

Racial Disparities

Economics of Public and Social Issues

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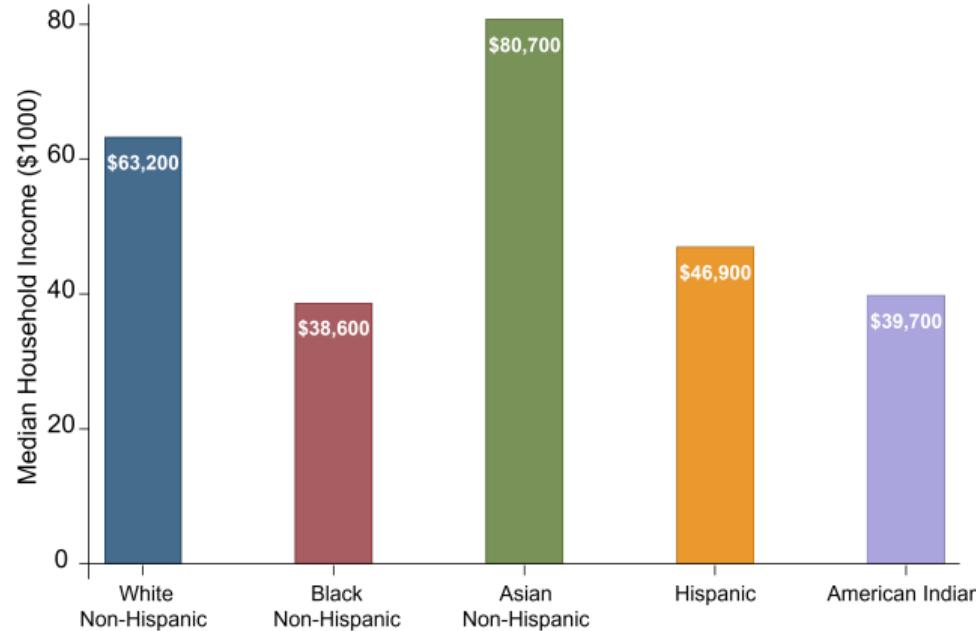
9/13/23

Plan for today

- #### ► Intergenerational Perspective of Racial Disparities

An Intergenerational Perspective on Racial Disparities

Median Household Income by Race and Ethnicity in 2016



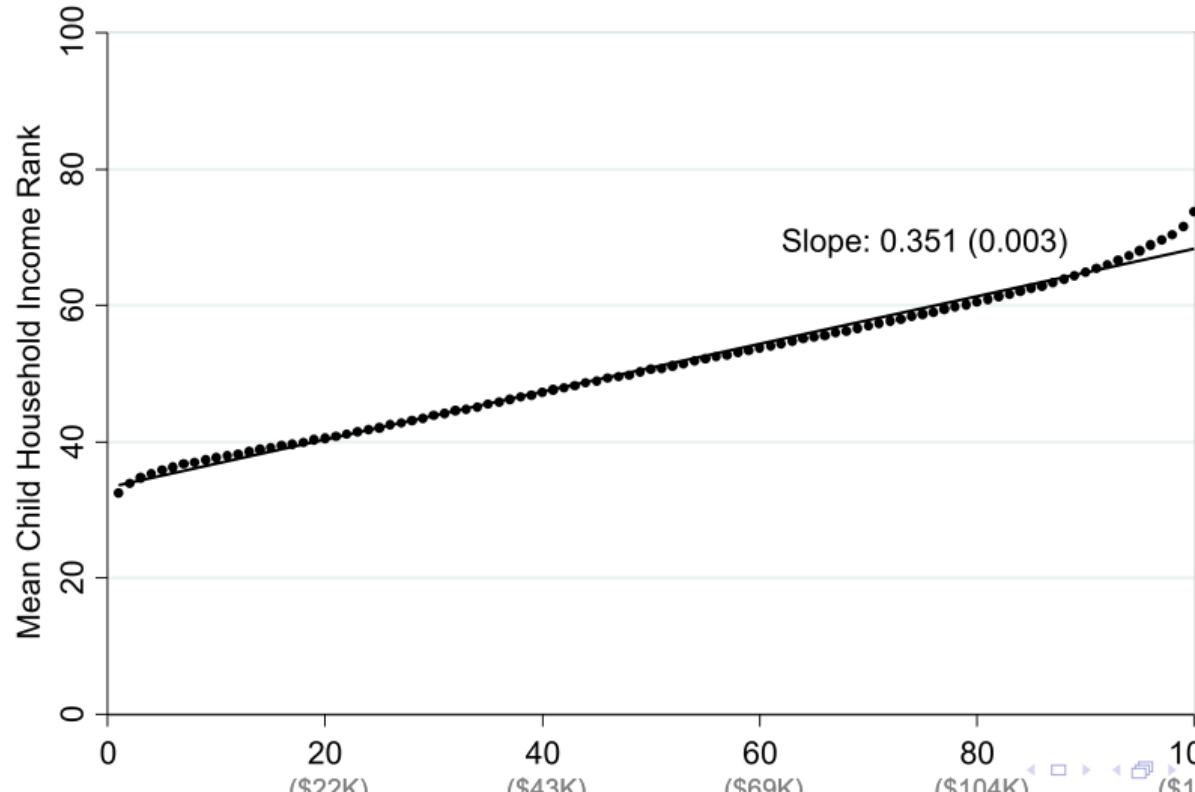
Source: American Community Survey 2016

An Intergenerational Perspective on Racial Disparities

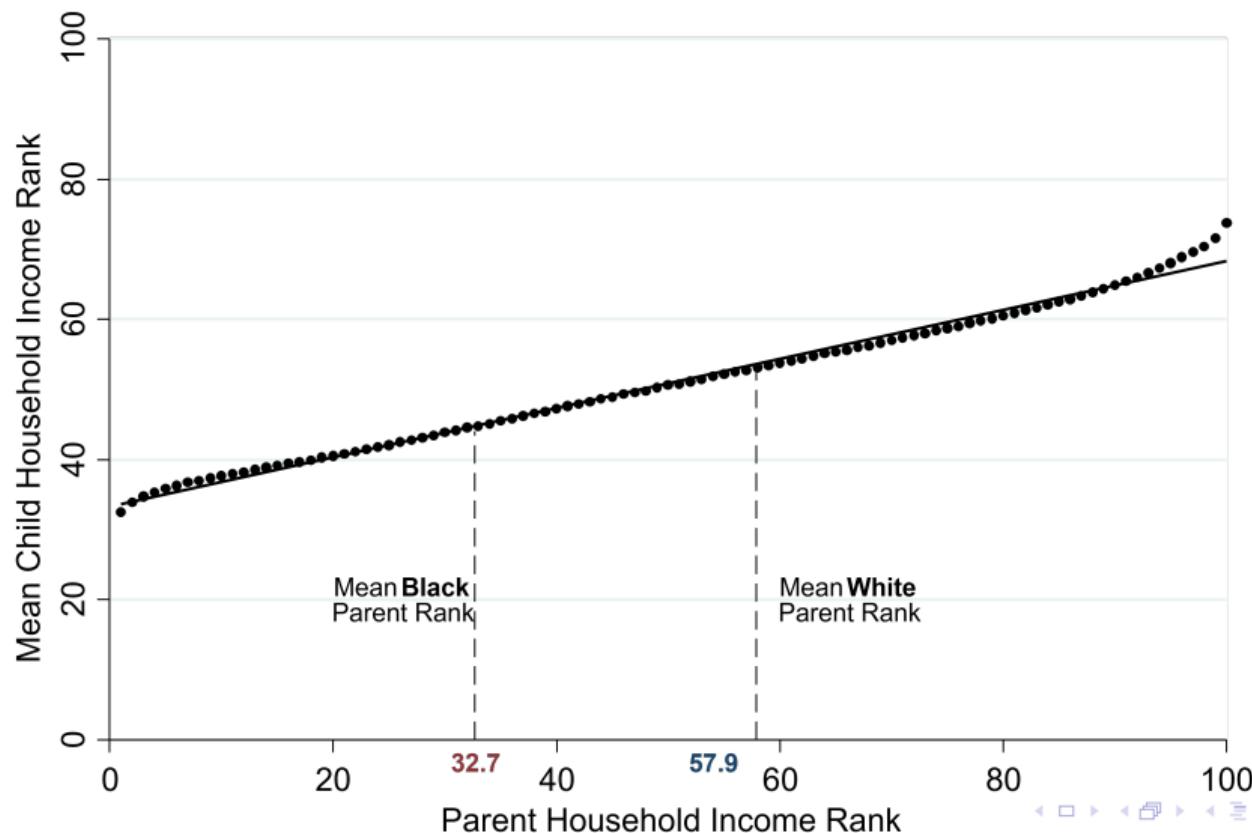
- ▶ Most prior work has studied racial disparities within a single generation
- ▶ We will take an intergenerational perspective, focusing on dynamics of income across generations
- ▶ Intergenerational approach sheds light on which disparities will persist in the long run and allows us to isolate the factors that drive persistent gaps
 - ▶ Methods: dynamics of income and steady states

Intergenerational Mobility in the United States

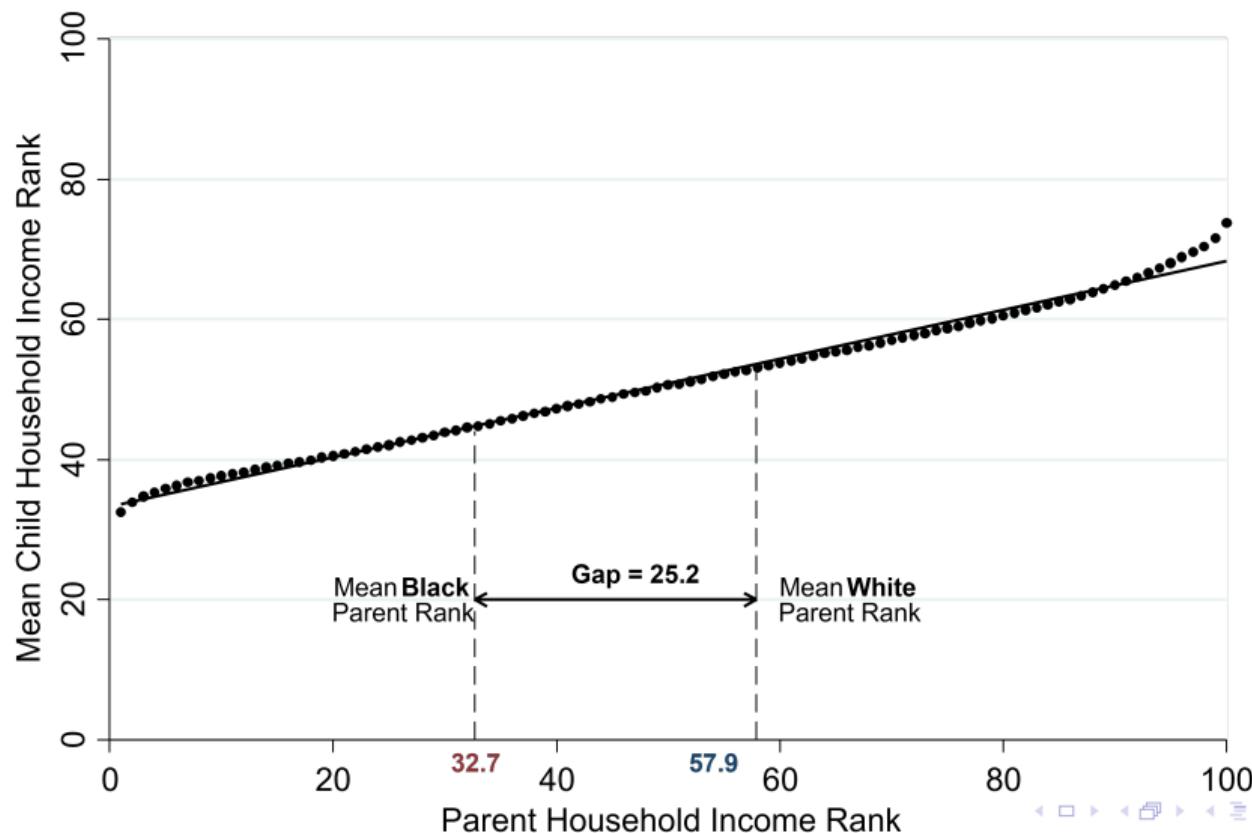
Mean Child Household Income Rank vs. Parent Household Income Rank



