

# Racial Disparities

Economics of Public and Social Issues

Jonathan Moreno-Medina

ECO3253, UTSA

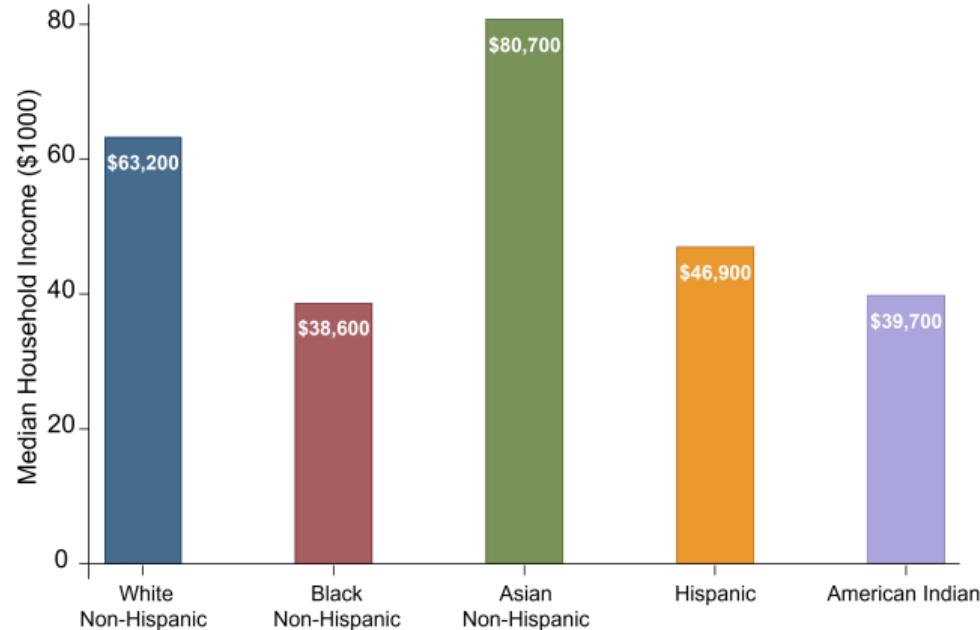
Fall 2022

## Plan for today

- #### ► Intergenerational Perspective of Racial Disparities

# An Intergenerational Perspective on Racial Disparities

# Median Household Income by Race and Ethnicity in 2016



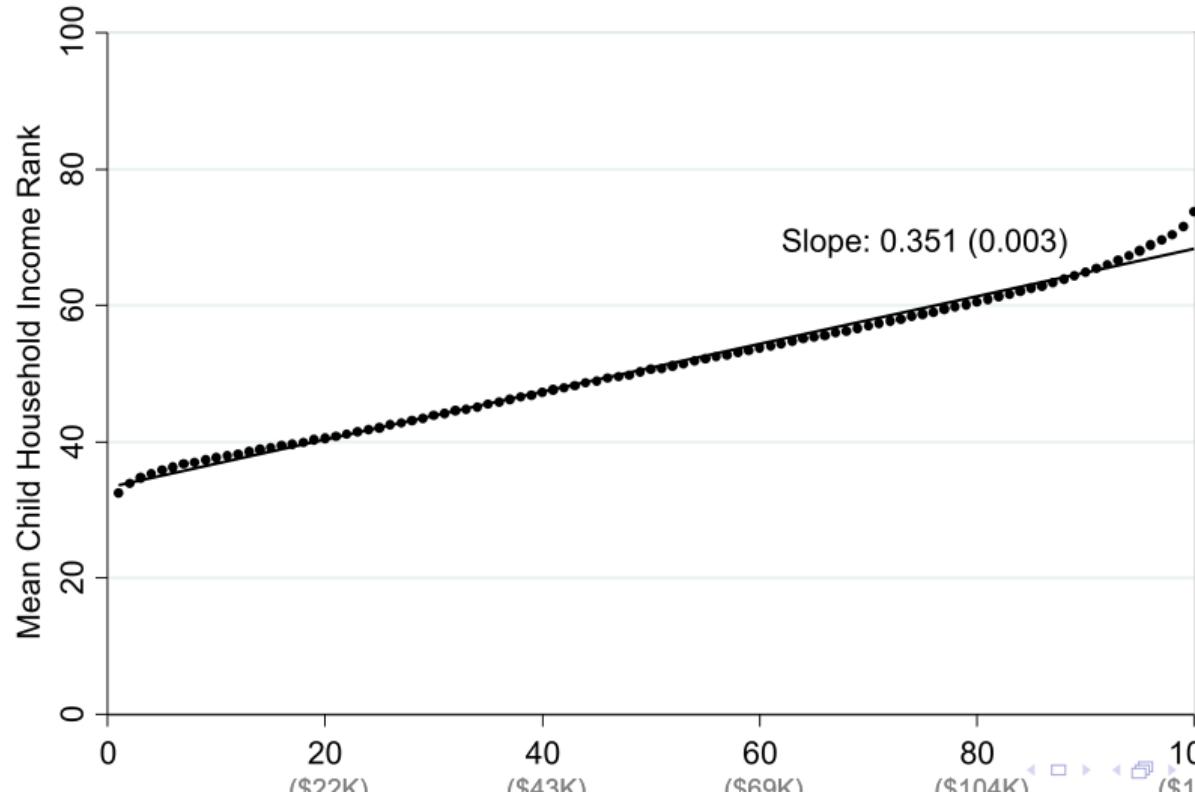
Source: American Community Survey 2016

# An Intergenerational Perspective on Racial Disparities

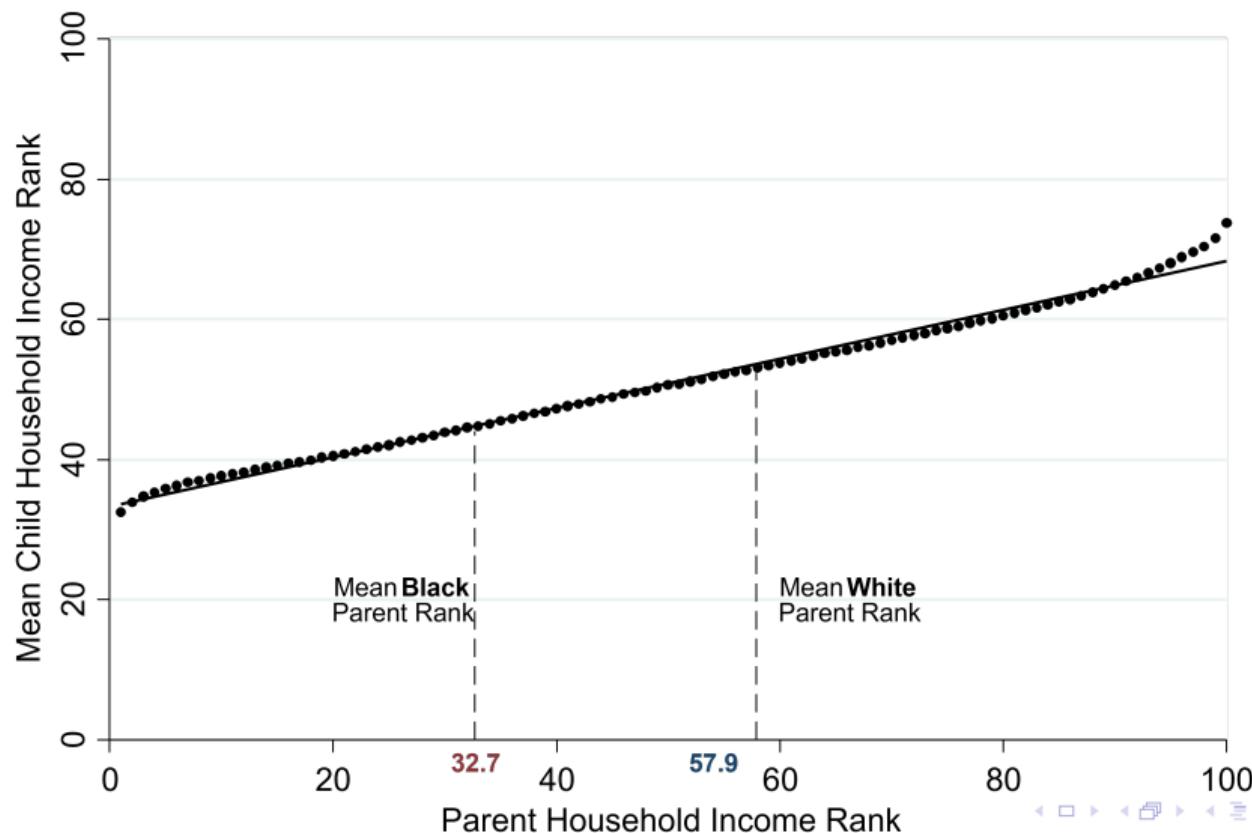
- ▶ Most prior work has studied racial disparities within a single generation
- ▶ We will take an intergenerational perspective, focusing on dynamics of income across generations
- ▶ Intergenerational approach sheds light on which disparities will persist in the long run and allows us to isolate the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

# Intergenerational Mobility in the United States

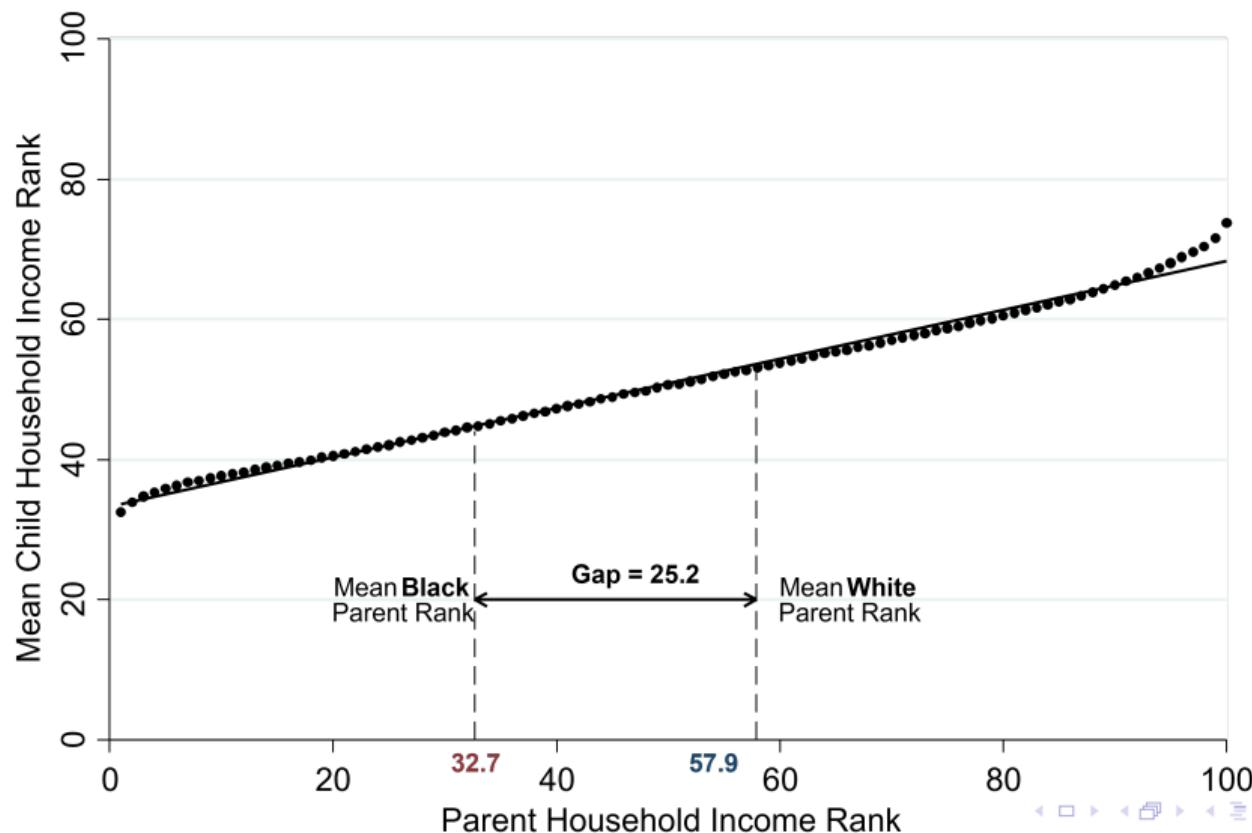
## Mean Child Household Income Rank vs. Parent Household Income Rank



