender Stereotypes in the Classroom and Effects on Achievement</td>
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<td>Top Earners: Cross-Country Facts</td>
<td>Alejandro Badel, Moira Daly, Mark Huggett, Martin Nybom</td>
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3 QUESTIONS

With Rebecca Myerson

Rebecca Myerson is an Assistant Professor at the University of Southern California School of Pharmacy in the Department of Pharmaceutical and Health Economics. She is a member of our Health Inequality network and an alumnus of our Summer School on Socioeconomic Inequality. Her research interests include policy evaluation, health economics, and health services research. In particular, her work focuses on how interventions and policy changes affect incidence, diagnosis, and treatment of non-communicable disease.

Please describe your area of study and how it relates to current policy discussions surrounding inequality.

My area of study focuses on a couple different aspects of inequality. The first is really thinking about the costs and the consequences of government policies that try to mitigate or deal with inequality, and thinking about how the government should think about the costs and benefits of those policies. The second aspect of my work does a deeper dive looking at the role of place, and thinking about the impact of where you grew up on generating inequality and, in particular, intergenerational inequality.
What areas in the study of inequality are most in need of new research?

I think there are so many different areas. We think the baseline models that existed for 30–40 years in economics and we lived in this representative agent world and that was very nice. There were theoretical motivations for doing that. But as we’ve kind of opened up that box and realized, there’s now a lot of different people with different skills, backgrounds, endowments, and that leads to tremendous differences in the effectiveness, the desirability, and the goals of different social policies. So I think the study of inequality should become so important because we went down a road of not putting it into our thinking enough in economics. So I think what areas then become most important for future work, I mean, there’s so many, right? We just started to uncover the role of places in inequality and mobility. I think we still are working through thinking about the fundamental constraints of what generates inequality. To what extent is it differences in skills, differences in the impact of things like trade policies, immigration, and these things that are ripe on the national news at night, are things that we have some evidence on but are still, there’s so much more to do to really understand the causes and consequences of inequality. So I would say, it’s hard to say there’s one area. I mean, if you’re interested in immigration, go study it. If you’re interested in trade policy, go study it. If you’re interested in the costs of redistribution, go study it. If you’re interested in market imperfections and how that generates maybe some more inequality, go study it. The areas have become so ripe I wouldn’t pin everything down on, “Oh, you have to go study this area.” Get excited about something and go study it.

What advice do you have for emerging scholars in your field?

The number one piece of advice I would give is find a topic that you’re interested in. There are a lot of topics out there, there are many topics that you could hear that other people are interested in. But at the end of the day, the best work, I think, is a topic that maybe somebody else, or maybe the majority of the field, wasn’t really focused on, but you’re passionate about it. And start to understand why you’re passionate about it and then go convince other people that it’s important and learn why. That kind of attitude towards research is something that I think will help with the general motivation that you need to have to execute on a project, of getting up every morning for a year working on a project that you hope will see the light of a day. And if you’re not the one that’s excited about it, that’s the end of that project. For me, I like to think of topics that show up maybe when I’m reading a book or watching TV, something that I’m just curious about and let that curiosity drive your interest. That would be my best advice.

For more 3 Questions, visit:  
hceconomics.uchicago.edu/research
FEATURED CONFERENCE
Summer School on Socioeconomic Inequality Chicago 2017

HCEO’s Summer School for Socioeconomic Inequality (SSSI), held August 7–11 at the University of Chicago, aimed to examine different sources of inequality from a broad range of perspectives. Lectures covered concepts and approaches from economics, sociology, psychology, and criminology, and were complemented by discussions involving the attendees from the different disciplines.

A few lectures explored the connection between markets, networks, and inequality using theoretical frameworks. Scott Kominers, an SSSI co-organizer and MIP Network Leader, gave an overview of market design. Using many examples from both the current literature and real world markets he explained that the focus is not only on improving the efficiency of existing markets. It is also important to change information structures that favor a subset of the participants, thereby increasing access to markets for more agents and creating new markets where there are barriers to their natural formation. Market design is a powerful tool that can be used to both raise societal welfare and redistribute among market participants to achieve desired equality goals.

MIP Network Member Larry Blume’s lecture on social networks gave further insight into the analysis of interactions of different agents. He began by introducing the foundations for modeling networks and defined the most common measures and properties. Then he turned to applications in various markets and phenomena, such as the labor market, peer effects, social norms, and social learning, and illustrated how in each case the model can be used to study the evolution of inequality in a group of agents whose payoff depend on the actions of one another.