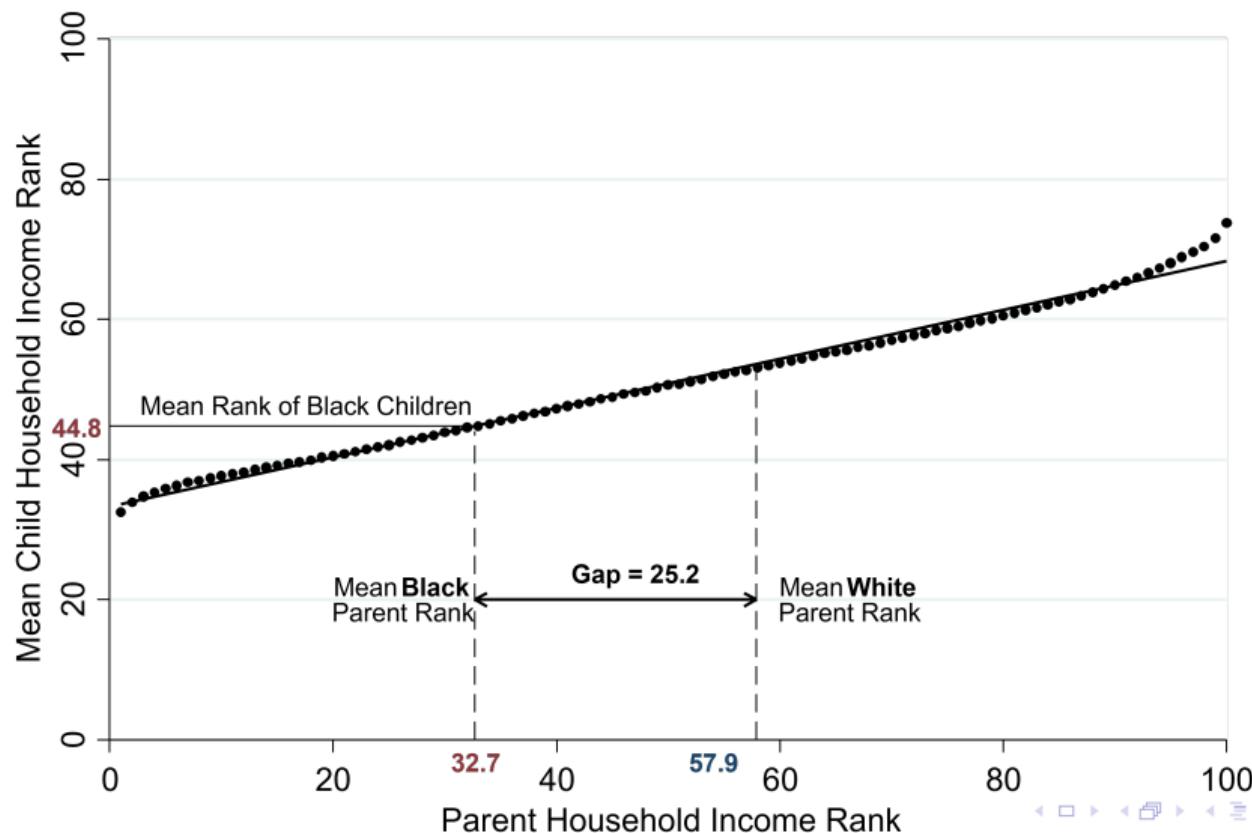
Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