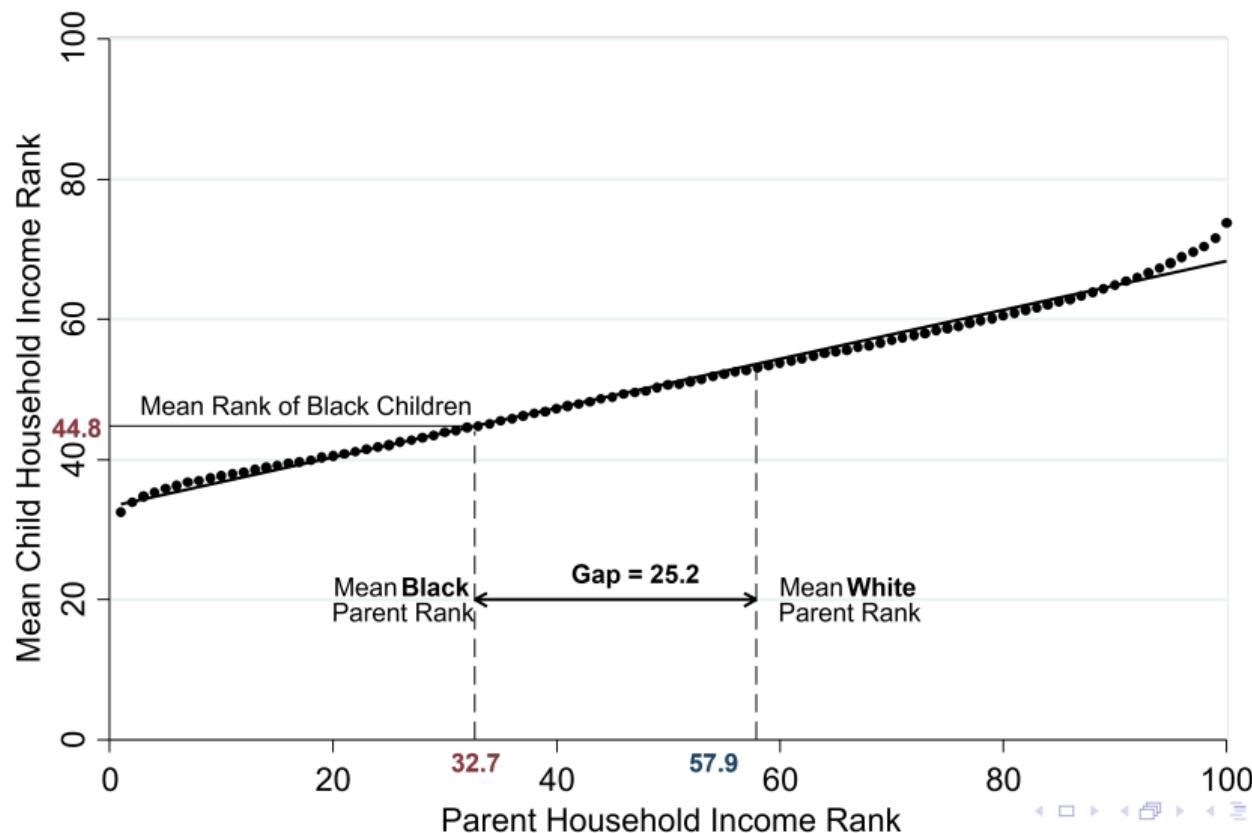
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



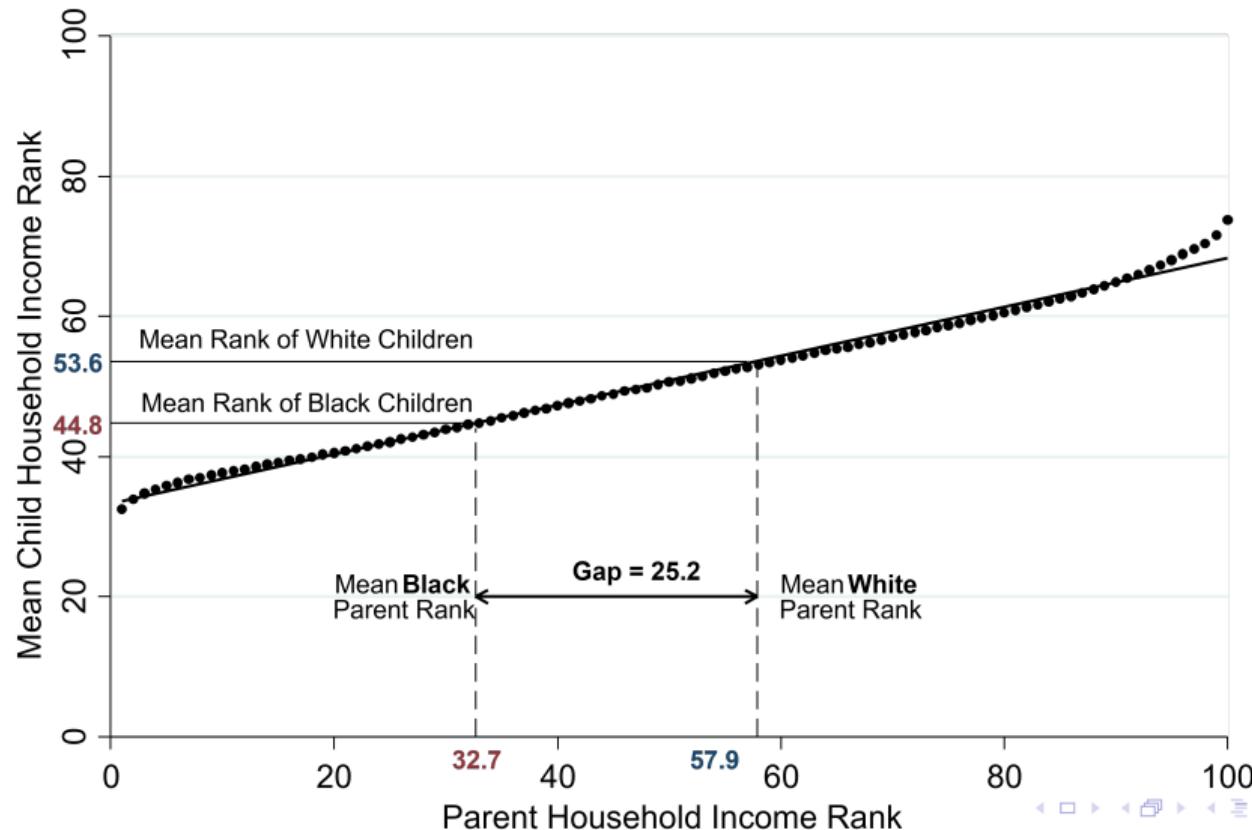
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



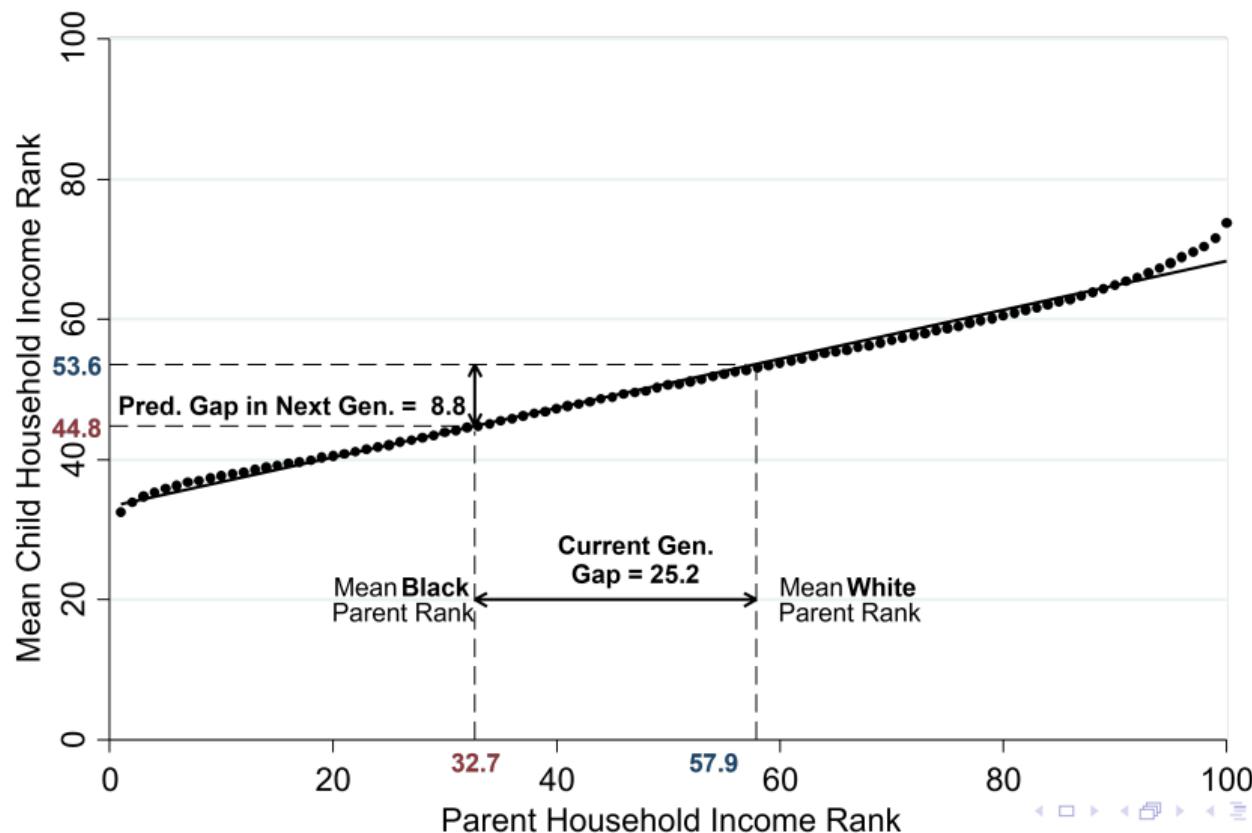
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



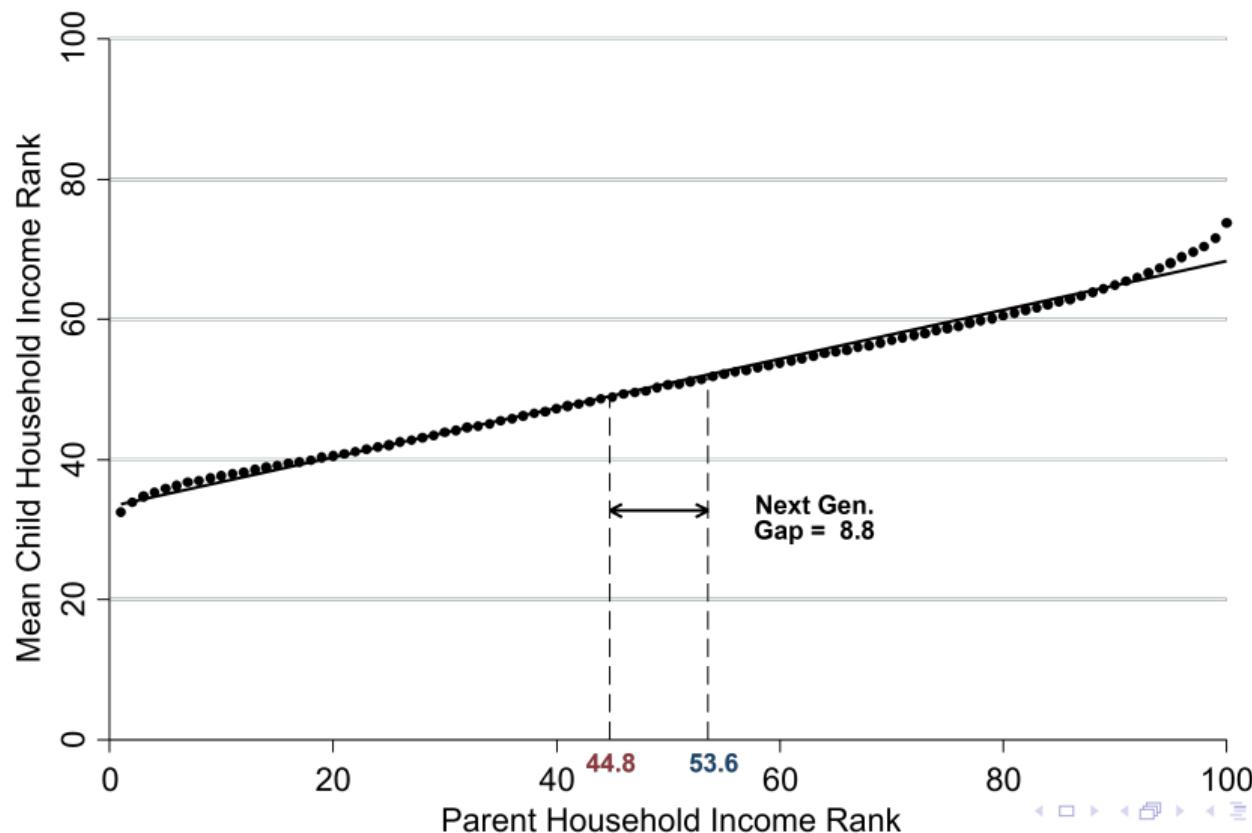
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



