

# ECONOMIC COMMENTARY

## The Racial Wealth Gap and Access to Opportunity Neighborhoods

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Some Black households live in neighborhoods with lower incomes, as well as higher unemployment rates and lower educational attainment, than their own incomes might suggest, and this may impede their economic mobility. We investigate reasons for the neighborhood sorting patterns we observe and find that differences in financial factors such as income, wealth, or housing costs between Black and white households do not explain racial distributions across neighborhoods. Our findings suggest other factors are at work, including discrimination in the housing market, ongoing racial hostility, or preferences by Black households for the strength of social networks or other neighborhood amenities that some lower-socioeconomic locations provide.

It is now many years since the 1968 passage of the Fair Housing Act that outlawed housing discrimination based on race, yet Black and white Americans still predominantly live in separate neighborhoods. This persistent segregation is concerning because evidence suggests that access to the types of resources such as schools and job-referral networks found in neighborhoods with a high socioeconomic status (SES) could be a pathway to economic mobility for Black Americans (Rosenbaum, 1995; Polikoff, 2006; DeLuca et al., 2010; Aliprantis and Richter, 2020). Researchers refer to such neighborhoods as “opportunity neighborhoods.”

One might suspect that the persistence of racial differences in neighborhoods is an artefact of the fact that Black households tend to be economically poorer than white households and thus their neighborhoods would generally be economically poorer, as well. However, the persistence of residential segregation is not about income. Black households with incomes of \$175,000

per year live in neighborhoods with similar unemployment rates as white households with incomes under \$10,000. At the median of US household income, Black households live in neighborhoods with an unemployment rate that is 3.6 percentage points higher than their white counterparts. Similar differences hold for other measures of the socioeconomic status of a neighborhood’s residents such as poverty rates, educational attainment, and the share of single-headed households.

If income is not driving the residential distribution of Black families, then is wealth the missing obstacle to Black households’ accessing opportunity neighborhoods? There is reason to suspect that it could be: The racial wealth gap is such that even at the same level of income, Black households hold much less wealth than white households. Since wealth is an important source of down payments for buying a house, the racial wealth gap would seem to be an obvious obstacle to Black households’ living in neighborhoods that provide economic opportunity.

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*Economic Commentary* is published by the Research Department of the Federal Reserve Bank of Cleveland. *Economic Commentary* is also available on the Cleveland Fed’s website at [www.clevelandfed.org/research](http://www.clevelandfed.org/research). To receive an email when a new *Economic Commentary* is posted, subscribe at [www.clevelandfed.org/subscribe-EC](http://www.clevelandfed.org/subscribe-EC).

We look at the neighborhoods of residence of Black and white households by income and wealth, and we find that wealth plays only a minor role in explaining racial residential distributions. While income is a central determinant of neighborhood SES for both Black and white households, we find that an additional factor determining where Black households locate is the racial composition of neighborhoods. This evidence suggests that as expressed in the psychological safety Black households feel, or do not feel, in predominantly white neighborhoods, the state of race relations and the persistence of racial discrimination, and not a lack of income or wealth, are the reasons Black households do not reside in opportunity neighborhoods. We discuss how this finding provides insight beyond the racial wealth gap and into the broader ways that race still determines economic opportunity in the United States.