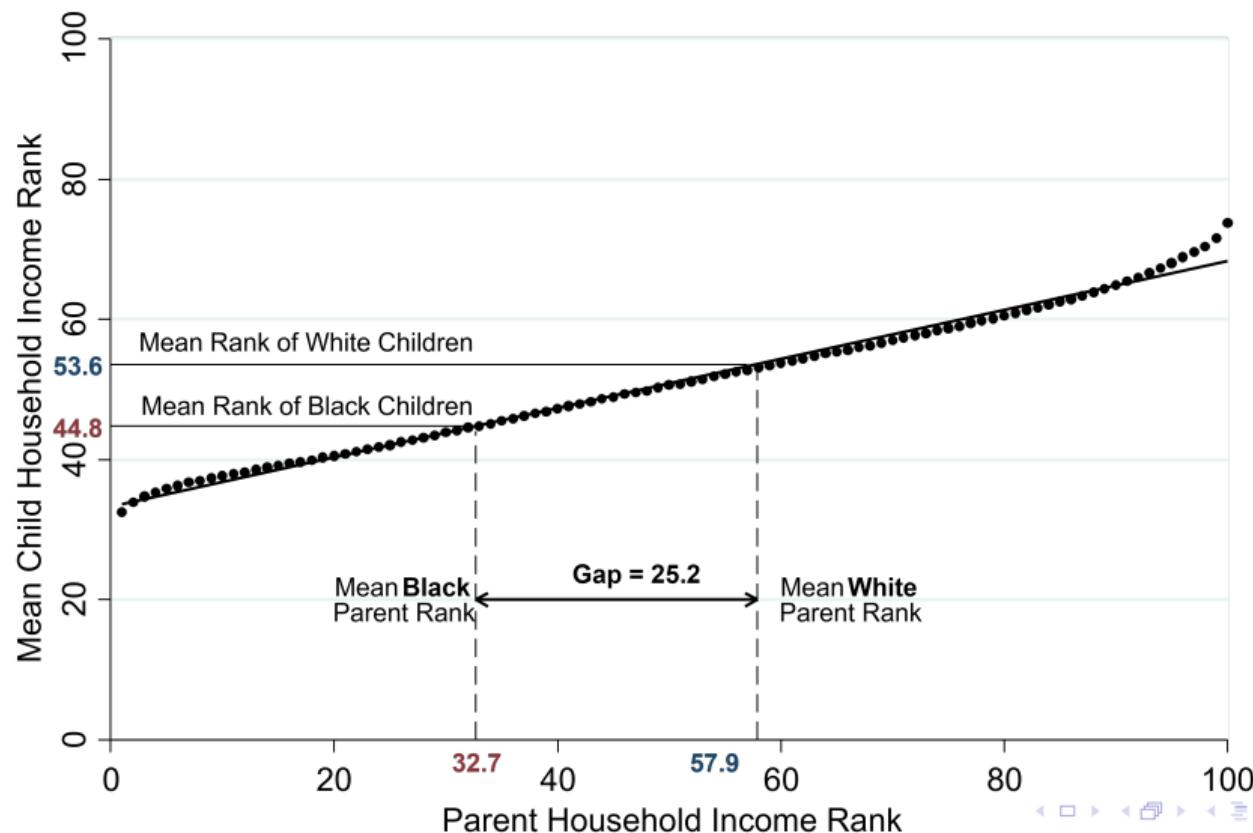
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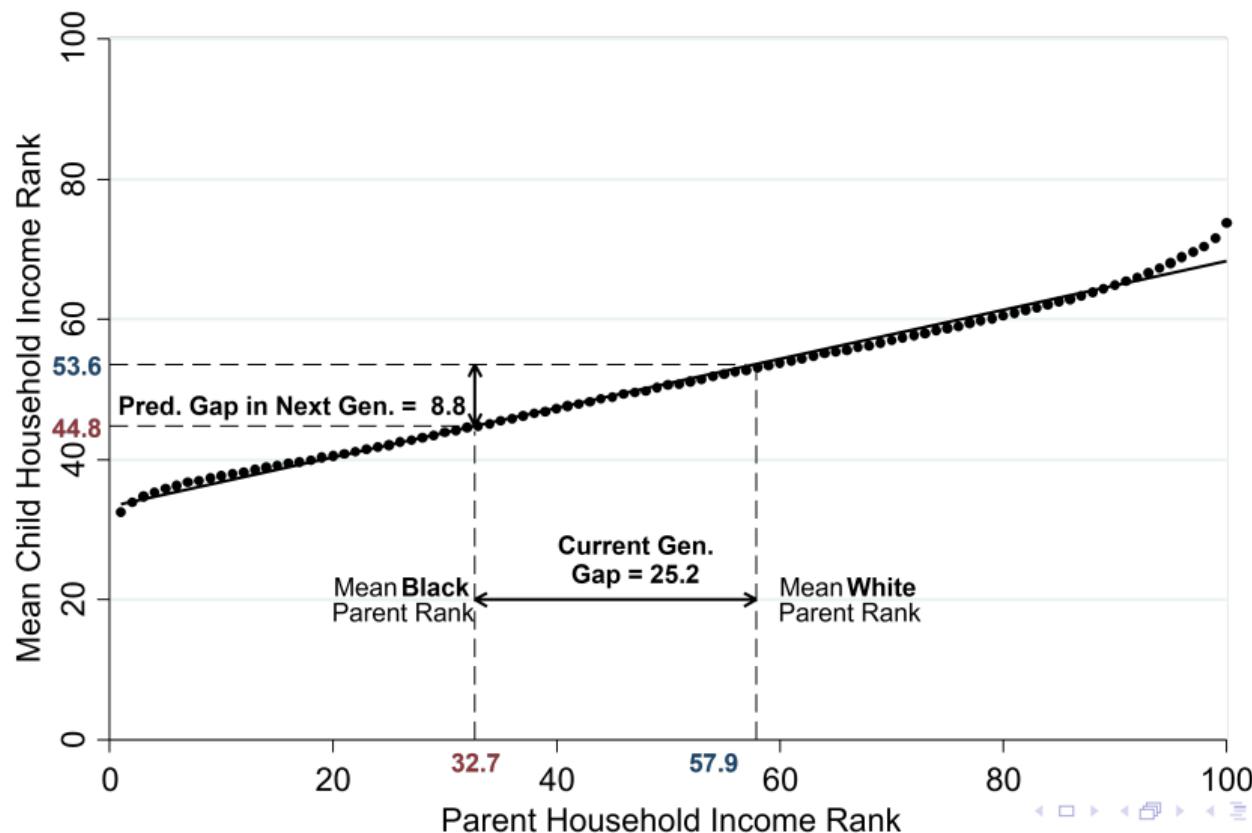
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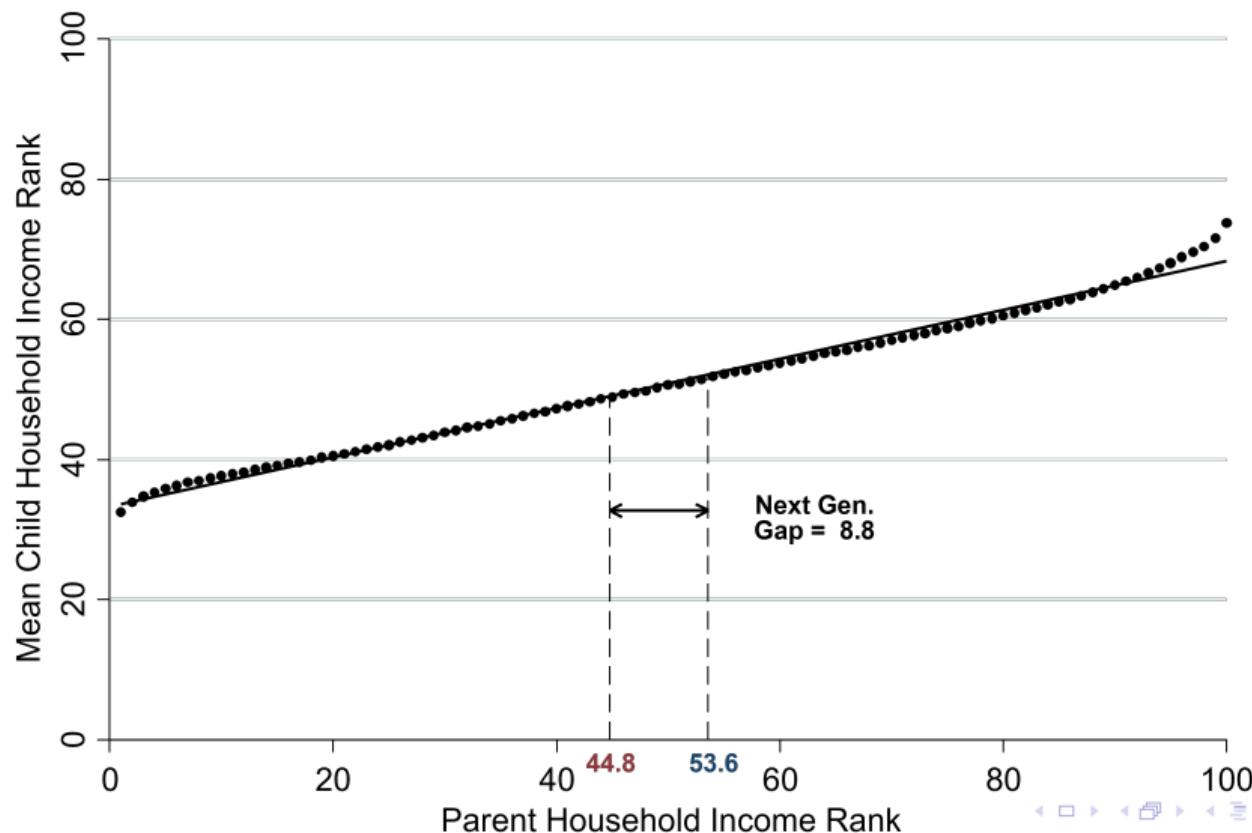
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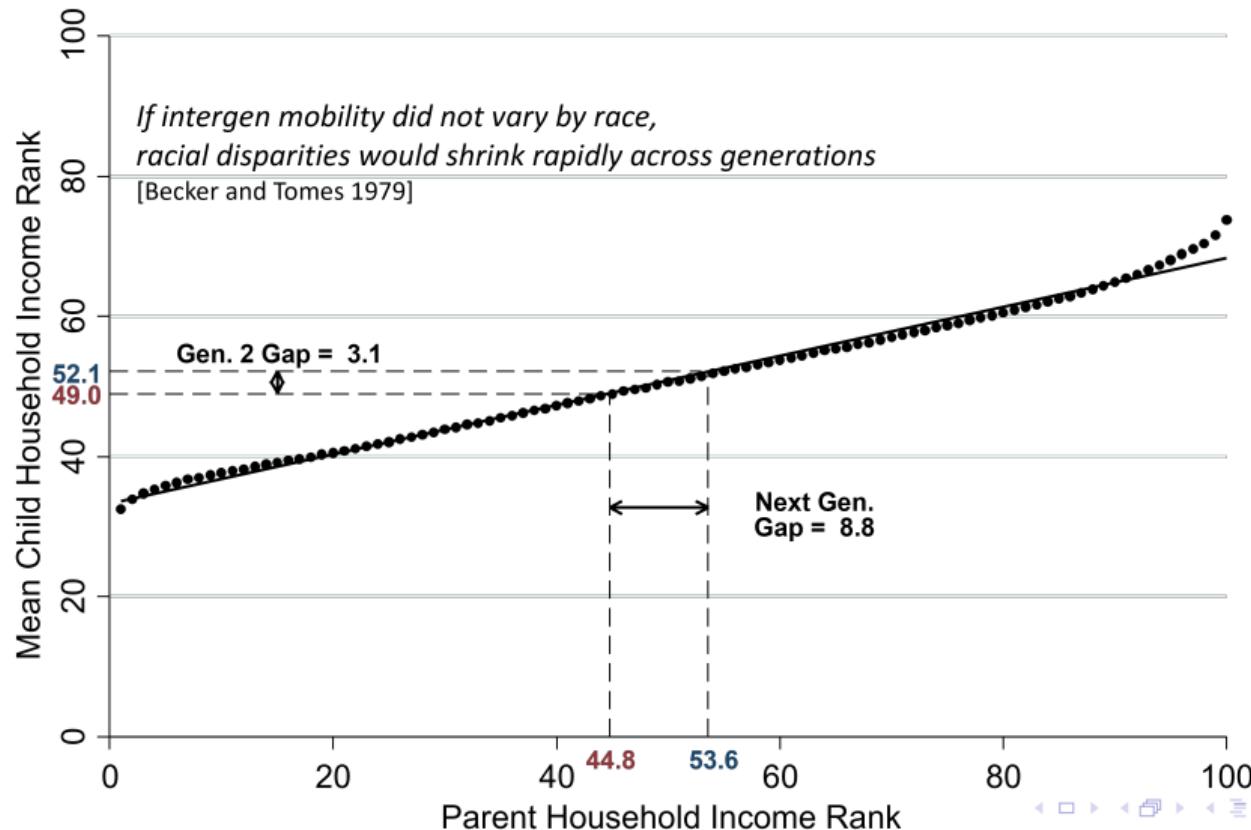
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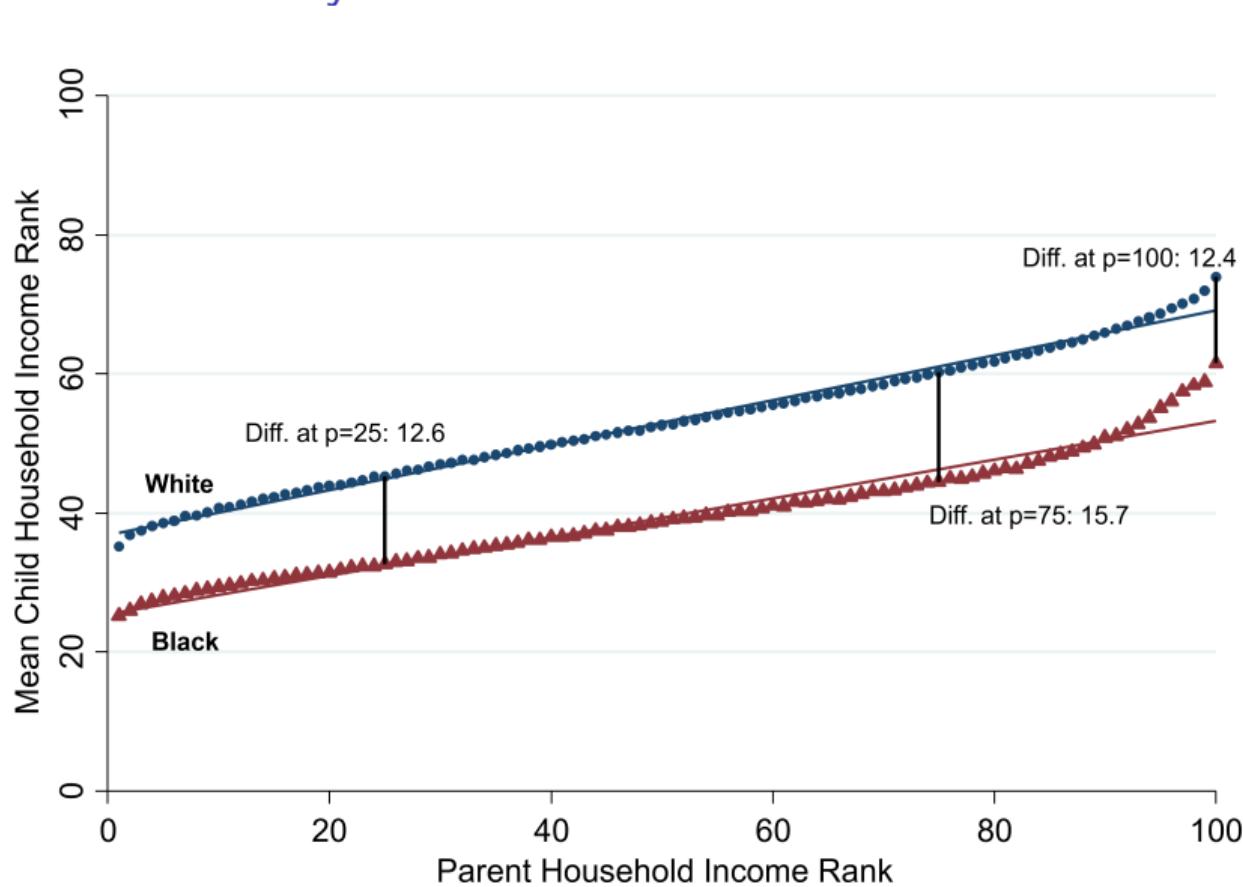
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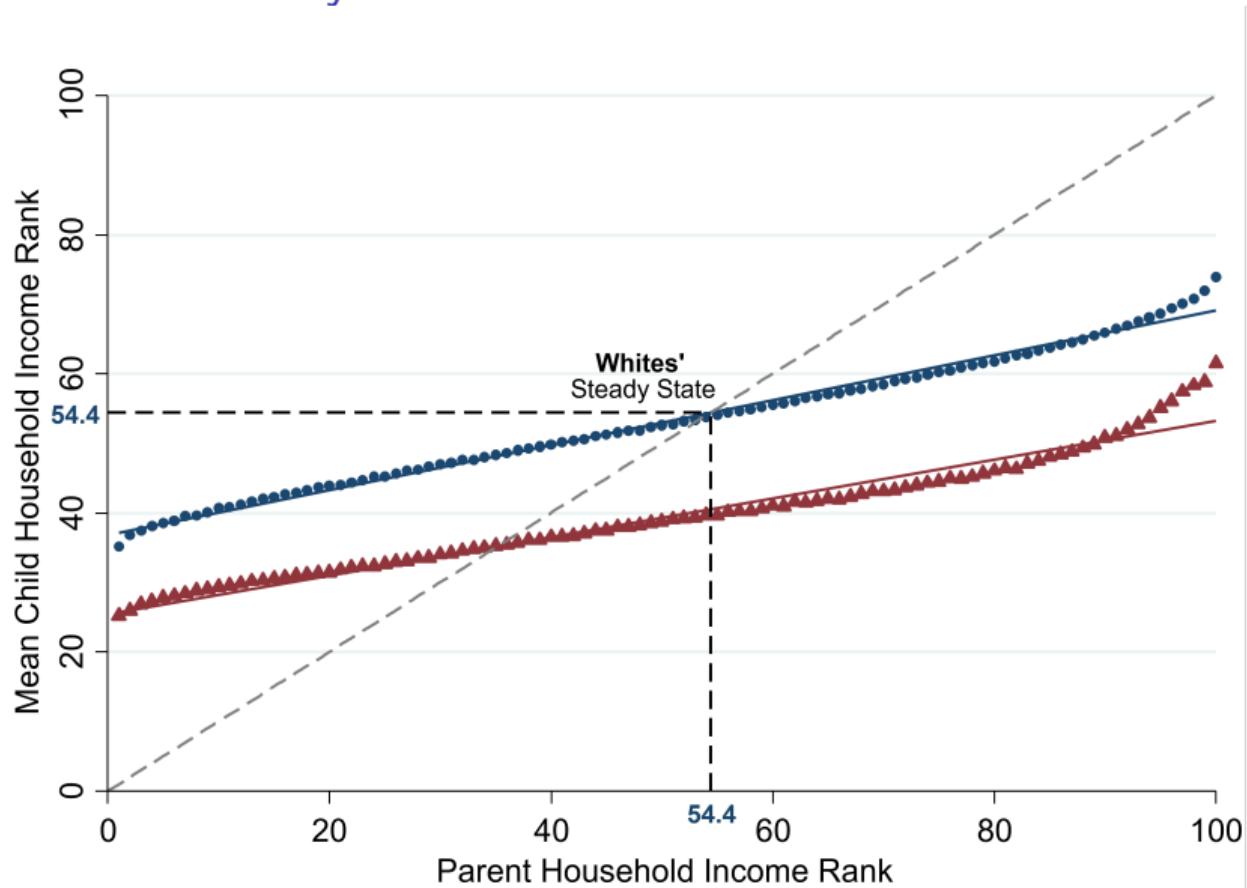
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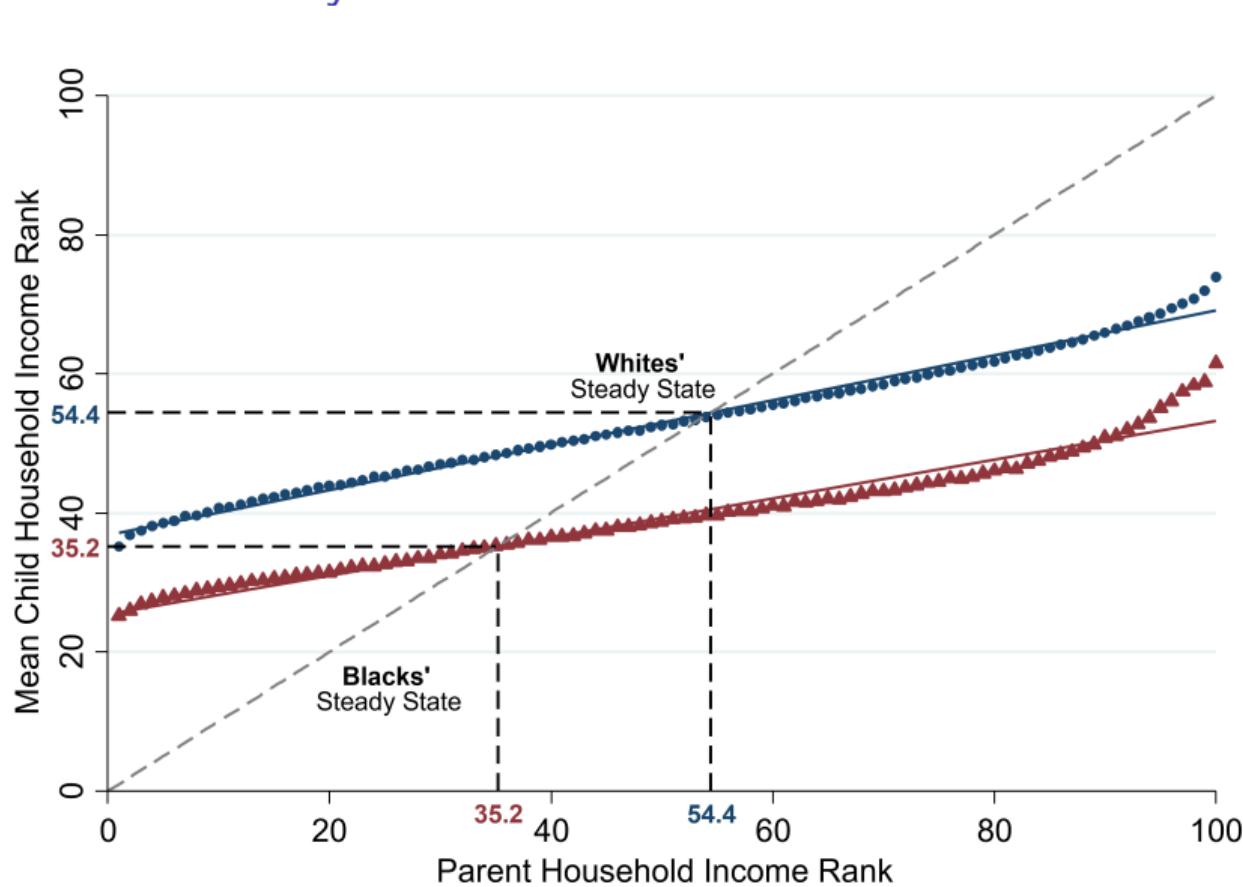
Intergenerational Mobility for Whites vs. Blacks