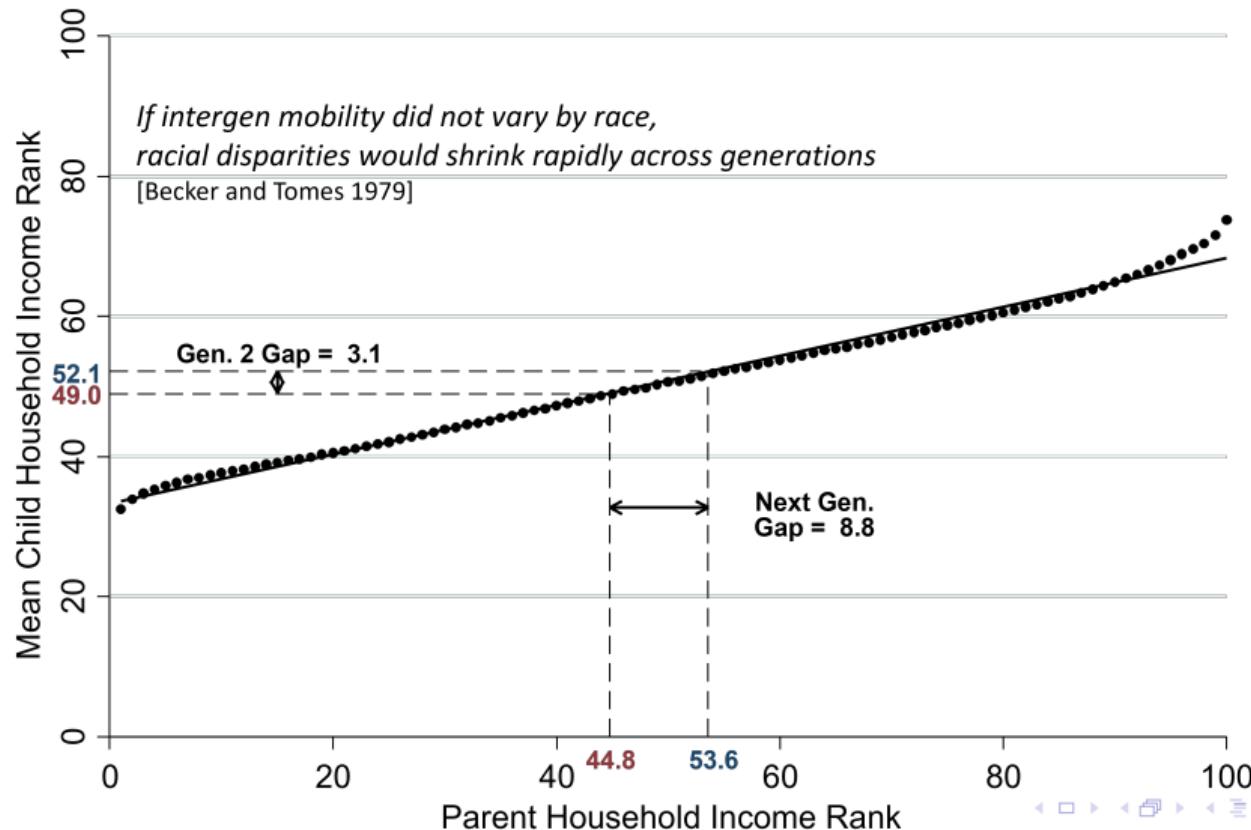
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



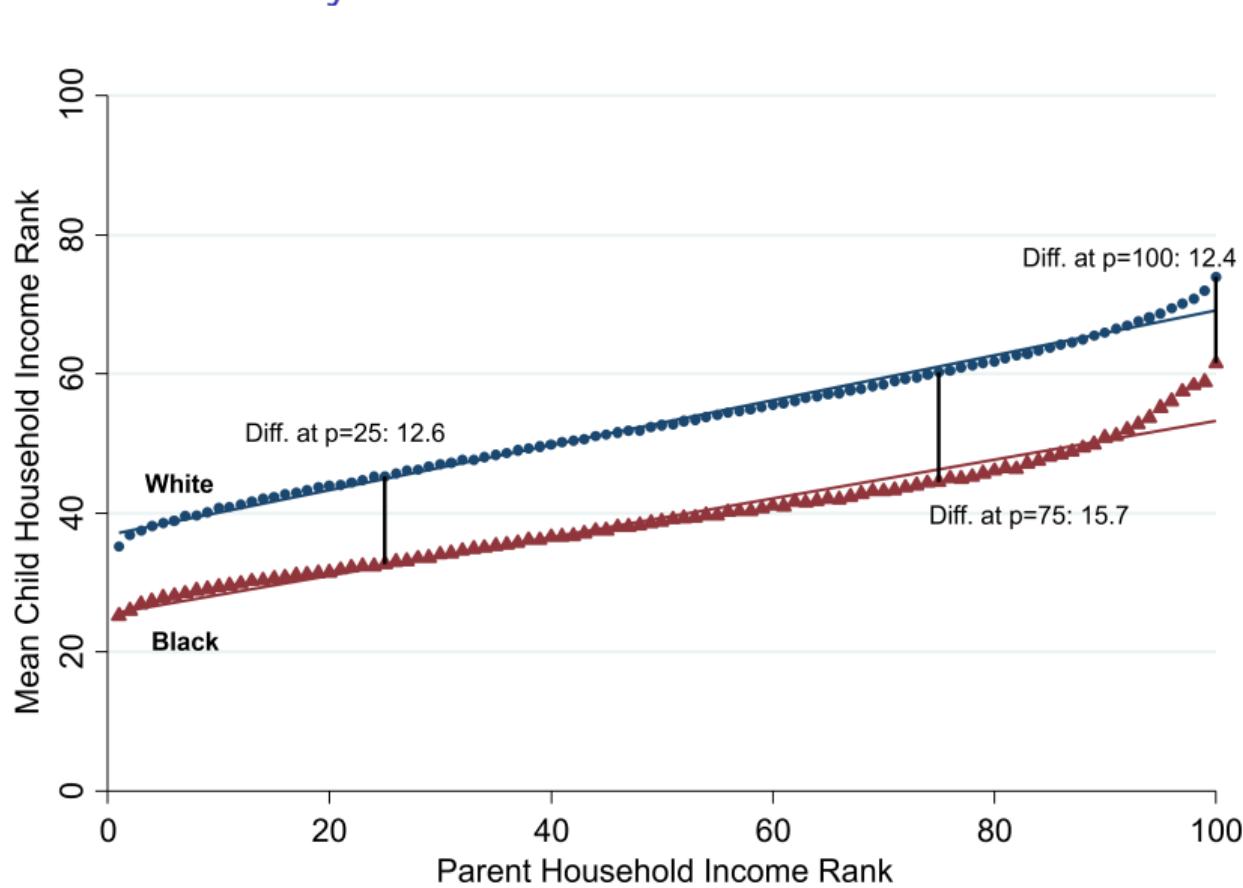
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



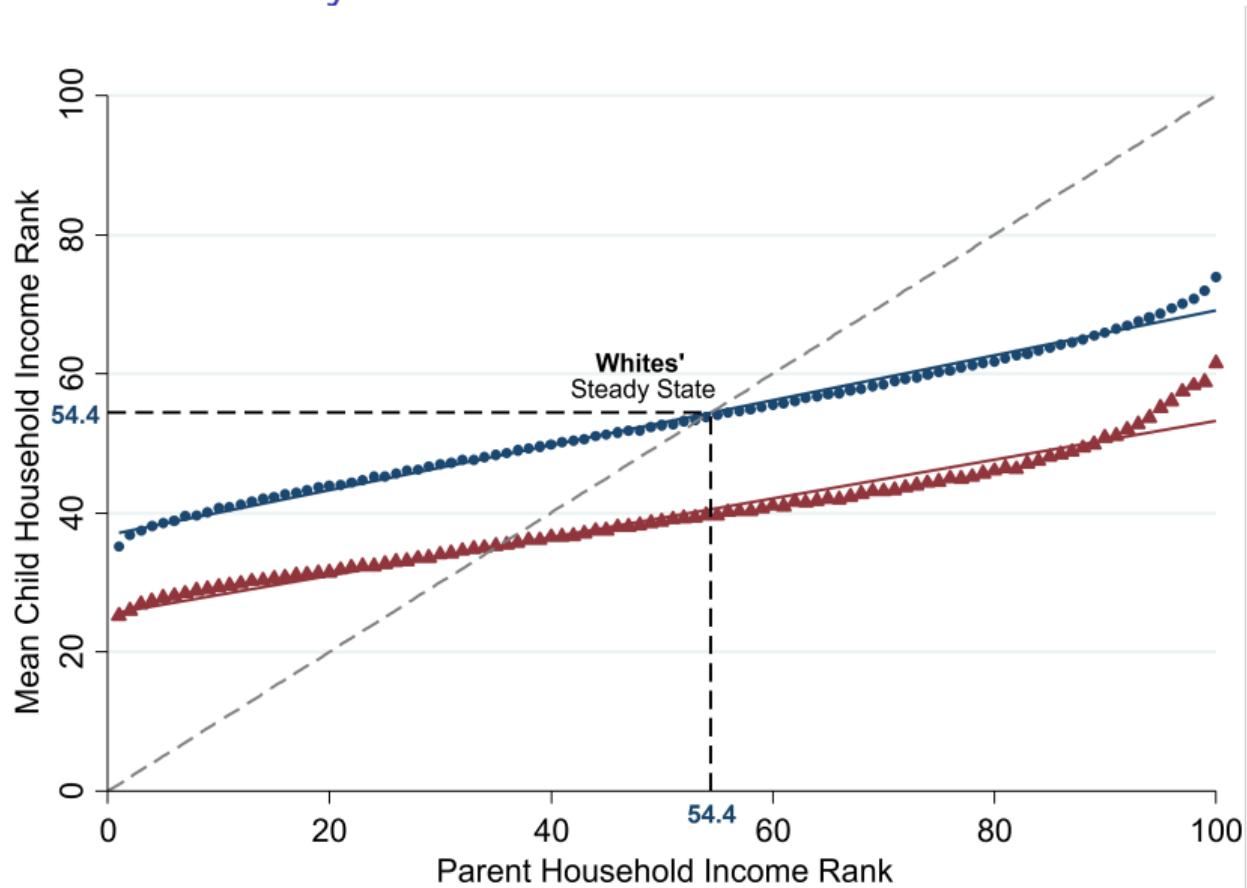
# Convergence in Black-White Gap if Intergenerational Mobility is Race-Invariant



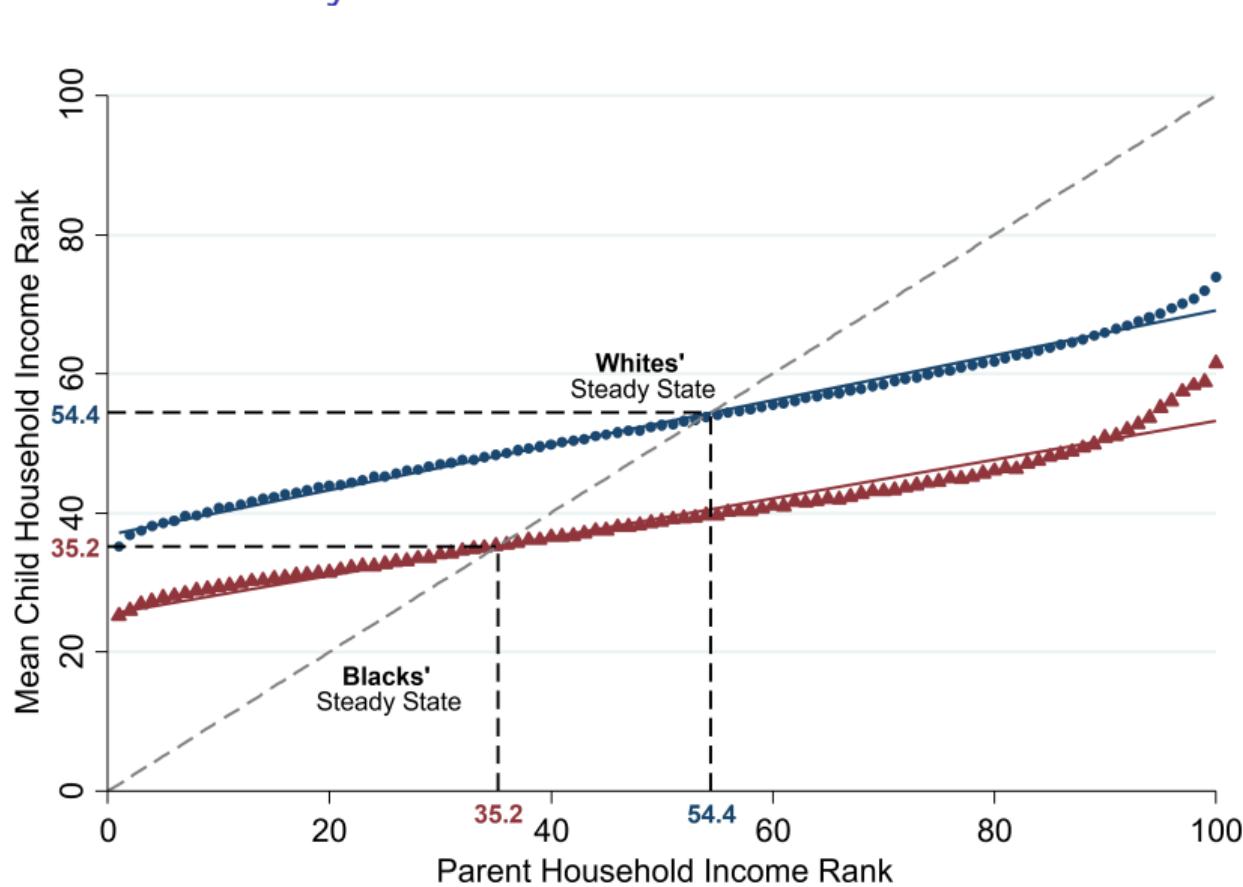
# Intergenerational Mobility for Whites vs. Blacks



