

Homeownership, Polarization, and Inequality*

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Abstract

The rise of income inequality and job polarization have been more pronounced in large U.S. cities. I offer a new explanation: when price-rent and price-wage ratios grow faster in large cities, middle-income households increasingly cannot afford to own a house there. They move to smaller cities and the middle of the income distribution in large cities hollows out, making them more polarized and unequal. I document that (1) commuting zones with higher price growth experienced larger polarization and increase in inequality since 1980 and (2) middle-income households migrate more often to cheaper states for housing-related reasons than low- or high-income households. Using a quantitative spatial equilibrium model with tenure choice and skill heterogeneity, I find that disproportionate growth of prices relative to incomes and rents in large cities accounts for about one-half of the gap in inequality growth and polarization between large and small cities.

Key Words: homeownership, job polarization, income inequality, house prices, spatial equilibrium

JEL Classification: J24, J31, R21, R23, R31

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