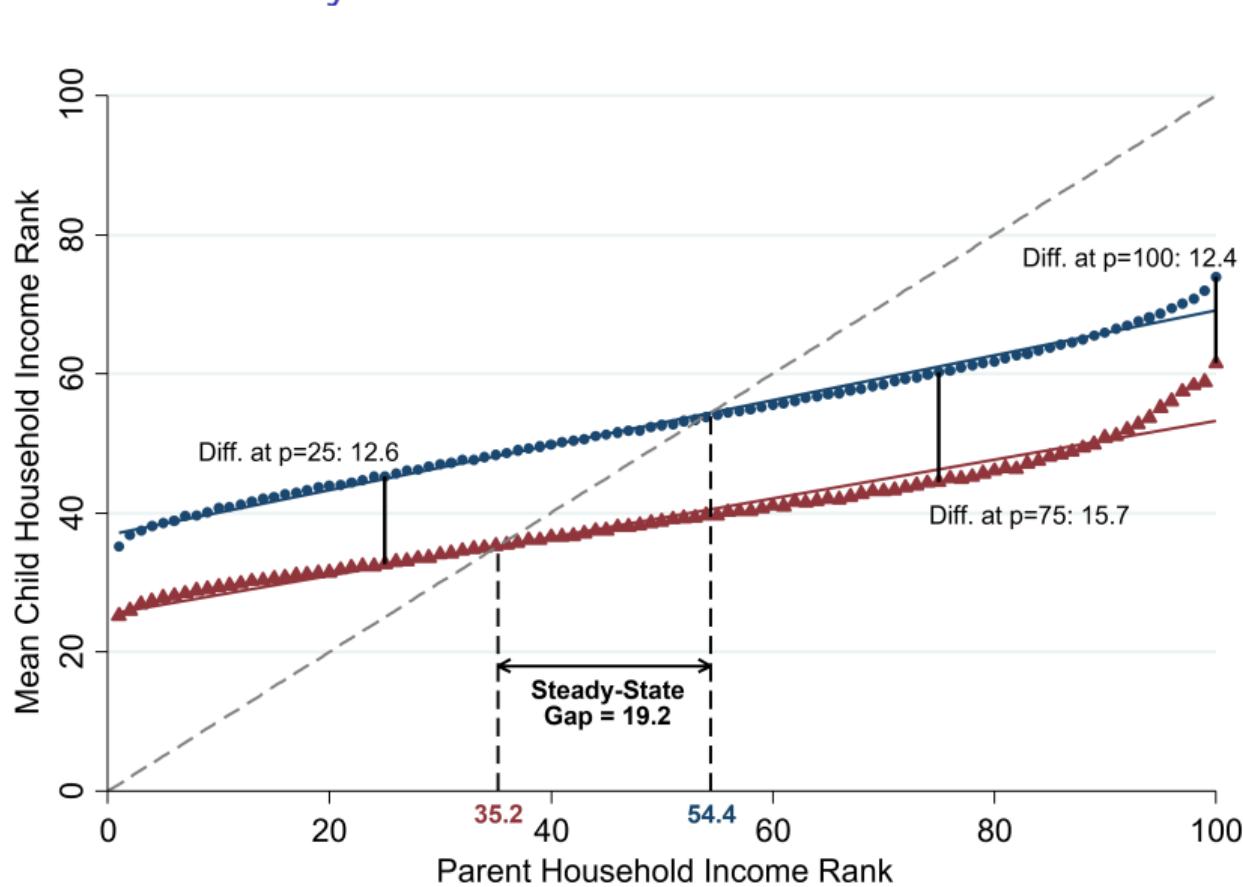
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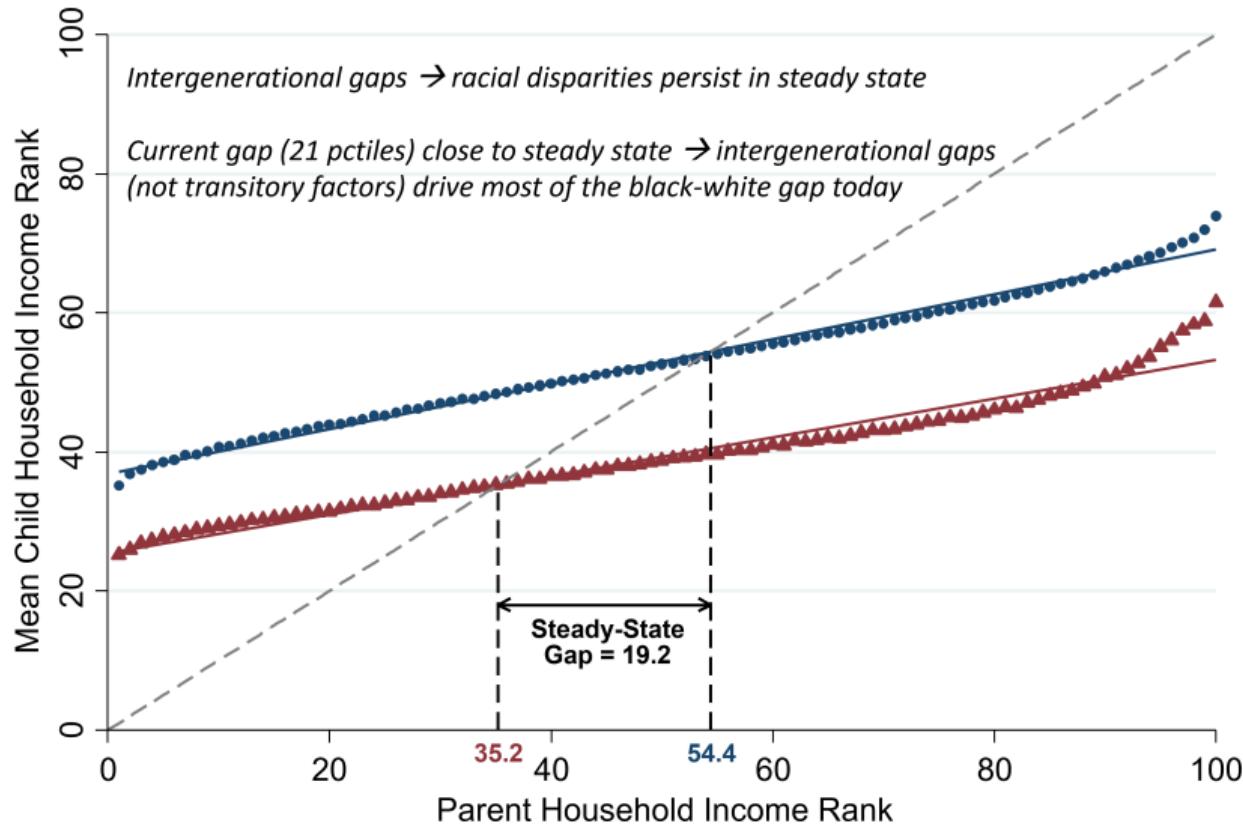
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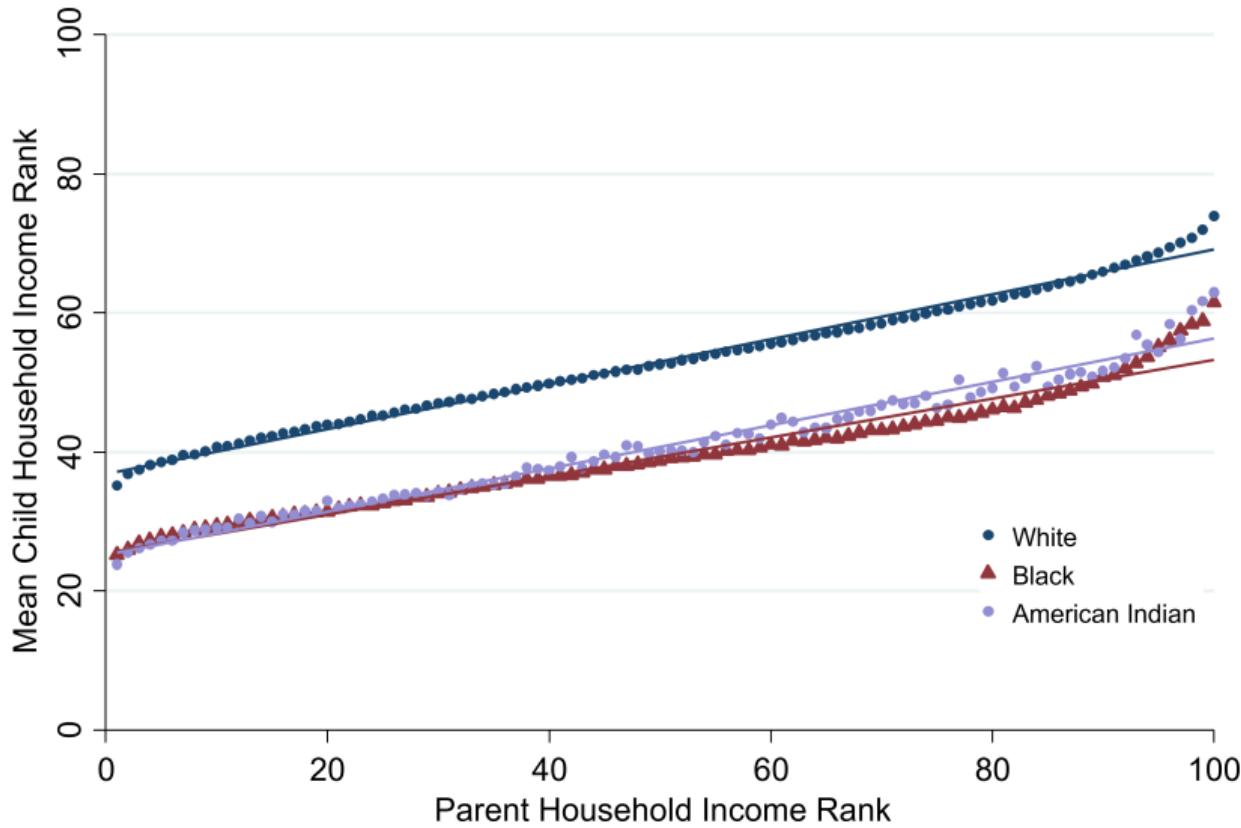
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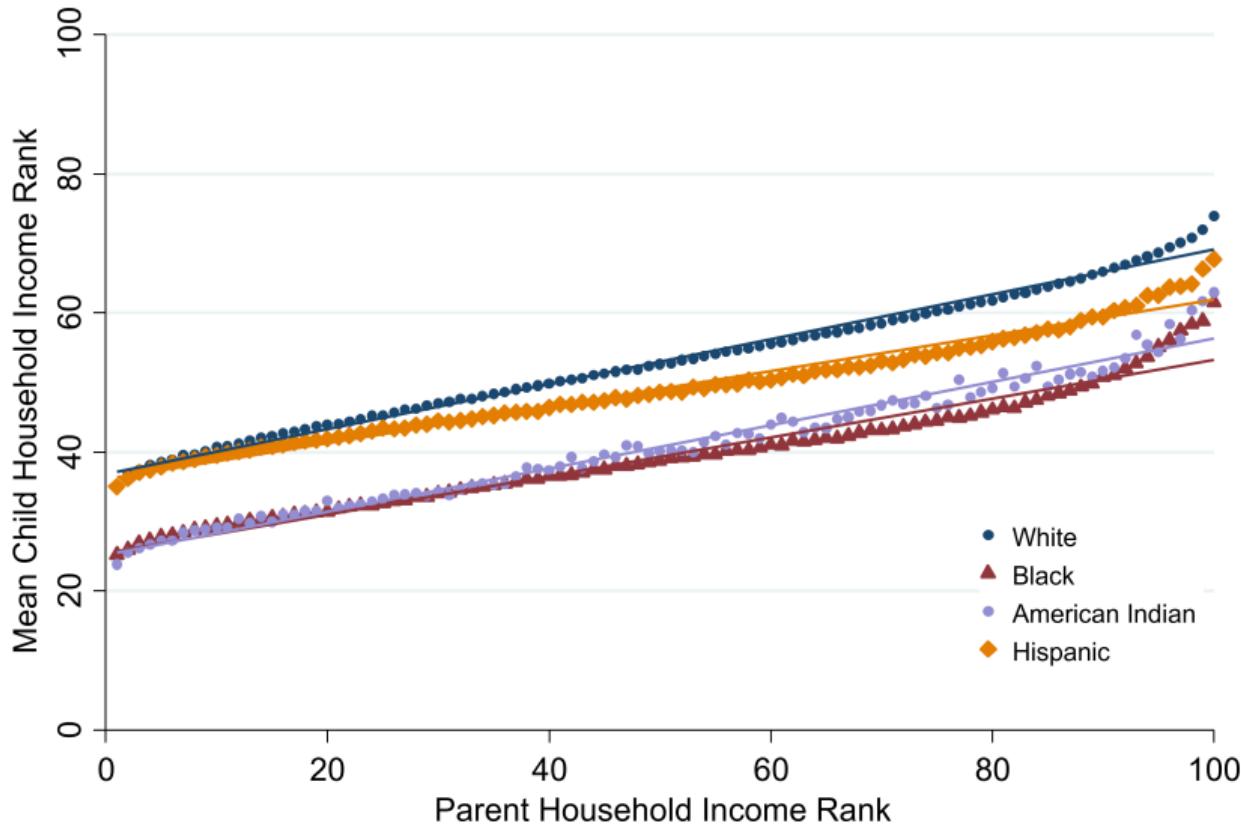
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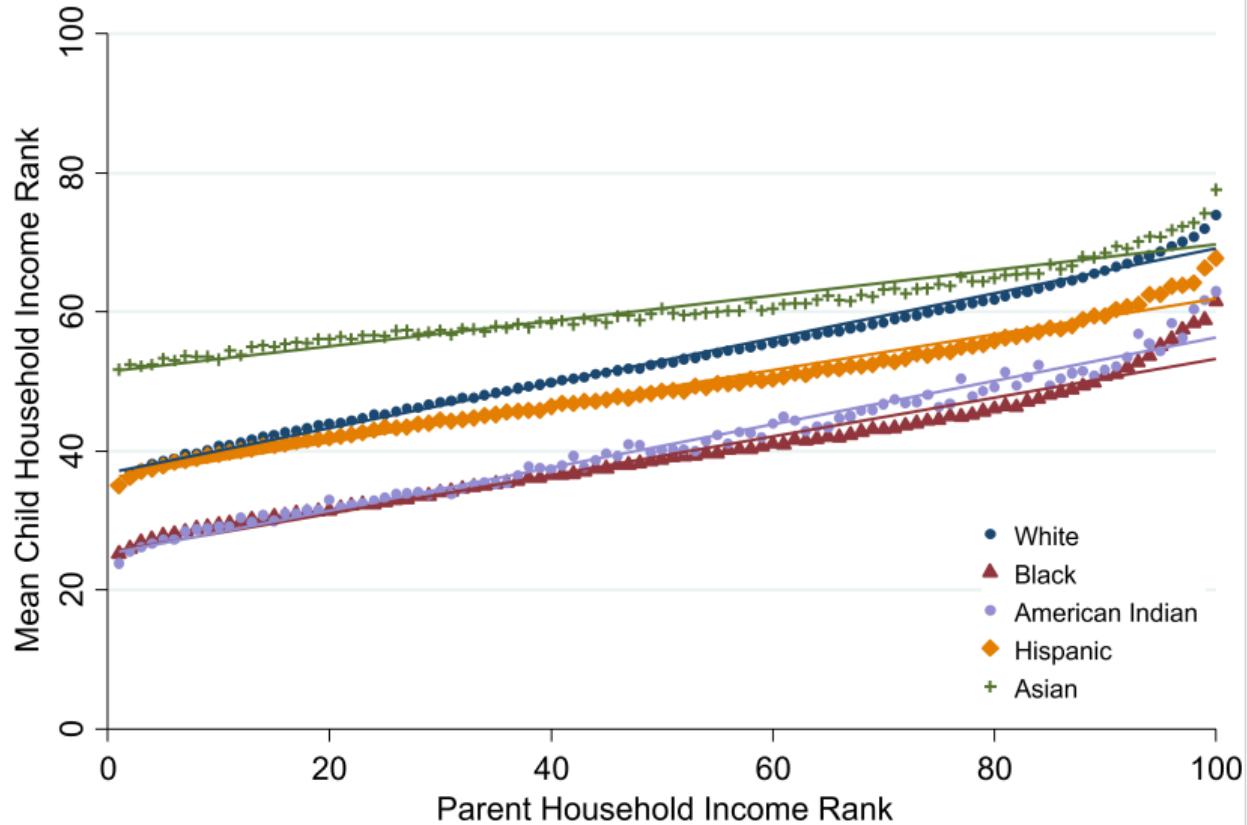
Mean Child Income Rank vs. Parent Income Rank by Race and Ethnicity