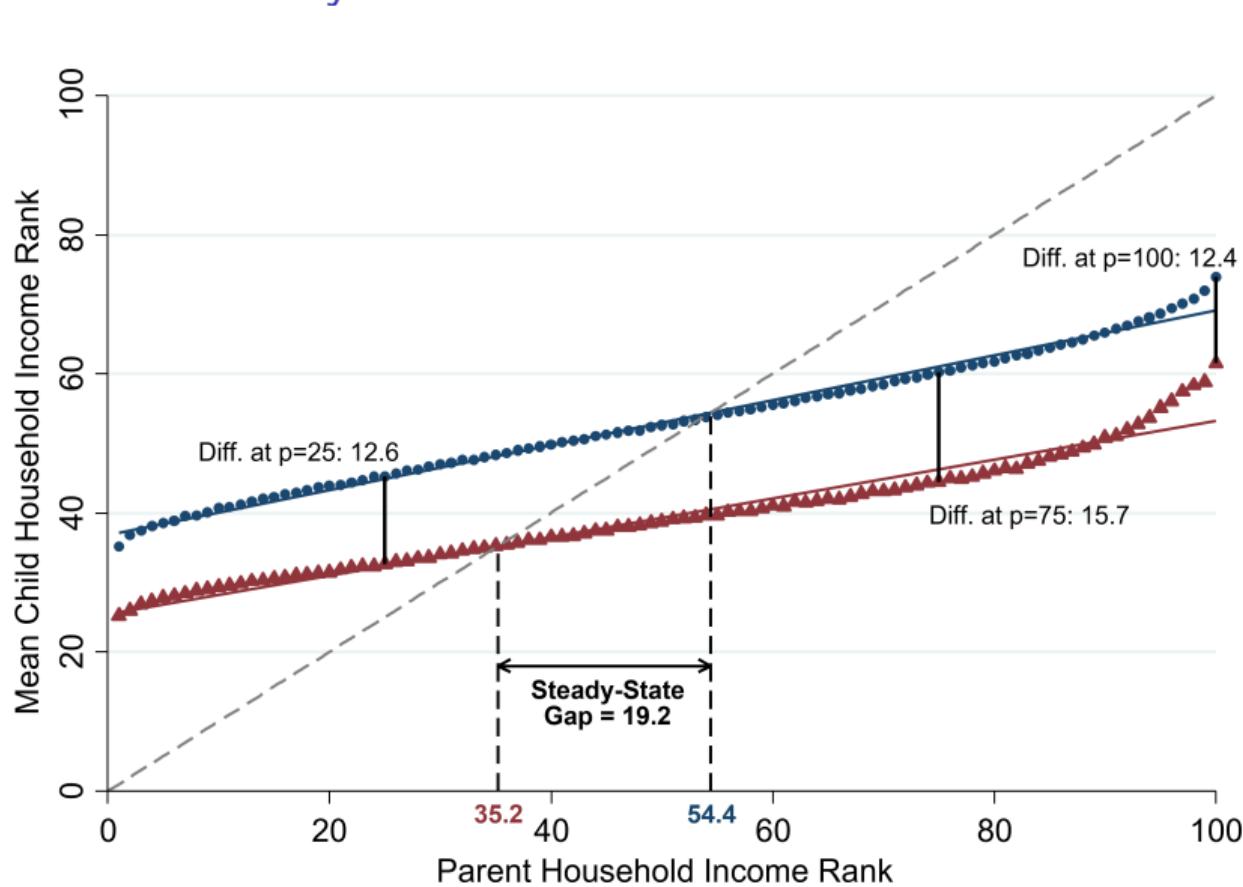
# Intergenerational Mobility for Whites vs. Blacks



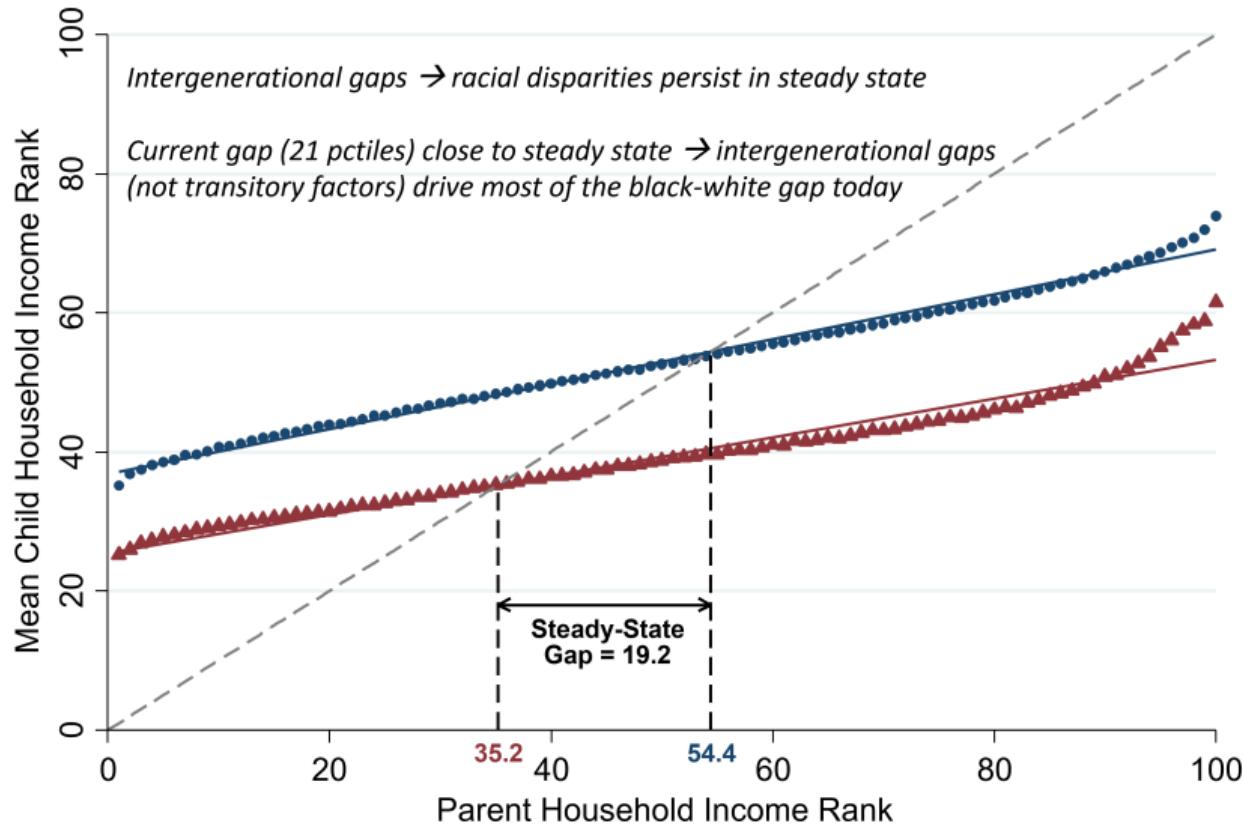
# Intergenerational Mobility for Whites vs. Blacks



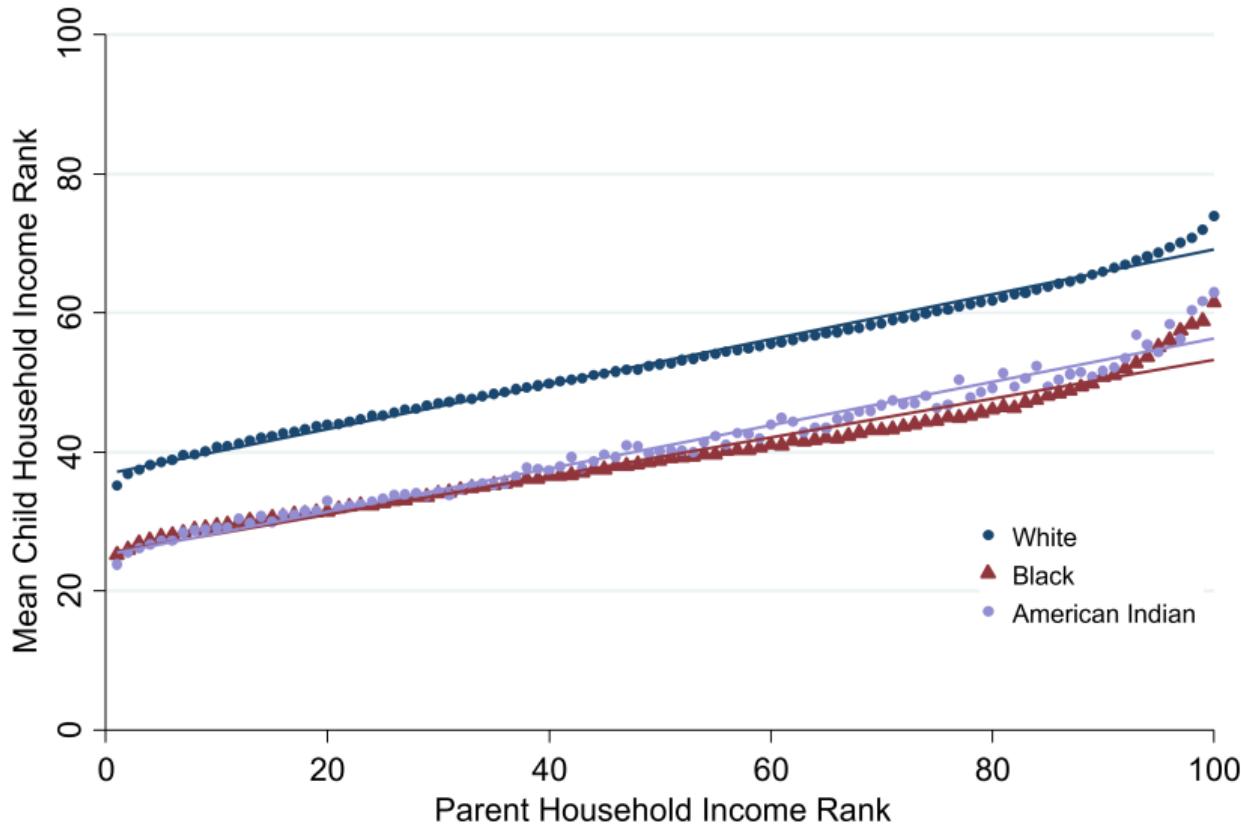
# Intergenerational Mobility for Whites vs. Blacks