### Wealth and Neighborhood Sorting Patterns

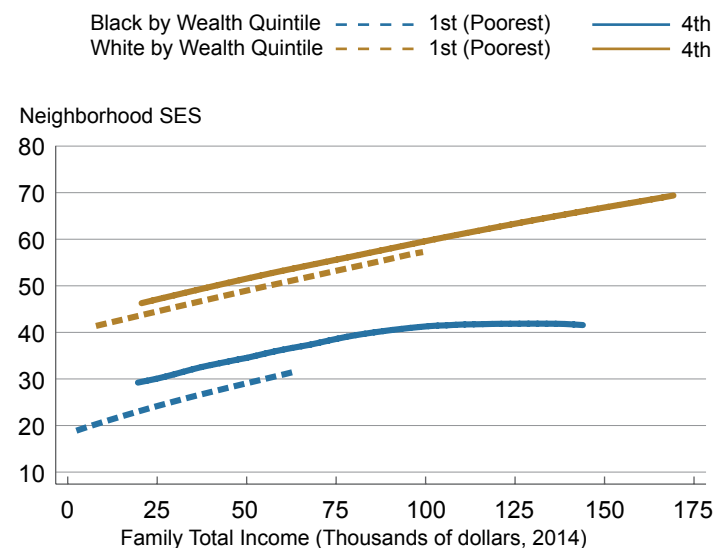
In a recent working paper (Aliprantis, Carroll, and Young, 2021), we use several data sets to examine residential sorting, or the process by which people end up living where they live, in the United States. We define neighborhoods as census tracts, which tend to have around 4,000 residents. We construct an index of SES by neighborhood to summarize the socioeconomic characteristics of current residents, including the poverty rate, the unemployment rate, the labor force participation rate, educational attainment, and the share of households with children in which the head is single. We measure neighborhood SES of residents using the 2012–2016 American Community Survey (ACS) (Manson et al., 2020).

We find that wealth plays only a minor role in maintaining residential segregation. Figure 1 displays the results of our statistical analysis, which uses the 2012–2016 ACS in combination with the 2015 survey wave of the Panel Study of Income Dynamics (PSID). One can see the relationship between income and neighborhood SES by looking at how neighborhood SES, plotted on the y-axis, changes as we move along the x-axis, which indicates family total income.

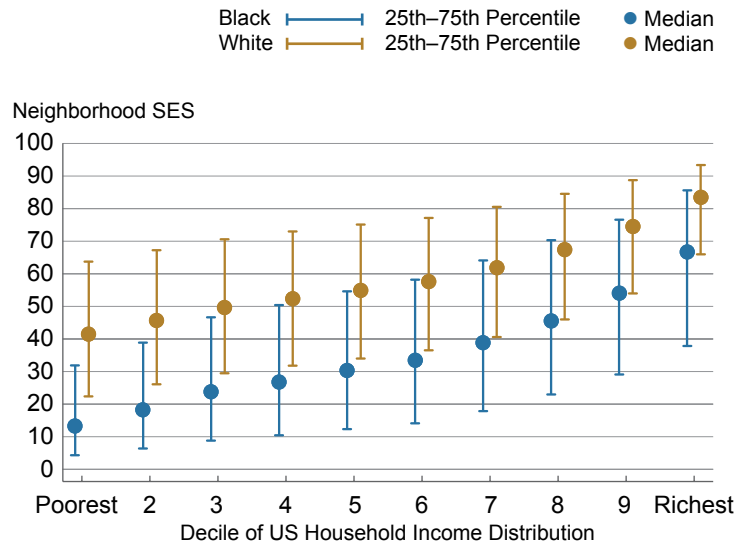
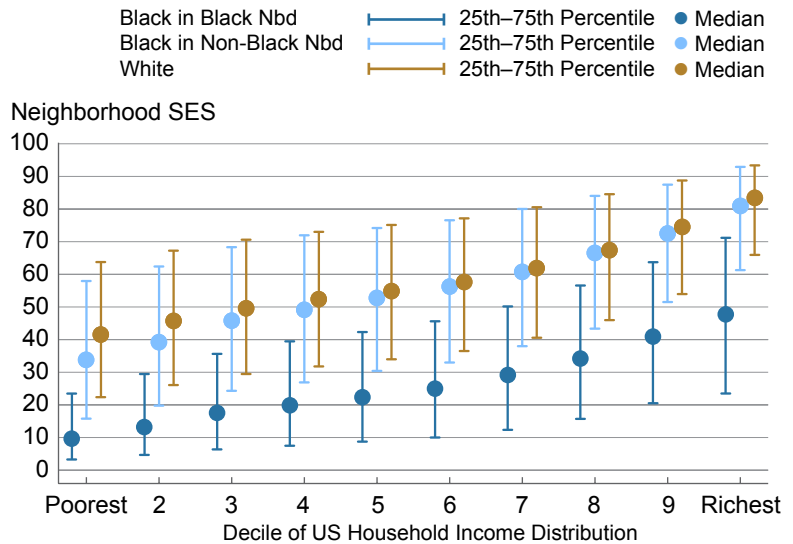
The brown lines in the figure show the average neighborhood SES of white households, and the blue lines show the average neighborhood SES of Black households. Each solid line shows neighborhood SES for households in the fourth quintile of wealth, and each dashed line shows neighborhood SES for households in the first, or lowest, quintile of wealth.<sup>1</sup> Thus we think of the solid lines as representing high-wealth households and the dashed lines as representing low-wealth households.