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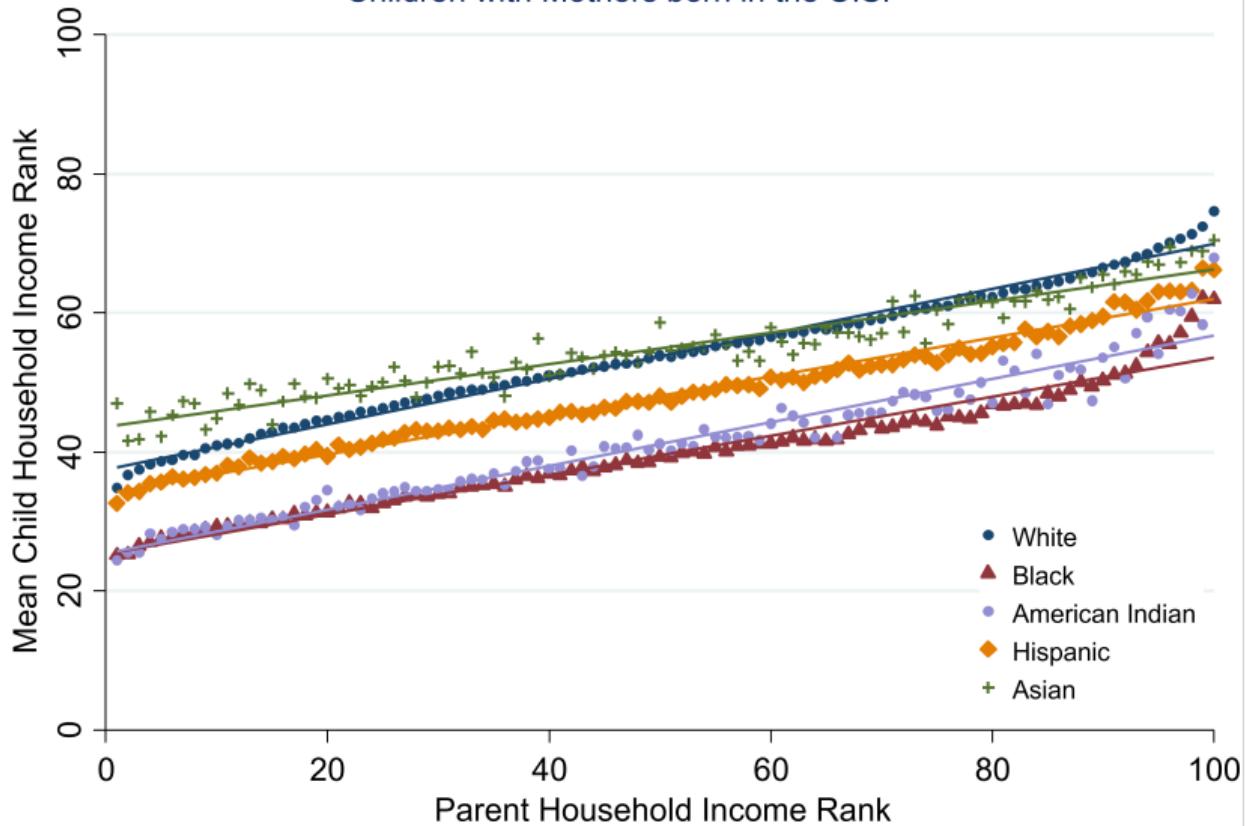


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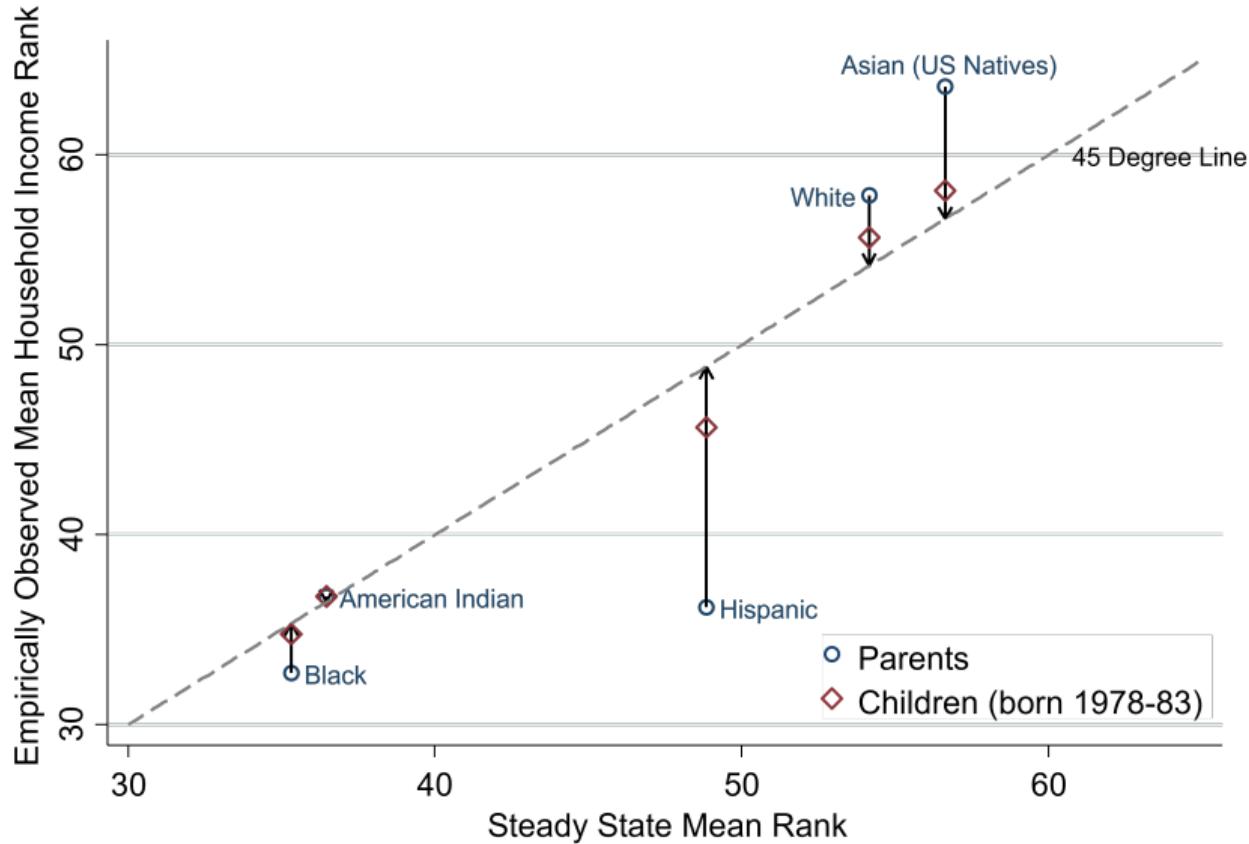


Mean Child Income Rank vs. Parent Income Rank by Race and Ethnicity

Children with Mothers born in the U.S.



Current Mean Ranks vs. Predicted Ranks in Steady State, by Race



Intergenerational Persistence of Racial Disparities

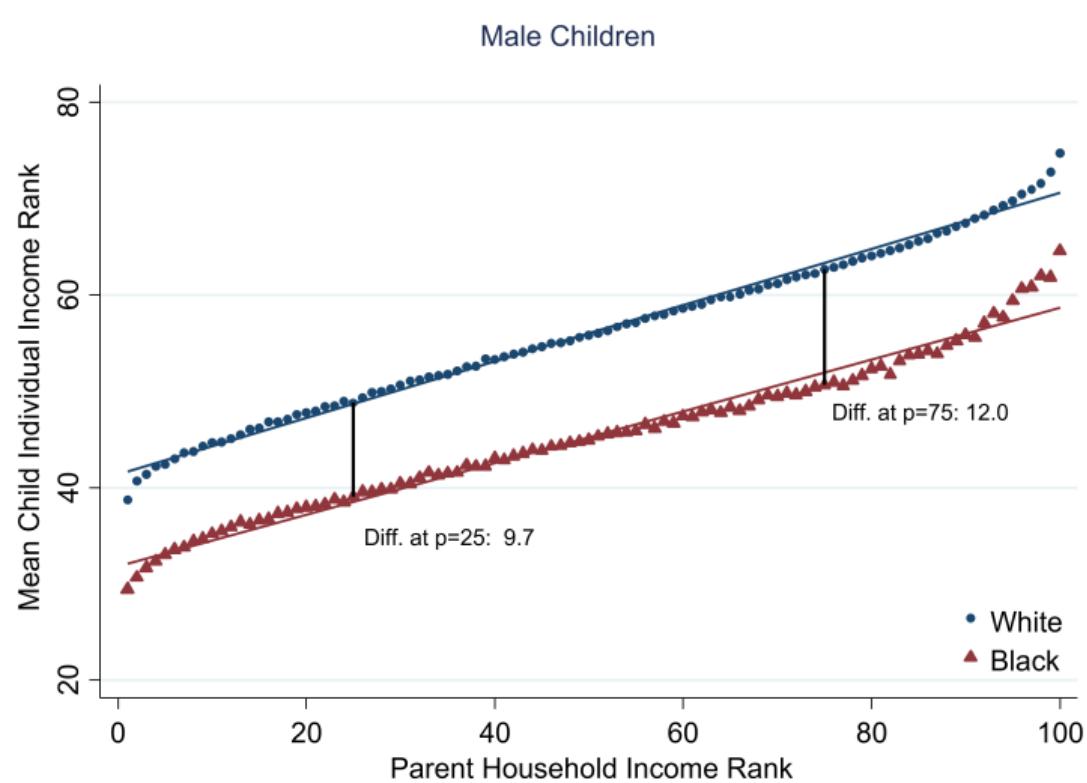
- ▶ Black Americans are close to their long-run steady-state
 - ▶ Suggests that intergenerational gaps (not transitory factors) drive most of the black-white gap today
- ▶ Addressing the black-white gap therefore requires understanding sources of intergenerational gaps
 - ▶ Why do black children earn less than white children who grow up in families with comparable incomes?