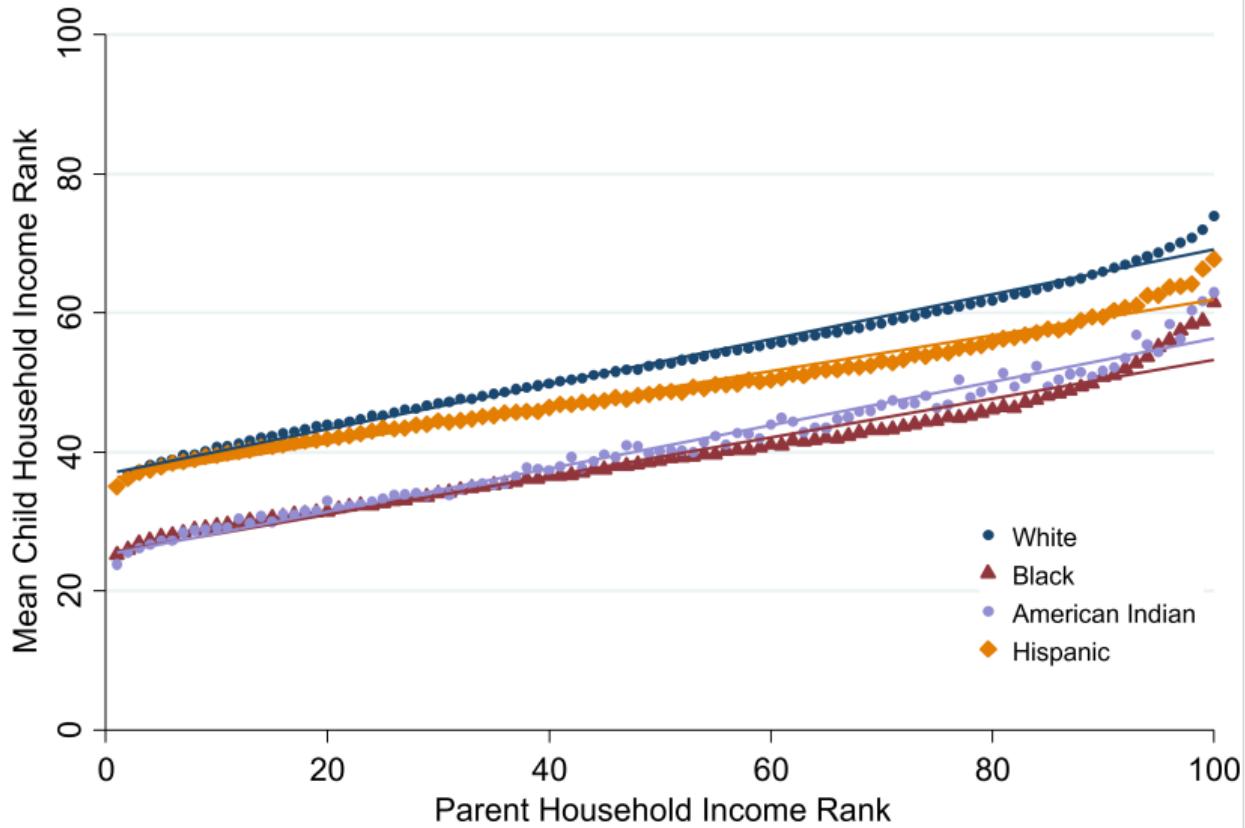
# Intergenerational Mobility for Whites vs. Blacks



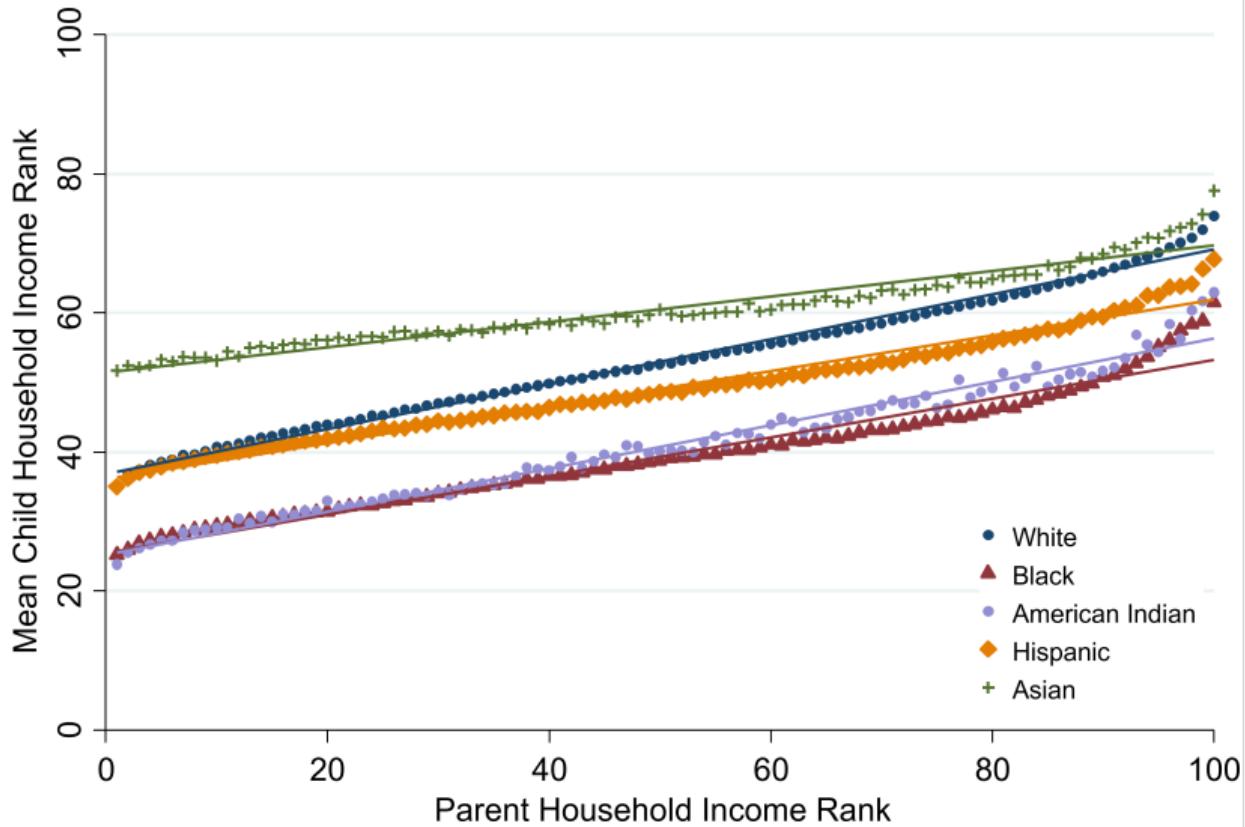
# Mean Child Income Rank vs. Parent Income Rank by Race and Ethnicity



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

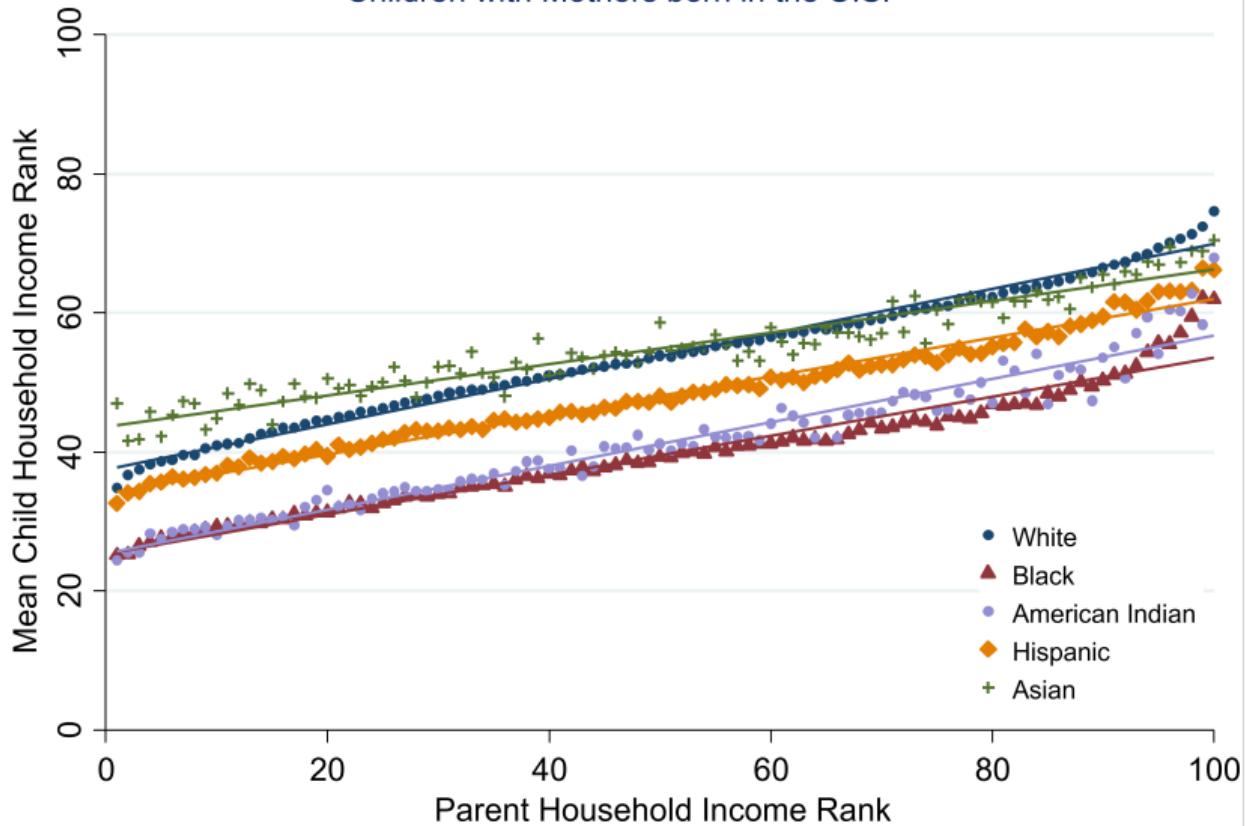


# Mean Child Income Rank vs. Parent Income Rank by Race and Ethnicity

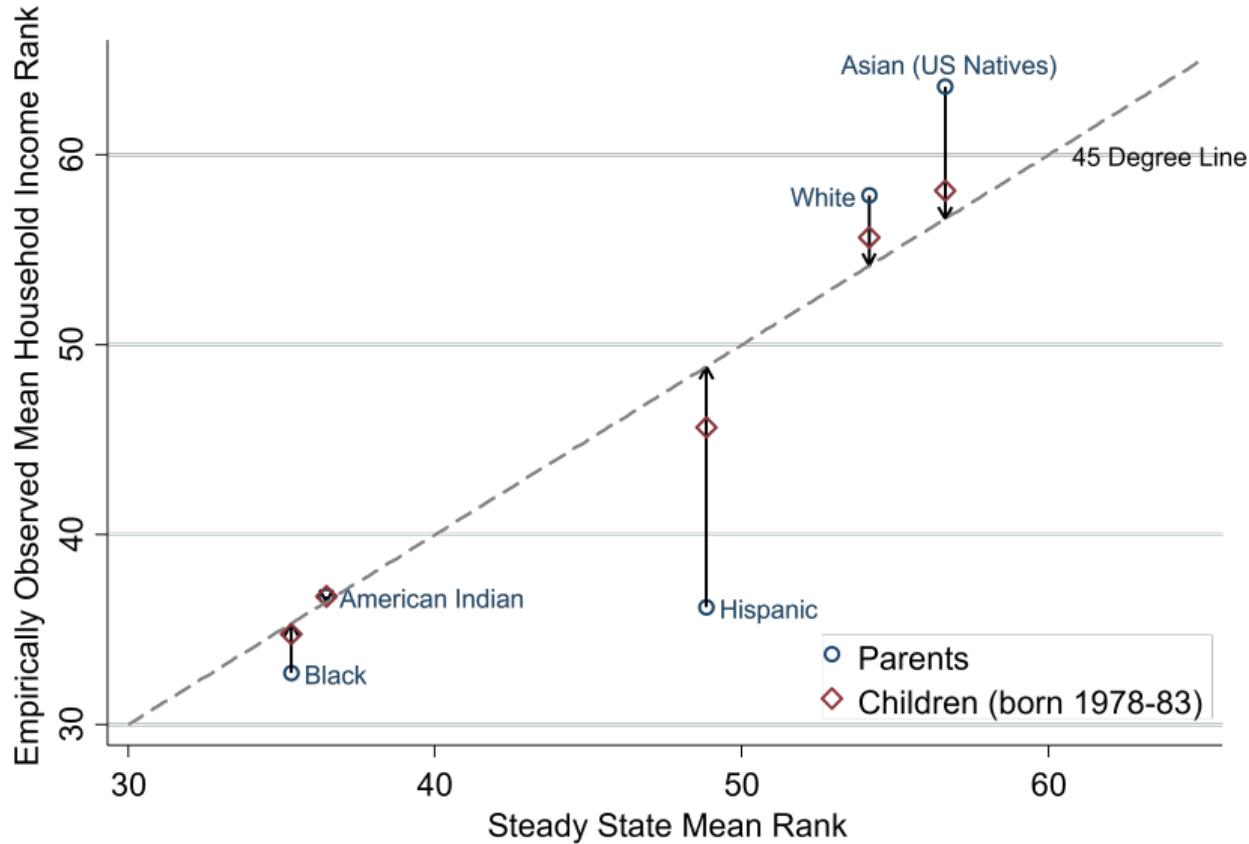


# Mean Child Income Rank vs. Parent Income Rank by Race and Ethnicity

Children with Mothers born in the U.S.