HCEO Co-director Steven Durlauf complemented this discussion by explaining more generally how to think about inequality as arising from segregation between different groups in society from a theory, empirical, and public policy perspective. He illustrated how complementarity can be a powerful mechanism that drives social forces and leads to an equity/efficiency trade-off in the assortative matching case. He further raised identification issues and examined which results can be obtained under different assumptions, especially given the possibility of multiple equilibria. Lastly, he presented research that studies the relationship between cross-sectional inequality and the associated level of intergenerational mobility, employing both theoretical and empirical analysis.

ECI and FI Network Leader Flavio Cunha illustrated the importance of cognitive and non-cognitive skills as determinants for life outcomes and the extent to which they differ in children from different socioeconomic backgrounds. There is ample evidence that parents’ interaction with children greatly impacts the child’s development from an early age, whereby the length as well as the mode of the interaction matters. Cunha further demonstrated that the inequality in skill investment has been increasing over time, using a variety of measures for monetary and time investment. Lastly, he pointed out there might exist complementarities across different kinds of skills and that we have to better understand the formation process in order to design policy that can help to help disadvantaged children.

MIP Network member Manasi Deshpande explained the role of social programs in reducing inequality. She highlighted the problem of bad incentives, such as moral hazard and lower work effort, due to better social insurance. As a possible solution she suggested working towards more precise targeting, as this
enables the government to distinguish between the truly disadvantaged and mimicking groups. She also suggested offering admission into the programs conditional on desired behaviors. Using her paper on Supplemental Security Income, she illustrated how to measure the impact of the social policy on individual life outcomes using regression discontinuity design and discussed various problems that might arise in the estimation process.

Examining the evaluation of social programs in a broader sense, MIP Network Member Jeffrey Smith emphasized that ignoring selection into treatment and heterogeneous treatment effects could produce misleading results. He pointed to evidence against common treatment effects and suggested that reporting quantile treatment effects instead would be more informative. Another possibility, provided there are many variables in the data, is to control for covariates or to use propensity-score matching to address selection.

SSSI co-organizer and MIP Network Member Chris Taber followed up on the discussion by illustrating how one can use structural models such as the Roy model to explicitly model selection. Furthermore, by employing structural models that model the entire decision environment and uncover deep preference parameters, researchers can better understand the mechanisms of decision-making and can evaluate hypothetical policies by simulation.

However, it often becomes necessary to make restrictive assumptions and the estimation is computationally burdensome compared to design-based approaches. Taber therefore concluded that the two different forms of empirical analysis should be complements rather than substitutes.

MIP Network Member Nathaniel Hendren presented three of his projects that study the effect of neighborhoods on intergenerational opportunity. The first focuses on separating the sorting effect from the causal effect by examining the outcomes of children from families who moved to new neighborhoods. The second and third projects examine the effects of policies that change the neighborhood of a given group. Hendren finds that both improving the amenities in a given neighborhood and moving people to better neighborhoods have significant positive effects.

Continuing with the notion that neighborhoods matter, MIP Network Member Mario Small explored the characteristics of poor neighborhoods. He urged researchers to be careful when trying to identify such neighborhoods, as there might be significant heterogeneity among them. He illustrated that misperceptions may form due to giving too much attention to individual ethnographies without considering whether the same story also applies to other contexts. Additionally, he listed caveats that may apply when looking at common measures of poverty, such as distance to amenities without taking into account the availability of transportation.

MIP Network Member Daniel Nagin used economic models to examine a range of interesting questions centered around crime deterrence. He pointed out that both the probability and the severity of punishment are relevant for crime deterrence, and provided evidence that the former was of greater importance. He illustrated that the performance of law enforcement should also be measured by crime prevented and not only by apprehension of perpetrators, as this might create perverse incentives. He further asserted there is a trade-off between more efficient crime prevention and maintaining community trust in the police, since the former may rely on proactive confrontational tactics that come at the cost of the innocent population.

Learn more about this event, watch videos of lectures, and download slides at: bit.ly/2vZrAlI
Workshop on Social Interactions and Crime
October 20–21, 2017
Chicago, IL

HCEO Co-director Steven Durlauf and MIP network member Daniel Nagin will bring together a cohort of interdisciplinary scholars to discuss the causes and consequences of crime and inequality. The two-day conference will be held at the University of Chicago.

Understanding Human Capital Formation and its Determinants
November 3, 2017
Chicago, IL

Markets network leaders Aloisio Araujo, Dean Corbae, Mariacristina De Nardi, and Lance Lochner will host a one-day conference on human capital formation at the University of Chicago.