Gender Differences in Racial Gaps

- ▶ First step in understanding this: examine differences by gender
- ▶ Focus on individual (own) income for this analysis, excluding spousal income

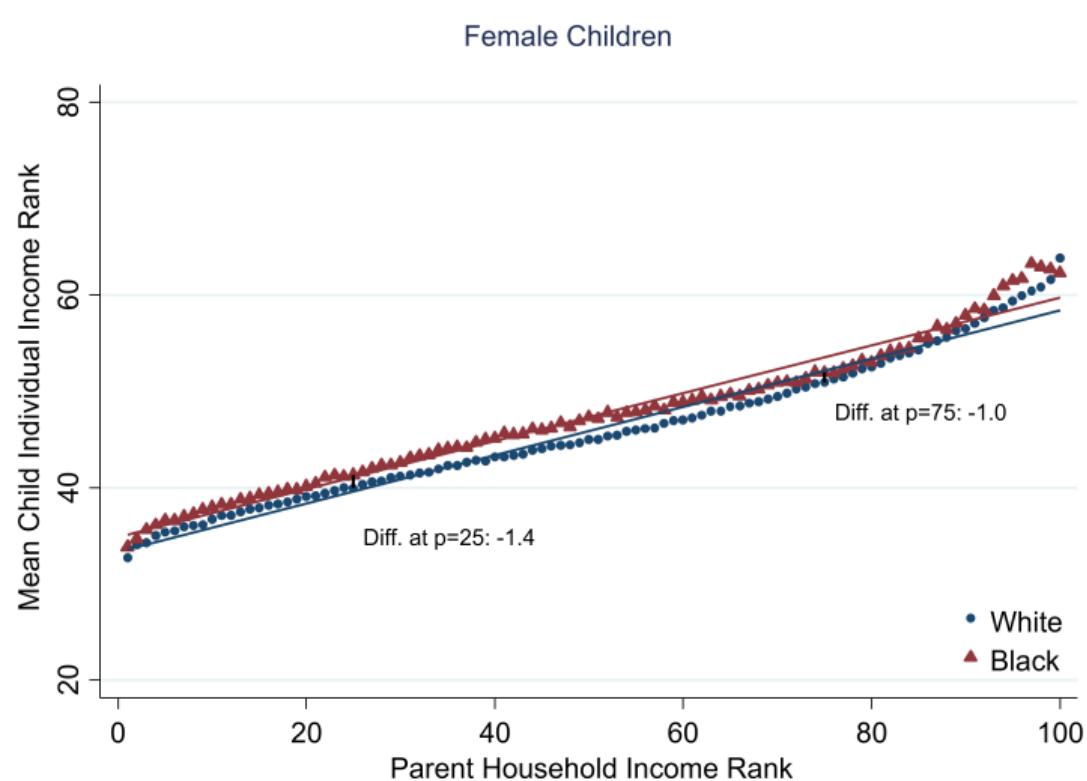
Black-White Gap in Child Individual Income Rank vs. Parent Income Rank

Male Children



Black-White Gap in Child Individual Income Rank vs. Parent Income Rank

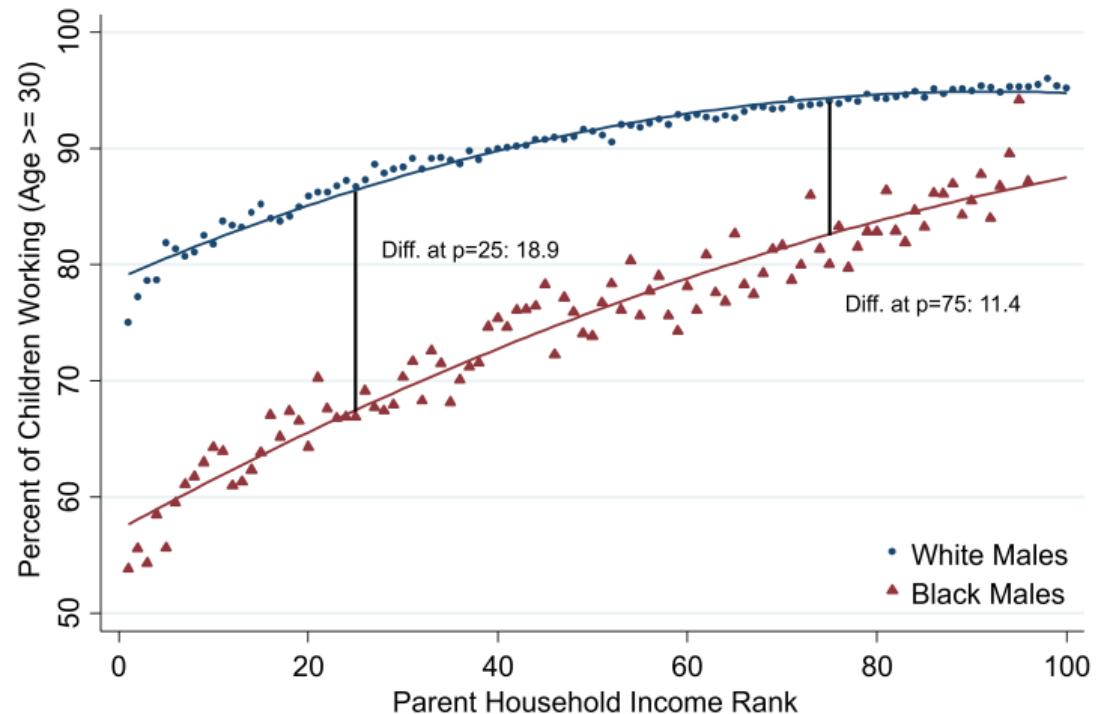
Female Children



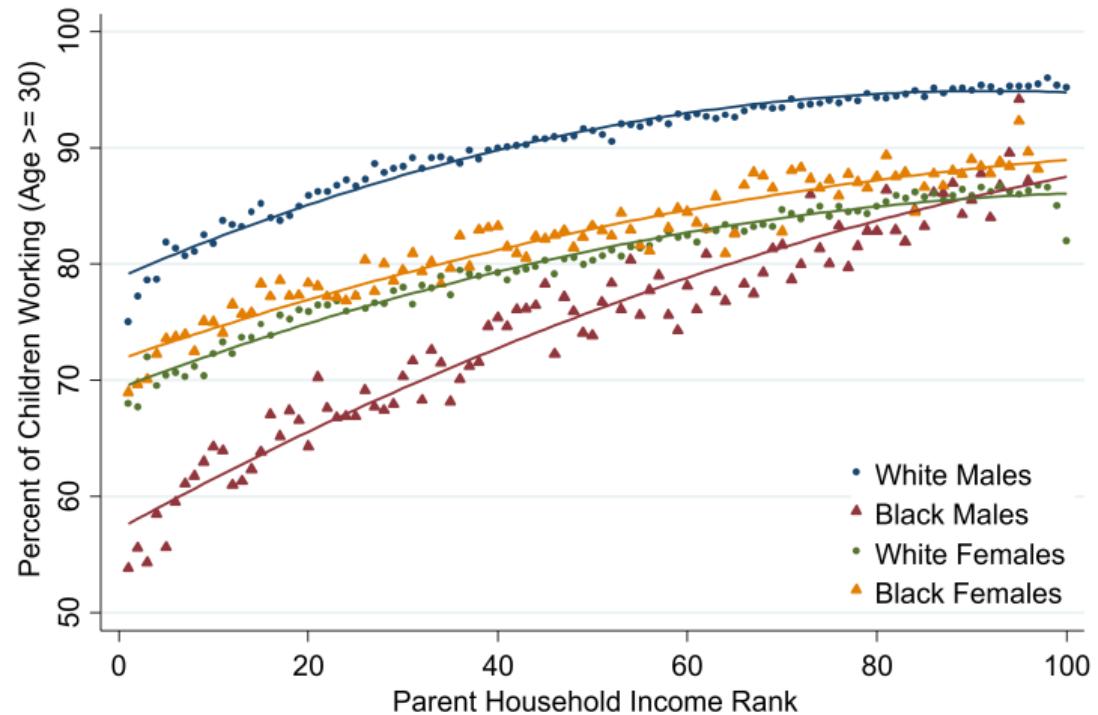
Employment Rates vs. Parent Income Rank

Male Children

Male Children

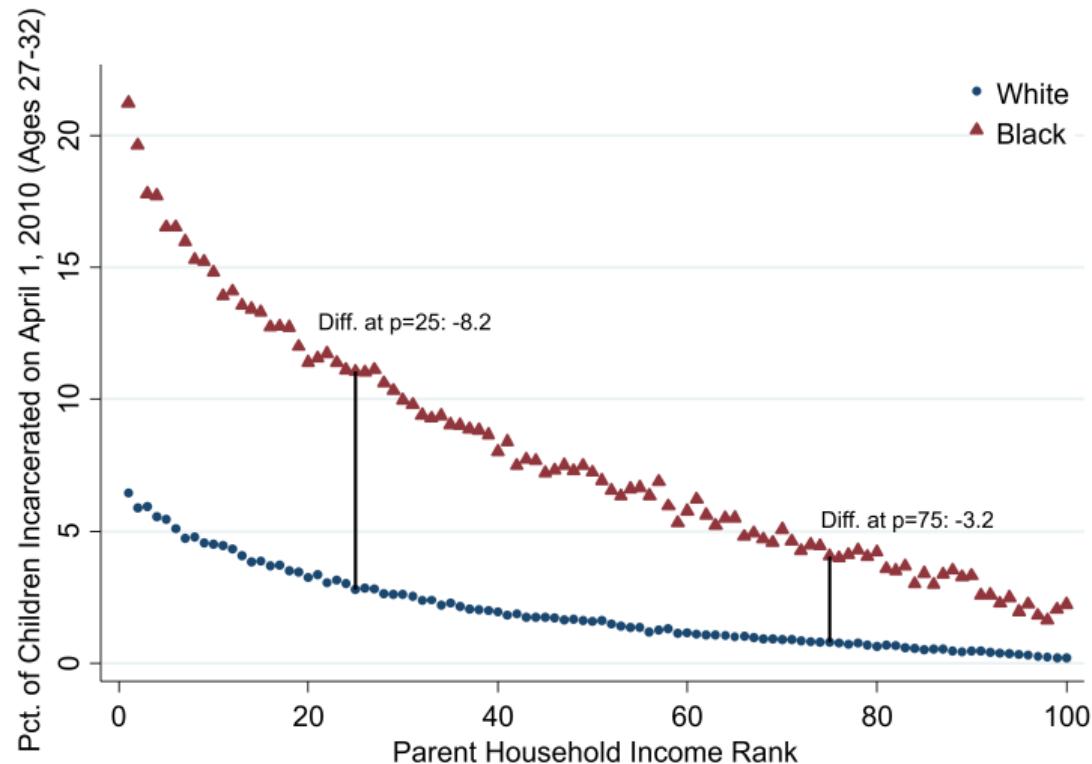


Employment Rates vs. Parent Income Rank



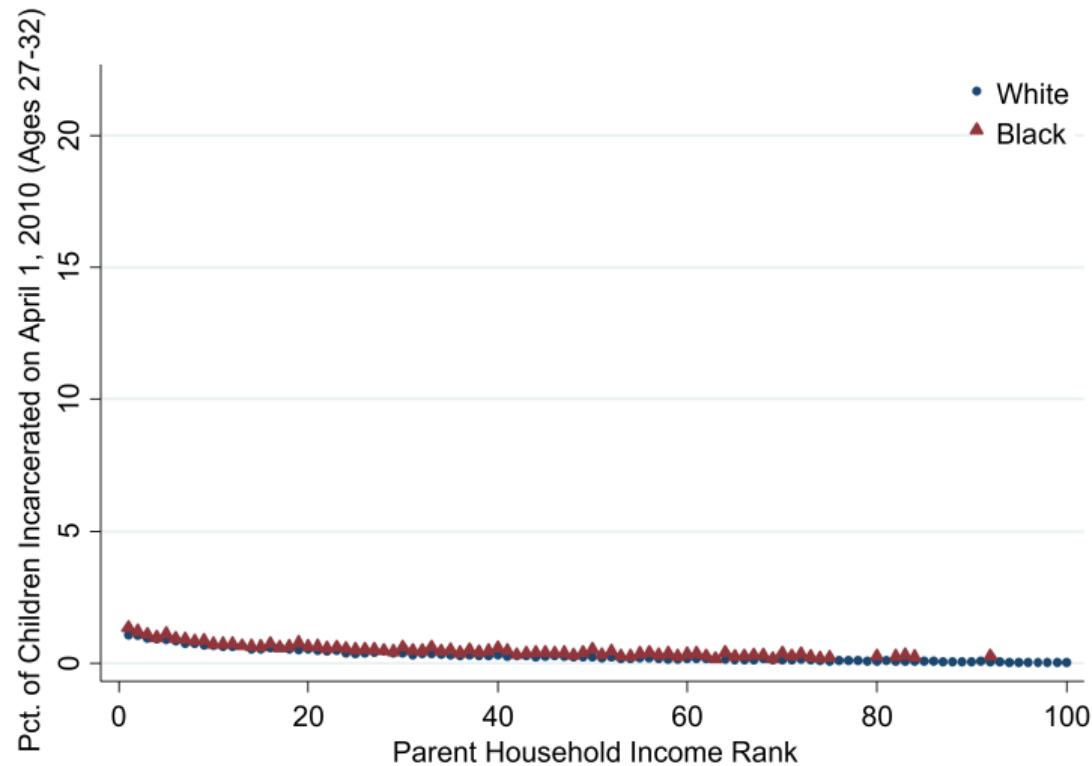
Incarceration Rates vs. Parent Income Rank