The fact that each line slopes upward indicates that for both Black and white households, the SES of the neighborhood in which a family lives increases as the family’s income increases. The gap between the brown and blue lines tells us the importance of race, while the gap between the solid and dashed lines indicates the importance of wealth. One can see that the gap between the brown and blue lines is much larger than the gap between the solid and dashed lines. As a result, having a high income and high levels of wealth has a different implication for Black families than for white families. In fact, by comparing the left of the dashed brown line to the right of the solid blue line, we can see that high-income, high-wealth Black families tend to live in neighborhoods with an SES that is comparable to that of the lowest-income, lowest-wealth white families. Overall, the increase in neighborhood SES from income appears to be much larger than the increase from wealth. An additional dollar of income accounts for an increase in neighborhood SES that is 10 times greater than does an additional dollar of wealth. If wealth were also contributing to the patterns of racial distribution we see in neighborhoods, then the dashed lines representing low-wealth families would lie on top of each other rather than tracking their Black or white solid-line counterparts. Similarly, the solid lines representing high-wealth families would be on top of each other. Instead, we see that the brown lines representing white families and the blue lines representing Black families lie closer together, with a large gap between Black and white families.<sup>2</sup>

**Figure 1. Neighborhood SES by Income, Race, and Wealth**



Source: 2012–2016 ACS from IPUMS NHGIS, University of Minnesota, [www.nhgis.org](http://www.nhgis.org); 2015 PSID (restricted use)

**Figure 2. Neighborhood SES by Income and Race****Figure 3. Neighborhood SES by Income, Race, and Nbd Type**

Source: 2012–2016 ACS from IPUMS NHGIS, University of Minnesota, [www.nhgis.org](http://www.nhgis.org)

### What Does Explain Neighborhood Sorting Patterns?

If income and wealth do not explain the gap in neighborhood SES between Black and white households, then what does? One issue discussed in the literature is that the number of neighborhoods that are both high-SES and predominantly Black is small (Bayer et al., 2014). As a result, households that are both high-income and Black often must choose between a neighborhood that is high SES or one that is predominantly Black. We find patterns in the data that, while consistent with other explanations such as white flight or discrimination in the housing market, are also consistent with this explanation.

Panel A of Figure 2 shows that at each decile of the US household income distribution, Black households live in neighborhoods with a considerably lower SES than their white peers. The gap is about 20 percentile points and creates a large difference within income levels. The dots in the middle of the lines indicate the median of each race and income subpopulation. The lowest-income white households live in higher SES neighborhoods than most Black households, including those in the middle of the income distribution. To get to the neighborhood SES of the median white household in the poorest decile of income, one has to look at the median Black household in the seventh decile of income.

Panel B of Figure 2 shows that at all income levels, the gap in Panel A can be explained by Black households residing in Black neighborhoods.<sup>3</sup> In other words, Black households tend to live in lower-SES neighborhoods when they live in Black neighborhoods rather than any other type of neighborhood, and this difference is large enough to completely explain the gap in the neighborhood distribution of Black and white households. As shown by the light-blue lines, Black households living in non-Black neighborhoods end up in neighborhoods that are identical to the neighborhoods of

their white counterparts, at least with respect to SES. The gap between the brown and blue lines in Panel A is driven by the gap between the light-blue and dark-blue lines in Panel B: It is the Black households living in Black neighborhoods, which are represented by the dark-blue lines in Panel B, that are the Black households living in lower SES neighborhoods.