The Gut Microbiome in Human Biology and Health
November 9–10, 2017
Chicago, IL

Health Inequality network leader Chris Kuzawa and co-organizer Katie Amato will host a workshop that will survey the rich body of literature describing the gut microbiota and its interactions with human environments in an effort to explore its potential integration into health disparities research.

Summer School on Socioeconomic Inequality, Bonn
July 9–12, 2018
Bonn, Germany

The 2018 Human Capital and Economic Opportunity Global Working Group and briq Summer School on Socioeconomic Inequality will provide a state-of-the-art overview on the study of inequality and human flourishing. Participants will learn about the integration between psychological and sociological insights into the foundations of human behavior and conventional economic models.

Stay up to date at: hceconomics.uchicago.edu/events
## RECENT EVENTS

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72 Events in 11 Countries
MIP Network leader Richard V. Reeves spoke to HCEO about his work studying issues of intergenerational mobility and inequality. His new book, *Dream Hoarders*, examines one particular aspect of this topic: the lack of mobility at the top of the income distribution, broadly the top 20 percent. “I argue that the U.S. has a ruthlessly efficient class reproduction machine, which actually results in less mobility, especially at the top,” Reeves says. The book contrasts social mobility in the U.S., where Reeves now lives, with his native country, the U.K.

“There’s a sense of classlessness, the myth of meritocracy, in the U.S.,” Reeves says. “It makes it a harder conversation to have here in some ways.”

Reeves’ research looks at relative mobility rather absolute mobility. “Relative mobility is necessarily a zero-sum game,” he says. “That’s my sense of a fair society – quite a fluid one, an open one.” The distinction is much debated, and results in vastly different policy implications.

“I’ve always been interested in this issue of intergenerational, relative mobility,” Reeves says. “I’ve always had this sense that fairness lies not in the gaps between rich and poor, but in the opportunities there are to swap places, and the extent to which birth is destiny.”

He believes the labor market, for the most part, acts meritocratically. “The inequality is in the preparation for the market competition,” Reeves says. “It’s really in the gaps we see in human capital formation and accumulation in the first quarter century of life.”

Reeves is a senior fellow at the Brookings Institution, where he co-directs the Center on Children and Families.
ABOUT HCEO

Founded in 2010, the Human Capital and Economic Opportunity Global Working Group (HCEO) is a collaboration of over 500 researchers, educators, and policy makers focused on human capital development and its impact on opportunity inequality. HCEO’s unique approach enables collaboration among scholars with varying disciplines, approaches, perspectives, and fields, and integrates biological, sociological, and psychological perspectives into traditionally economic questions. The result is innovative thinking and approaches to inequality and human capital development research.

HCEO is led by Nobel laureate James J. Heckman, the Henry Schultz Distinguished Service Professor of Economics at the University of Chicago; Steven N. Durlauf, Professor at the University of Chicago Harris School of Public Policy; and Robert H. Dugger, the co-founder of ReadyNation and Hanover Provident Capital.

HCEO focuses its efforts through six research networks that study the most pressing issues within human capital development and inequality: Early Childhood Interventions; Family Inequality; Health Inequality; Identity and Personality; Inequality: Measurement, Interpretation and Policy; and Markets. These networks produce one-of-a-kind conferences, research programs, and publications that highlight findings from the best science and the application of best practices. Through its networks and their resulting research, HCEO plays a vital role in understanding and addressing opportunity inequality around the world.

Impact

- Multidisciplinary networks result in new approaches to research and its application
- Relationships with governments and policy makers put best practices into action
- We have influenced numerous research studies and governmental policies
- Findings are being applied in one of the largest populations in the world—China

We Play a Vital Role

- Income and opportunity inequality is a global and growing problem
- Governments, private think tanks, and others each look at only a portion of the total problem in hopes of finding a lasting solution
- Only HCEO integrates biological, sociological, and psychological perspectives into traditionally economic questions addressed by multidisciplinary teams of experts
- Our research approach treats social science research as an empirical endeavor, resulting in rigorously tested public policy directions and solutions
- Our research provides insights and directions on how to best foster human flourishing and improve economic productivity

Learn more at: hceconomics.uchicago.edu/about
HCEO is run by the Center for the Economics of Human Development, and funded by the Institute for New Economic Thinking.

HCEO
The University of Chicago
1126 East 59th Street
Chicago IL 60637
USA

P: 773.834.1574
F: 773.926.0928
E: hceo@uchicago.edu

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