Male Children



Incarceration Rates vs. Parent Income Rank

Female Children



Explaining the Black-White Intergenerational Income Gap

Family-Level Factors:

- ▶ Do family-level factors (e.g., parental wealth, education, etc.) explain the black-white intergenerational gap?
 - ▶ No: Black men who grow up in two-parent families with comparable income, education, and wealth to white men still fare worse
- ▶ Suggests that environmental factors beyond the family matter
- ▶ Study the role of environmental factors by analyzing differences in black-white gaps across neighborhoods

The Geography of Upward Mobility in the United States

The Geography of Upward Mobility in the United States

Average Household Income for Children with Parents Earning \$27,000 (25th percentile)

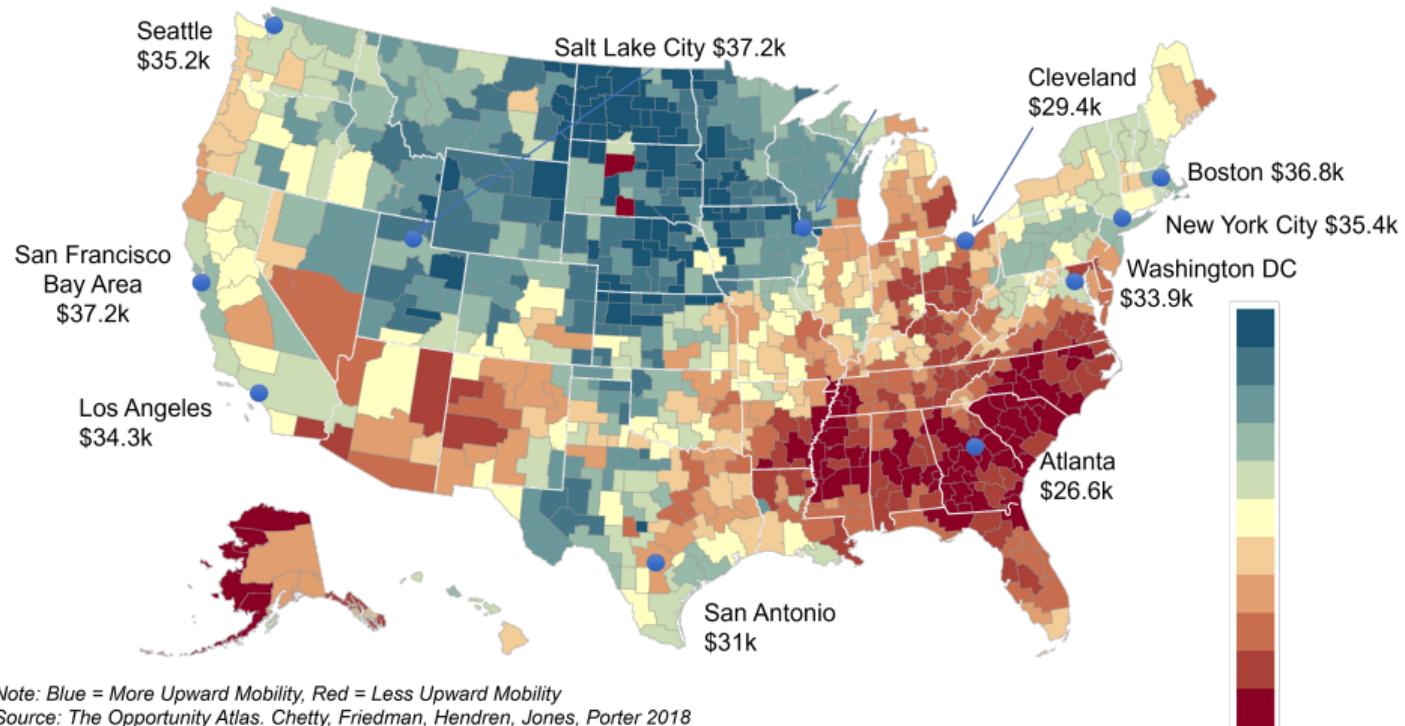
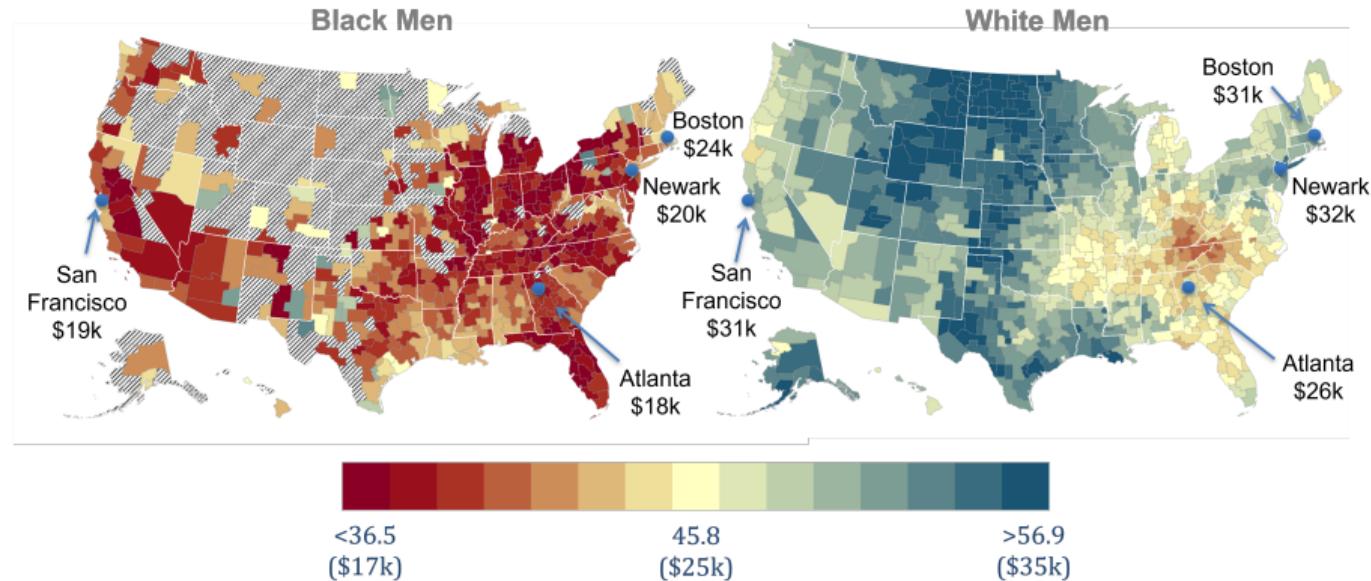


Figure 1: Source: Chetty, Friedman, Hendren, Jones and Porter (2018)

Two Americas: The Geography of Upward Mobility by Race

Average Individual Income Rank for Boys with Parents Earning \$25,000 (25th percentile)



Note: Green = More Upward Mobility, Red = Less Upward Mobility; Grey = Insufficient Data

Neighborhood Environments and the Black-White Gap

- ▶ Commuting-zone level variation illuminates broad regional patterns but does not directly test for “neighborhood” effects
- ▶ Blacks live in different neighborhoods from whites within CZs
- ▶ Zoom in to examine variation across Census tracts

Variation in the Black-White Earnings Gap Across Tracts

Four key results:

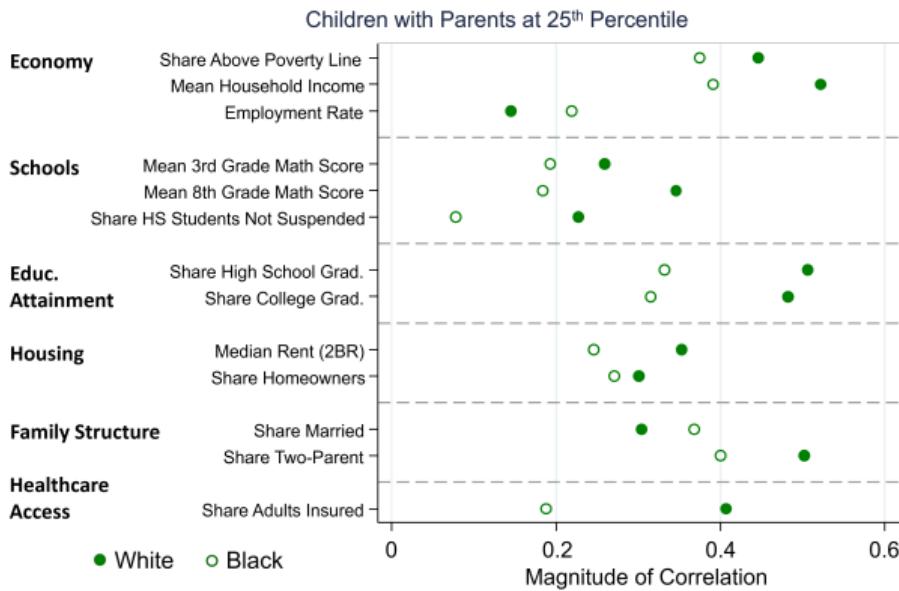
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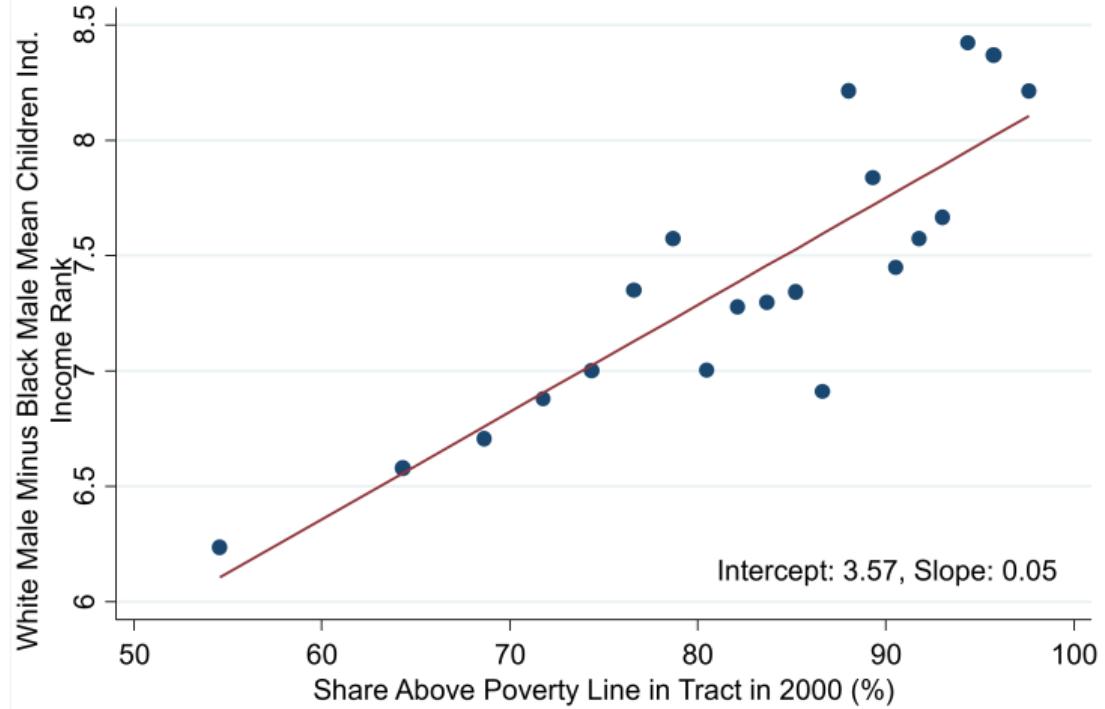
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2. Both black and white boys have better outcomes in “good” (e.g., low-poverty, higher rent) neighborhoods, but the black-white gap is bigger in such areas

Correlations between Tract-Level Characteristics and Incomes of Black vs. White Men