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



# Intergenerational Persistence of Racial Disparities

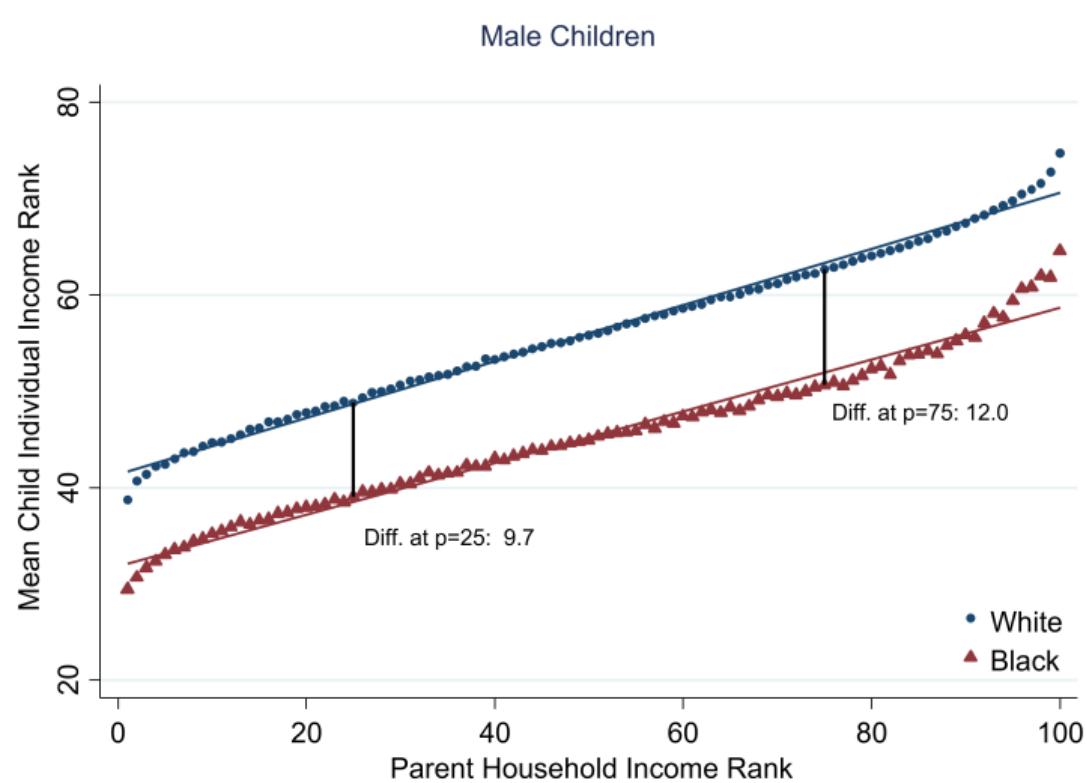
- ▶ Black Americans are close to their long-run steady-state
  - ▶ Suggests that intergenerational gaps (not transitory factors) drive most of the black-white gap today
- ▶ Addressing the black-white gap therefore requires understanding sources of intergenerational gaps
  - ▶ Why do black children earn 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

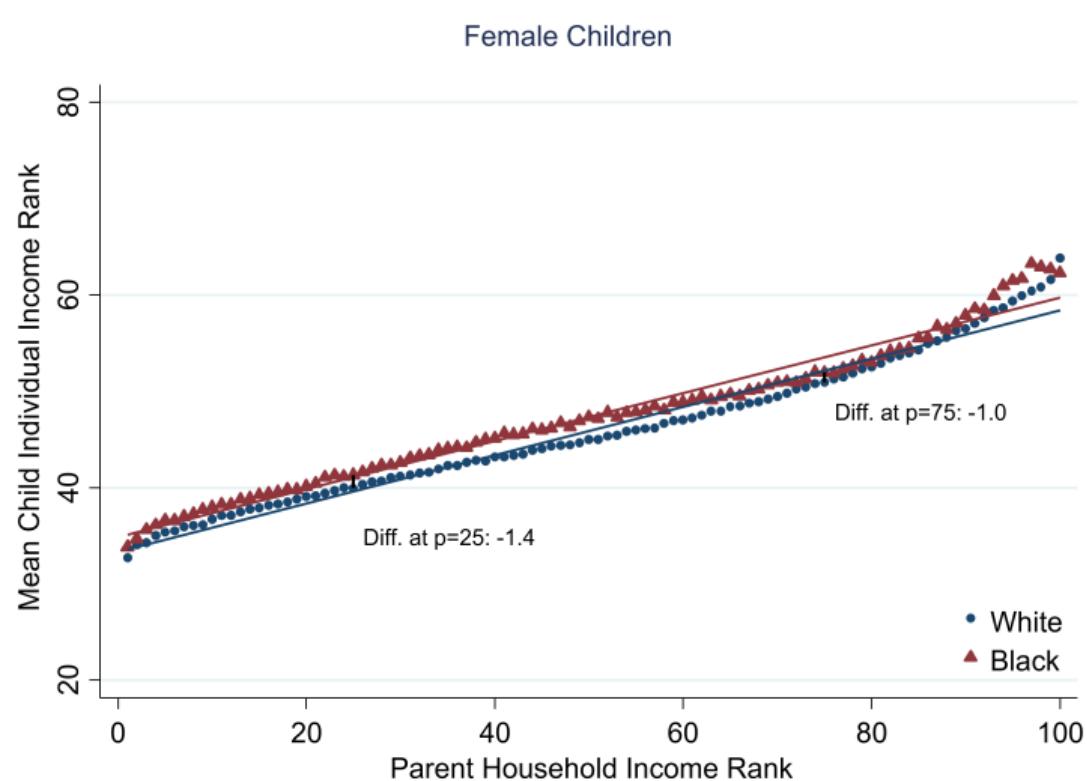
# Black-White Gap in Child Individual Income Rank vs. Parent Income Rank

## Male Children



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

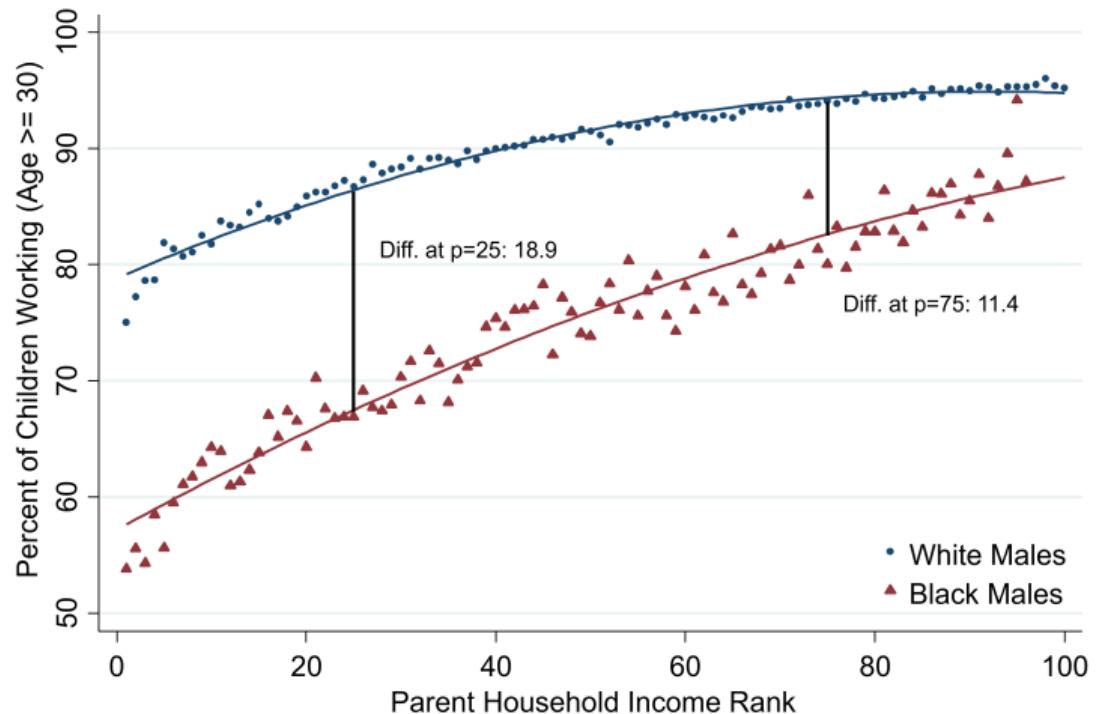
Female Children



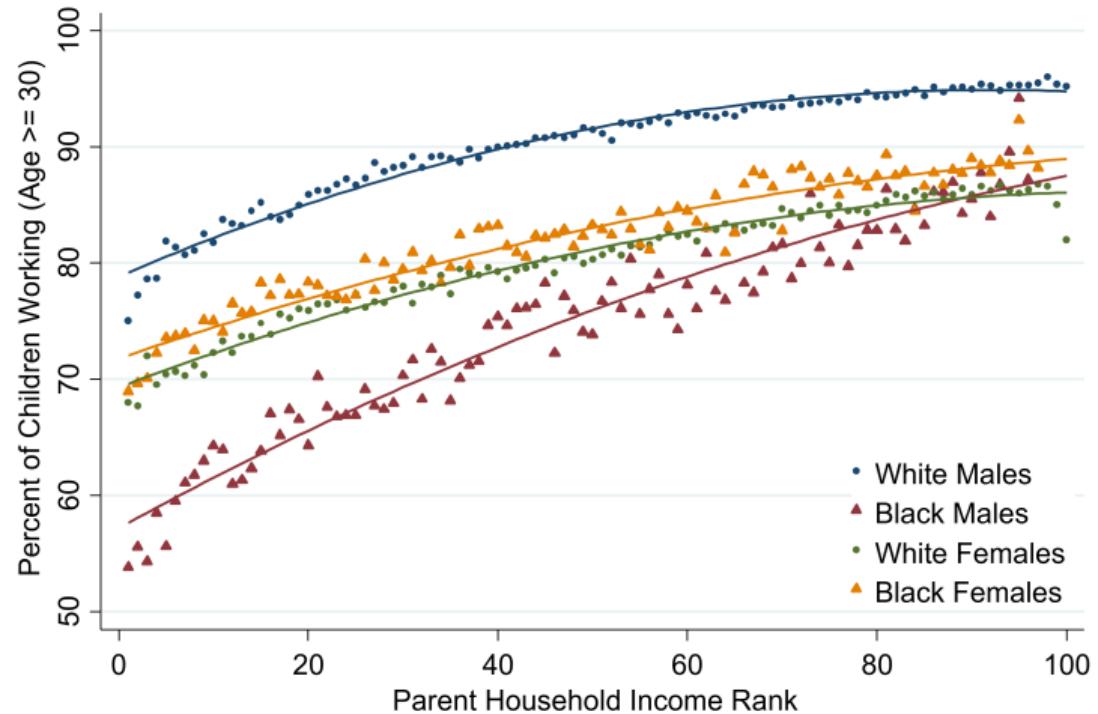
# Employment Rates vs. Parent Income Rank