The gap between the light-blue and dark-blue dots is large: When Black households reside in Black neighborhoods, they end up living in neighborhoods with SES index values that are around 30 percentile points lower than Black households residing in non-Black neighborhoods. To put the 30 percentile point gap in SES into perspective, consider the median Black household in the sixth decile of household income. That household lives in a neighborhood of markedly different character depending on whether it is situated in a Black or a non-Black neighborhood, with differences in unemployment rates of 10.3 percent and 6.3 percent, poverty rates of 20.2 percent and 11.1 percent, and four-year college degree attainment rates of 19.7 percent and 29.9 percent, respectively.

It appears that many Black households must choose between living in Black neighborhoods that are lower SES and non-Black neighborhoods that are higher SES and that this choice involves difficult tradeoffs with respect to economic opportunity (Pattillo, 2007; Bayer et al., 2014; Eligon and Gebeloff, 2016). We also find evidence of this tradeoff when we look across cities. In many cities, there are few high-SES neighborhoods that have a large share of Black residents. In those cities with relatively many high-SES Black neighborhoods, high-income Black households tend to live in neighborhoods that look more similar to those of their white household counterparts in terms of SES. In cities with fewer high-SES Black neighborhoods, the gap between the neighborhood SES of high-income Black and white households is larger.

## Implications

Our findings suggest that equalizing wealth will not equalize the neighborhoods in which Black and white households reside. Therefore, equalizing wealth will not equalize the resources one is able to access through neighborhoods of different levels of SES. This shapes our thinking on the racial wealth gap because although there are other ways that wealth could drive income, say, through financing a college education (Bulman et al., 2021) or allowing a worker to be more selective when searching for jobs (Pilossoph and Wee, forthcoming), neighborhoods are one of the main pathways through which we would suspect wealth to affect income (Wilson, 1987). Access to high-SES neighborhoods is likely to play a key role in economic mobility, for example, through job referral networks and access to employment for adults and through schools, safety, and future job referral networks for children. Our findings indicate that, at least in terms of neighborhood sorting, we should view wealth as more of a consequence than a cause.

Our findings also speak beyond the racial wealth gap to provide insight into the ways that race still determines economic opportunity in the United States. If high-income Black households are residing in lower-SES neighborhoods because discrimination in the housing market is limiting their ability to rent or buy homes in higher-SES neighborhoods, then our findings point to the need to redouble efforts to seek out and stop such discrimination (Christensen and Timmins, 2021; Turner et al., 2013; Courchane and Ross, 2019).

If, on the other hand, high-income Black households are residing in lower-SES neighborhoods by choice, an appropriate response depends on why they are choosing to do so. It could be that the strength of social networks or other neighborhood amenities create a strong attraction to residing in lower-SES neighborhoods (Pattillo, 2007; Eligon and Gebeloff, 2016). In that case, much as people's reluctance to move across larger regions might justify place-based policies (Austin et al., 2018; Schweitzer, 2017), one would see justification for neighborhood-focused policies related to education and economic development. Conversely, it could be that Black households are bypassing higher-SES, lower-share Black neighborhoods to avoid racial hostility (Anderson, 2020; Harriot, 2019). This latter perspective on our findings would indicate that making spaces that have traditionally been viewed as being for white people welcoming to Black people is not just about psychological safety, but also about economic opportunity.

## Footnotes

1. We use the fourth quintile of wealth to represent high-wealth households because this group has high levels of wealth (about \$180,000 on average) and because the Black and white households in this quintile have similar levels of wealth. Because the wealth distribution is very skewed, households in the top and bottom of the fifth quintile of wealth have very different levels of wealth. Since Black households in the fifth quintile of wealth are disproportionately in the lower end, we do not use the fifth quintile of wealth to display results.
2. Although the gap between the dashed and solid blue lines is small, it is larger than the analogous gap between the brown lines. We interpret the gap between the dashed and solid blue lines as more likely reflecting income volatility rather than discrimination. The reason is that when we make a similar figure using the 2011, 2013, and 2015 waves of the PSID to construct a three-year average of income to account for the greater income volatility of Black households, the dashed and solid lines for Black families lie directly on top of one another.
3. We define a Black neighborhood as one in which at least 20 percent of residents are Black and a non-Black neighborhood as all other neighborhoods. We obtain similar results when defining a Black neighborhood as one in which either at least 10 percent or 30 percent of residents are Black.

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