Black – White Gap in Individual Income Ranks vs. Share Above Poverty Line

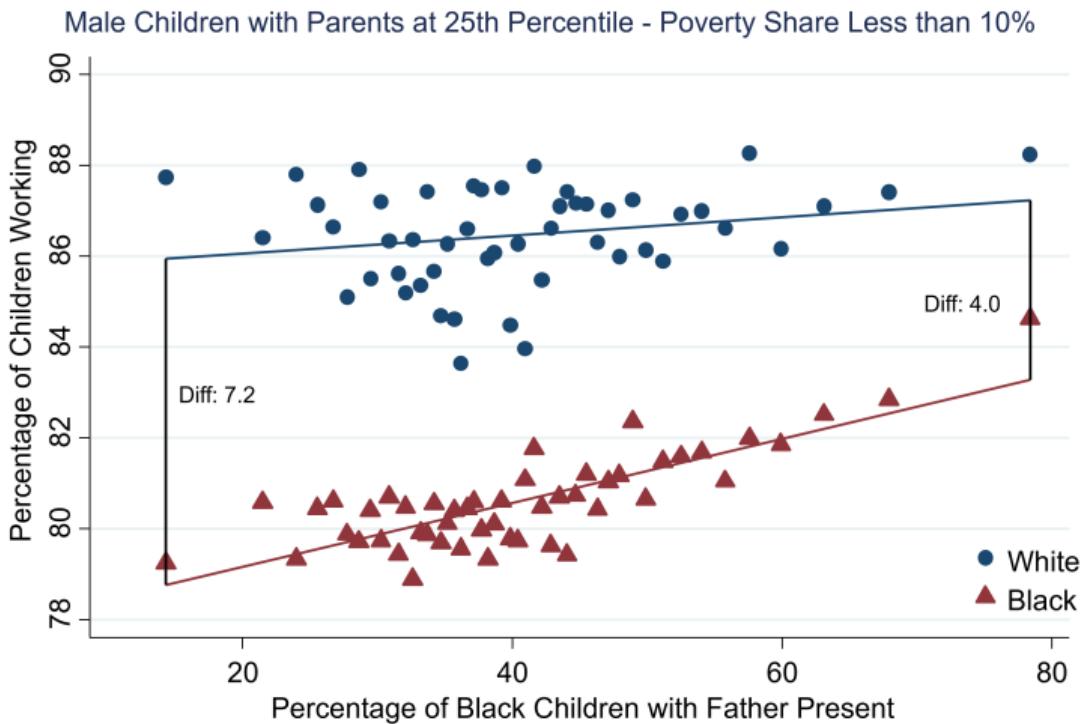


Variation in the Black-White Earnings Gap Across Tracts

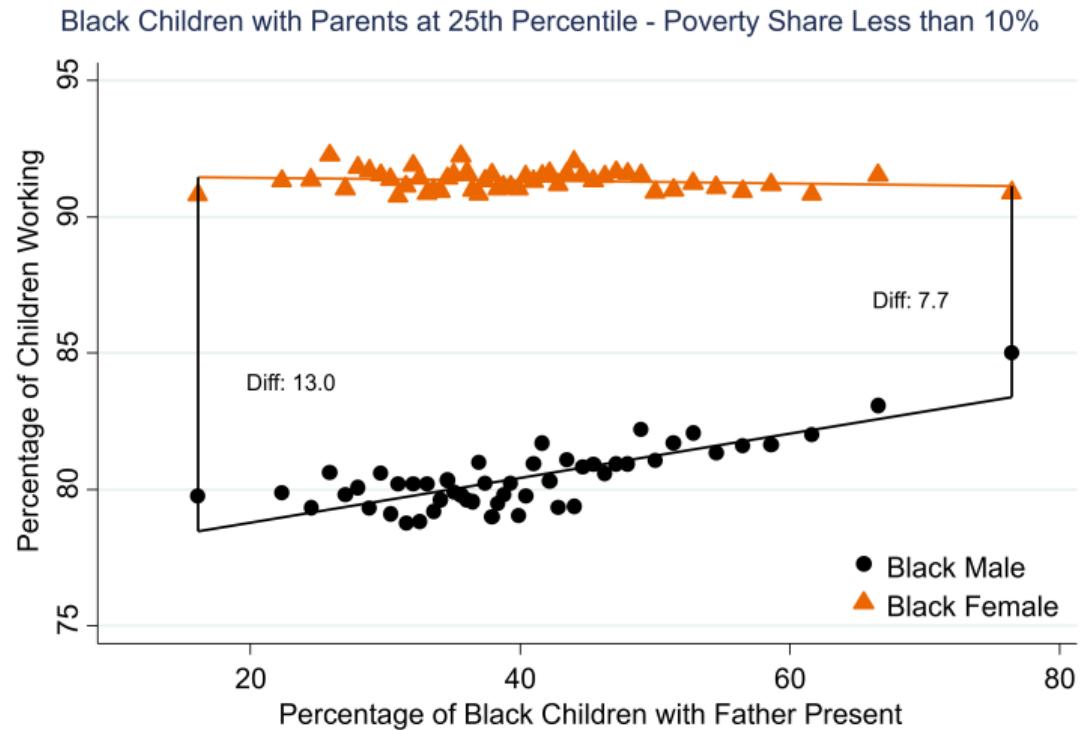
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3. Within low-poverty areas, there are two factors associated with better outcomes for black boys and smaller gaps: greater father presence and less racial bias

Black-White Gap in Employment Rates vs. Father Presence



Male-Female Gap in Employment Rates vs. Father Presence



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4. Neighborhoods have causal childhood exposure effects on racial gaps: black boys who move to good areas at a younger age do better

Summary: Impacts of Neighborhood Environments on Black Men

- ▶ Black boys do well in nbhds. with good resources (low poverty rates) and good race-specific factors (e.g., high father presence, less racial bias)
- ▶ The problem is that there very few such neighborhoods in America...

Racial Wealth Gap

Racial Wealth Gap in the US

- ▶ So far we have ignored the role of wealth.
- ▶ (Very!) recent work has started to make important progress in estimating wealth gaps as well (beyond income)

Ellora Derenoncourt, Chi Hyun Kim, Moritz Kuhn, Moritz Schularick (2022)

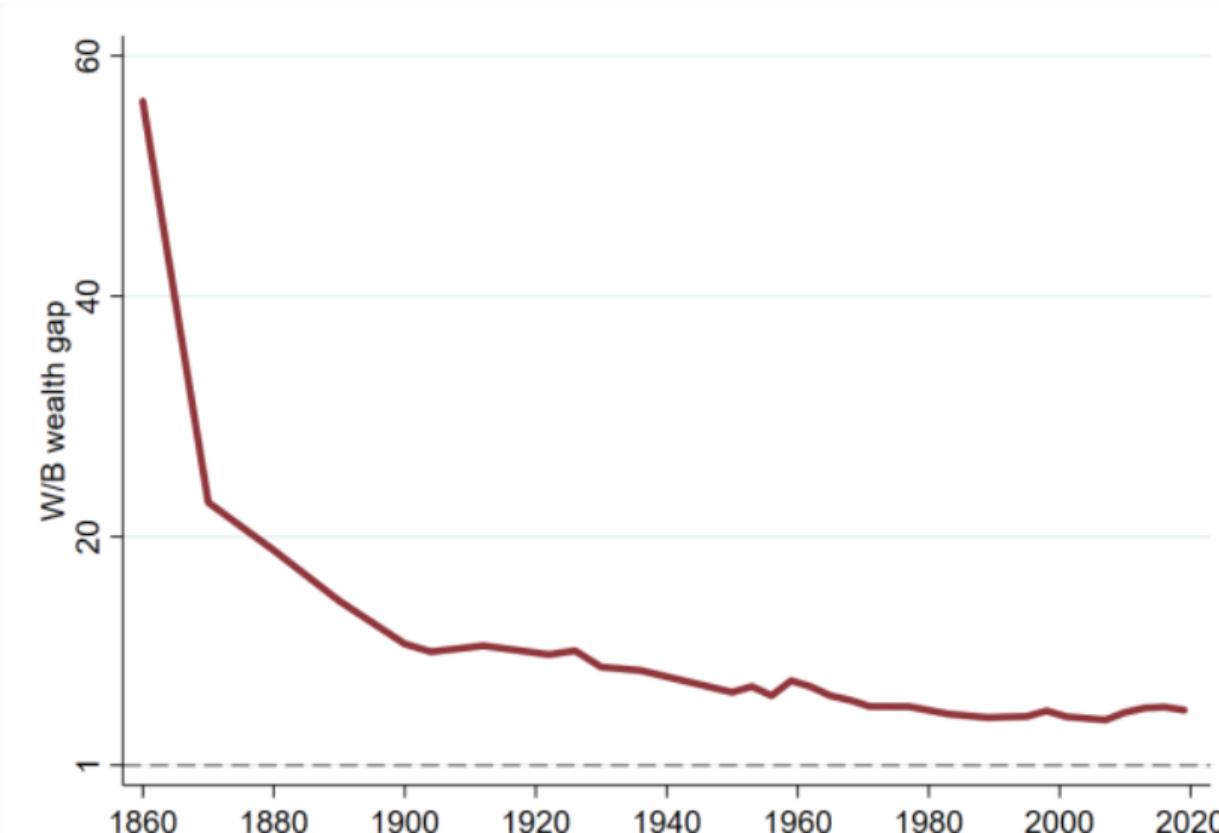
"Wealth of two nations: The U.S. racial wealth gap, 1860-2020"

wealth gap, 1860-2020

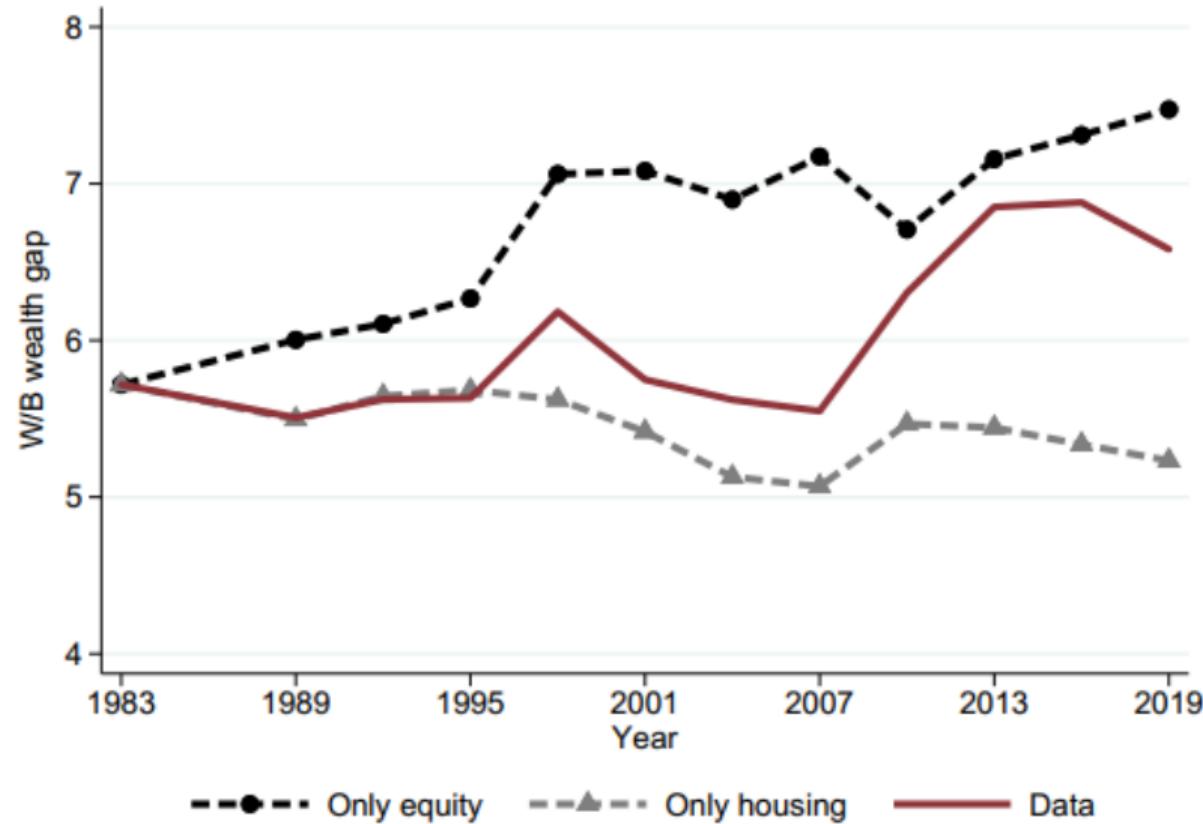
- ▶ Data:
 - ▶ Historical census data
 - ▶ Early state tax records
 - ▶ Historical waves of the Survey of Consumer Finance
- ▶ Several things could affect wealth accumulation across race groups:
 - ▶ Initial conditions (initial wealth)
 - ▶ Income growth
 - ▶ Savings behavior
 - ▶ Capital returns
 - ▶ What's the role of each?

'Hockey-stick' plot of wealth convergence

Figure 1: White-Black per capita wealth ratio: 1860-2020



Contribution of capital gains to the racial wealth gap



Contribution of capital gains to the racial wealth gap



Conclusions about the wealth gap

- ▶ The shape of convergence is well explained by initial wealth and income levels of Black and white Americans and observed income convergence between the two groups.
- ▶ Given extremely low levels of Black wealth under slavery, even modest accumulation can imply a high growth rate for Black wealth that greatly exceeds that of white wealth, thus generating rapid convergence initially
- ▶ As racial wealth gap decreases, convergence slows and differences in returns on wealth and savings begin to matter more for the shape of convergence.
- ▶ Rising asset prices have become important driver of racial wealth inequality in recent decades.
 - ▶ Average white household holds a significant share of their wealth in equity (benefited from booming stock prices), while the average Black household mainly holds housing as main asset been largely left out of these gains