## Male Children

Male Children

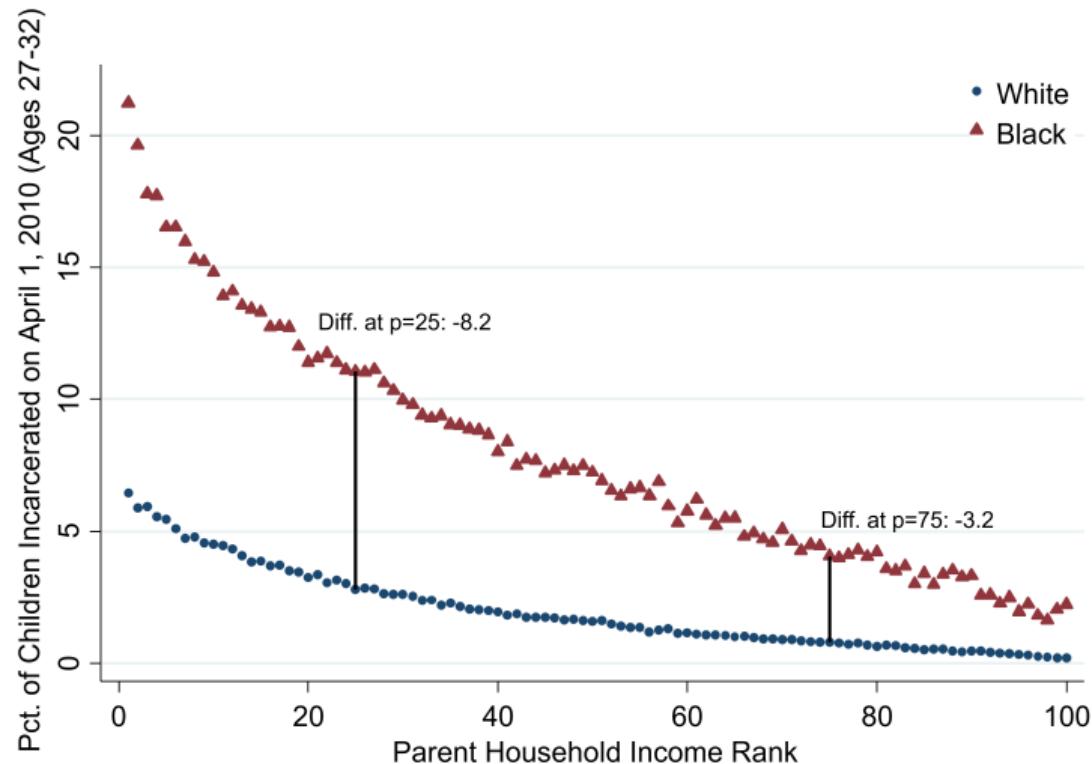


# Employment Rates vs. Parent Income Rank



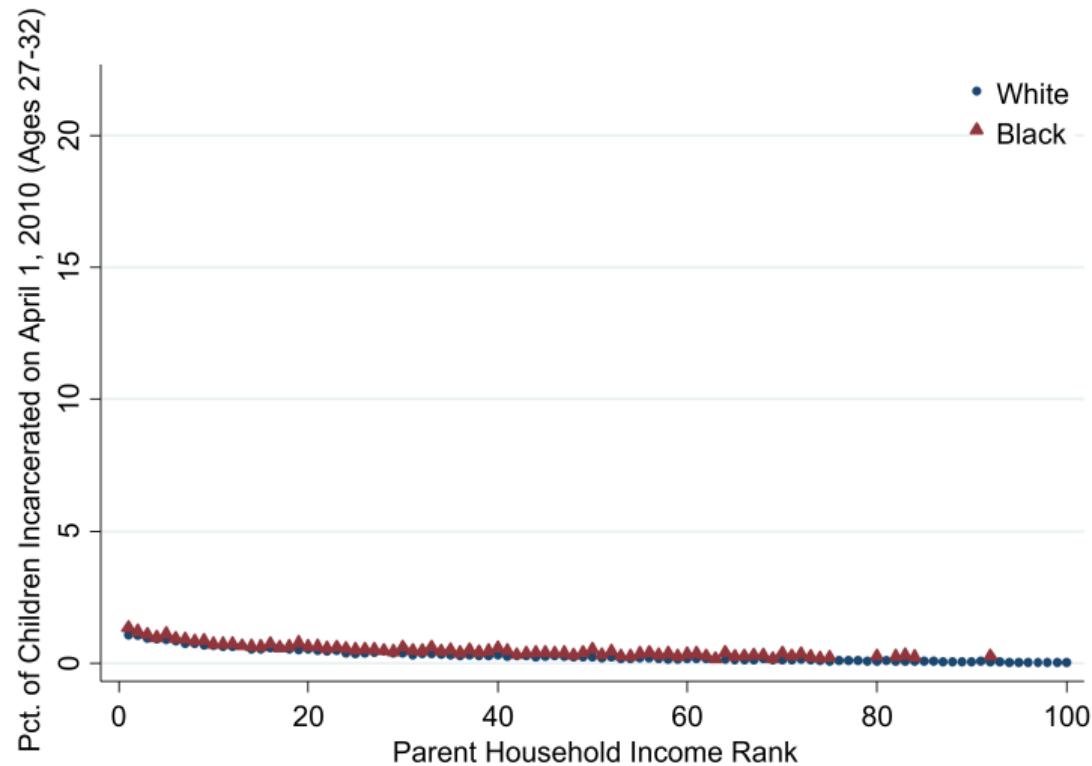
# Incarceration Rates vs. Parent Income Rank

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 (25<sup>th</sup> percentile)

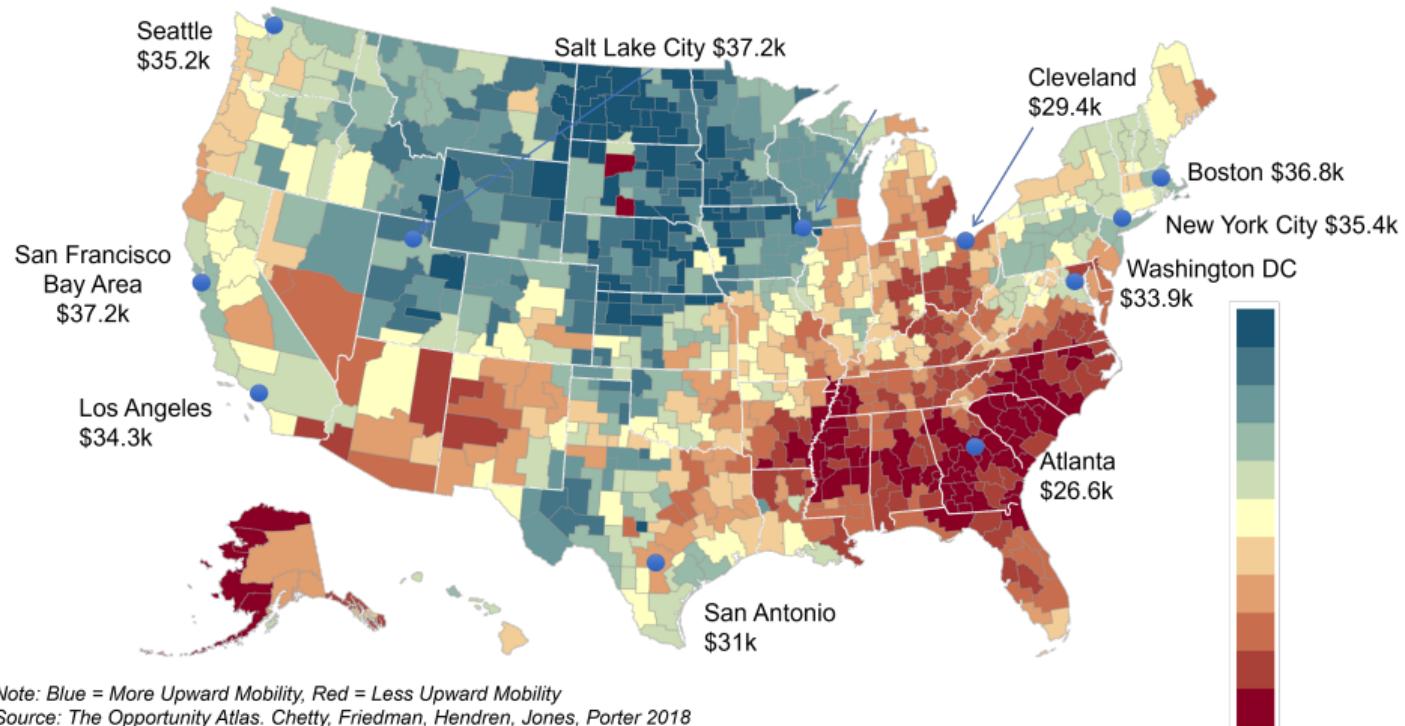
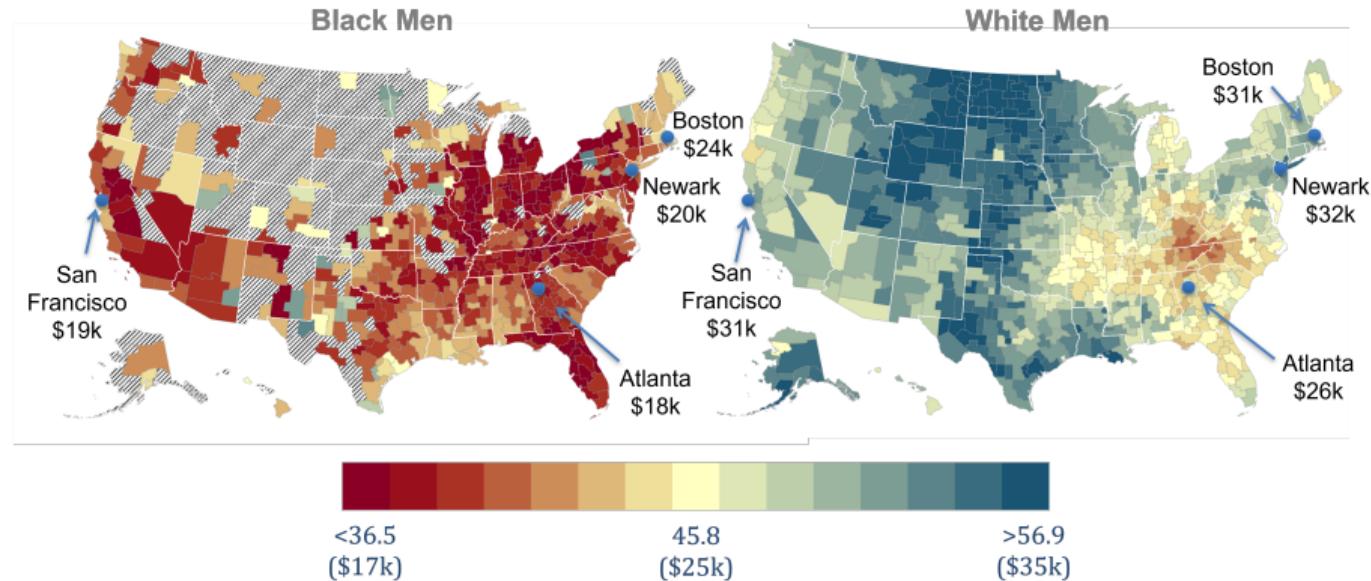


Figure 1: Source: Chetty, Friedman, Hendren, Jones and Porter (2018)

# Two Americas: The Geography of Upward Mobility by Race

Average Individual Income Rank for Boys with Parents Earning \$25,000 (25<sup>th</sup> 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:

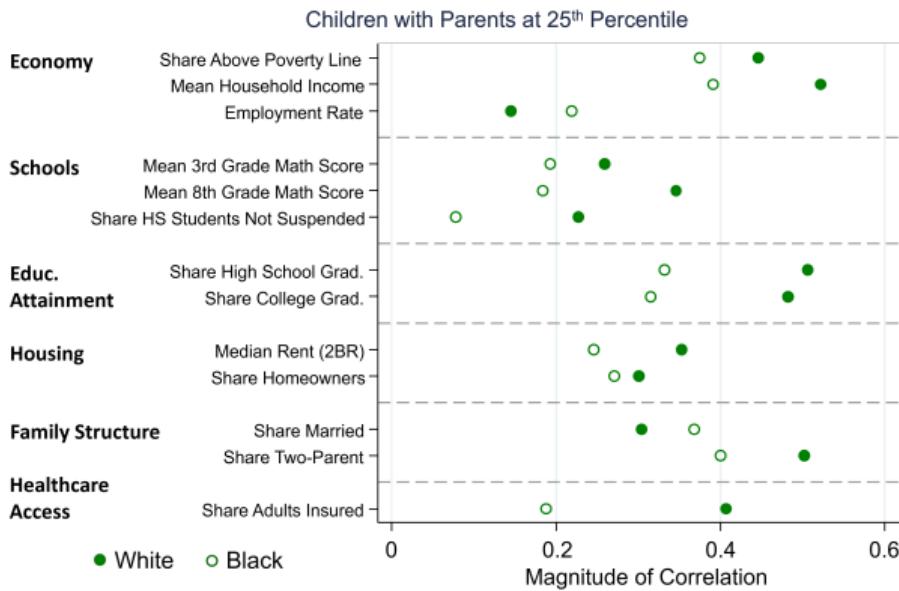
1. Black boys have lower earnings than white boys in 99% of Census tracts in America, controlling for parental income

# Variation in the Black-White Earnings Gap Across Tracts

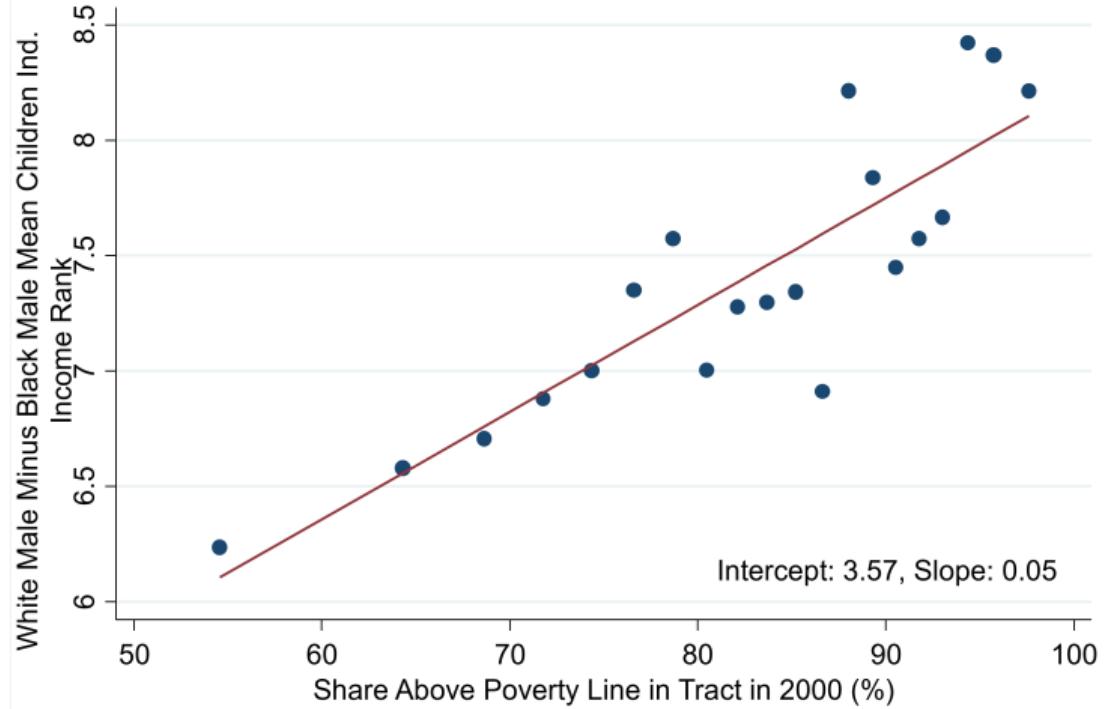
Four key results:

1. Black boys have lower earnings than white boys in 99% of Census tracts in America, controlling for parental income
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

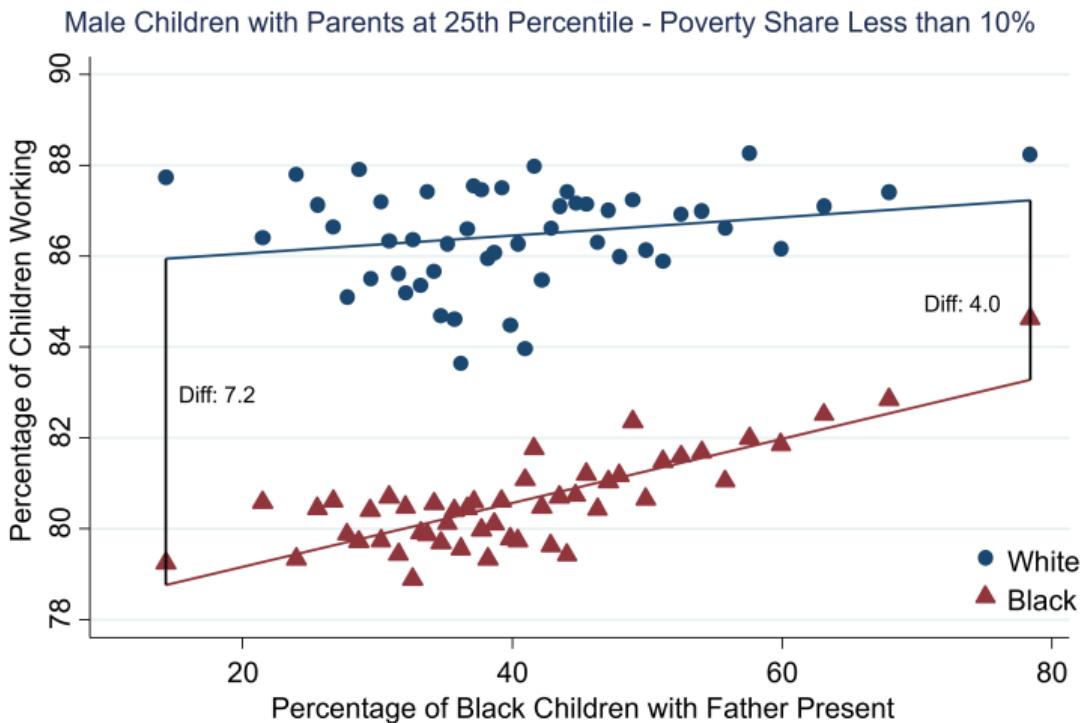


# Variation in the Black-White Earnings Gap Across Tracts

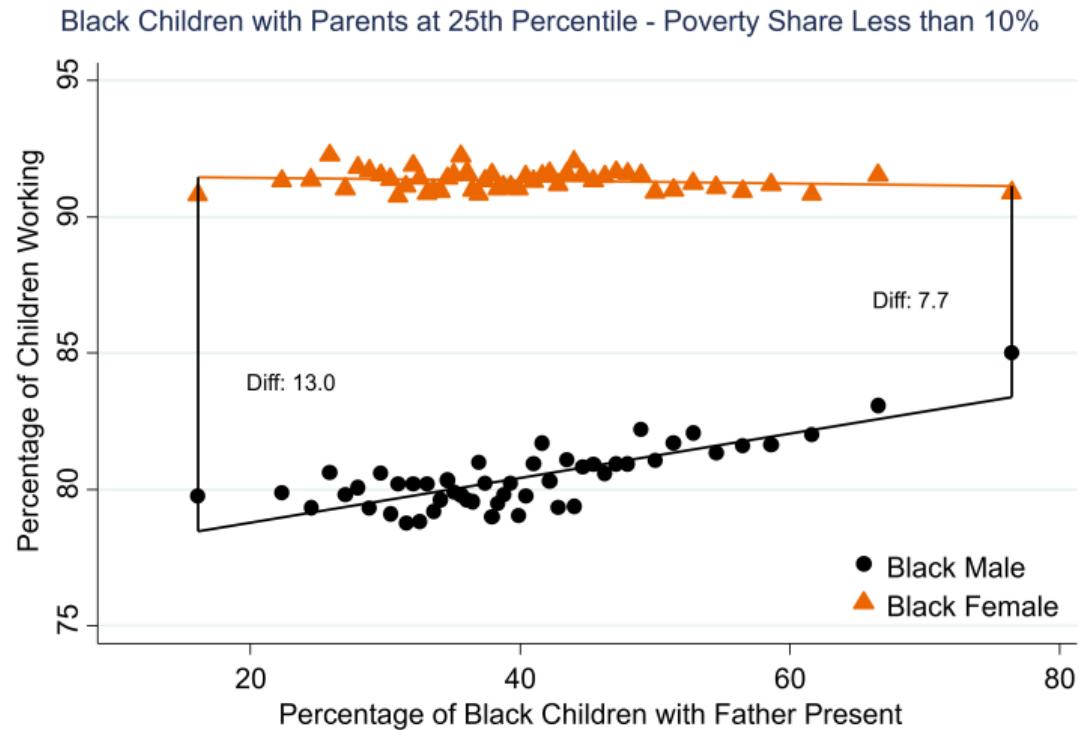
Four key results:

1. Black boys have lower earnings than white boys in 99% of Census tracts in America, controlling for parental income
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
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



# Variation in the Black-White Earnings Gap Across Tracts

Four key results:

1. Black boys have lower earnings than white boys in 99% of Census tracts in America, controlling for parental income
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
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
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)*

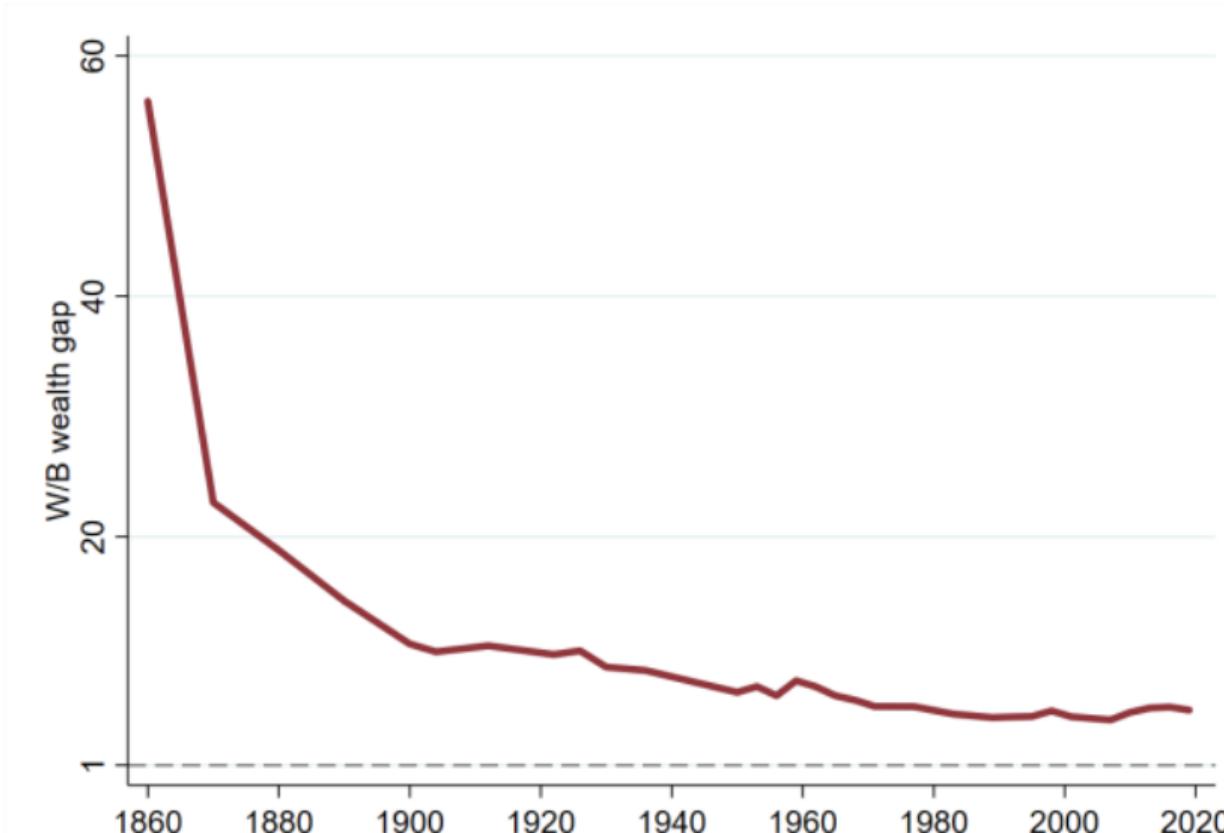
*"Wealth of two nations: The U.S. racial wealth gap, 1860-2020"*

# wealth gap, 1860-2020

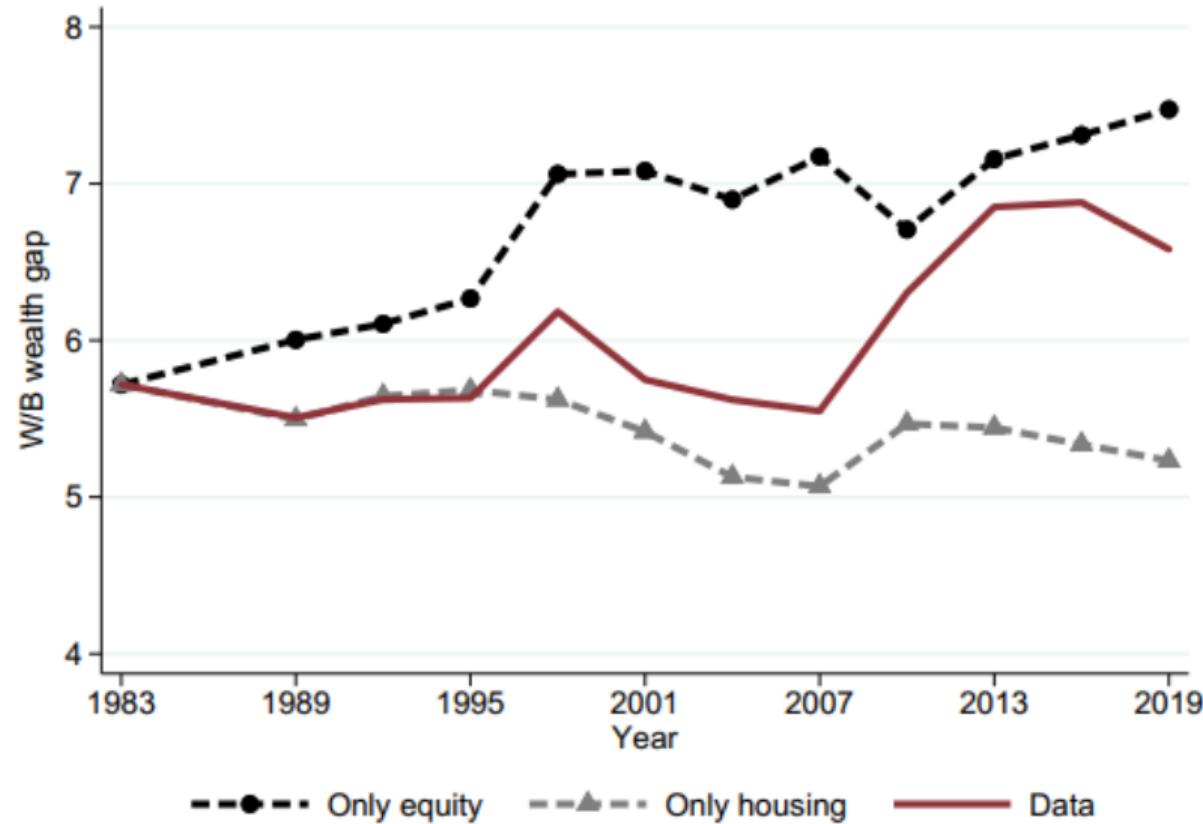
- ▶ Data:
  - ▶ Historical census data
  - ▶ Early state tax records
  - ▶ Historical waves of the Survey of Consumer Finance
- ▶ Several things could affect wealth accumulation across race groups:
  - ▶ Initial conditions (initial wealth)
  - ▶ Income growth
  - ▶ Savings behavior
  - ▶ Capital returns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