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# Neighbors' income distribution: economic segregation and mixing in US urban neighborhoods<sup>☆</sup>

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## Abstract

The paper describes within-neighborhood economic segregation in US metropolitan areas in 1985 and 1993. It uses the neighborhood clusters of the American housing survey, standardized by metropolitan area income and household size, to explore income distribution within neighborhoods at a scale much smaller than the census tract (a representative sample of households or 'kernels' and their 10 closest neighbors). Joint and conditional distributions portray neighbors' characteristics conditional on the kernel's housing tenure, race, and income. The paper documents both significant income mixing in the majority of US urban micro neighborhoods and the extent of income mixing within neighborhoods of concentrated poverty.

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## 1. Introduction

The distribution of income in residential neighborhoods matters. Since Alfred Marshall, economists have known of the role of nonmarket interactions and externalities in cities, and we know that for firms urban diversity increases the value of those interactions (Quigley, 1998). The same is true for households: a rapidly growing literature in economics documents the importance for households of nonmarket social interactions and externalities in cities (Glaeser, 2000). Income homogeneity or diversity is one of many dimensions of neighborhood social interactions yet unlike racial segregation, economic segregation as a feature of US neighborhoods attracted little attention from economists until recently. Nonmarket social interactions occur whenever one household's characteristics affect its neighbors' behaviors or socioeconomic outcomes. For example, if neighbors provide role models (positive or negative) or labor market connections then the productivity of investment in children's education may be affected by a neighborhood's income distribution, (Durlauf, 2003).

The value of neighborhood interactions has attracted policymakers' attention and led to policy initiatives intended to take advantage of positive externalities associated with mixing households of different income levels in neighborhoods.<sup>1</sup> Yet we know surprisingly little about the degree of economic mixing or segregation within US neighborhoods, certainly much less than we know about racial segregation.

Using a representative sample of US urban households and their immediate neighbors, the American housing survey's neighborhood clusters data, this paper provides a portrait of the distribution of income and other socioeconomic characteristics among the immediate neighbors of a random sample of US households in 1985 and 1993. There is no unique definition of a neighborhood and economic segregation in neighborhoods can be viewed at many scales (Ellen, 1999, pp. 13–14; White, 1987). What we know about income distribution within US urban neighborhoods has been limited by the data available. The most disaggregated data that US studies have used are decennial census data for census tracts (with an average population of 4000): mean and median family and household income, per capita income and poverty rates. In household-level micro data sets spatial detail is concealed to preserve respondents' privacy. The smallest geographical identification is metropolitan area for the American housing survey and PUMA's (with a population of 40,000 or more) for the Census Public Use Microdata. Because spatial detail was not available in these household level data sets, it was impossible to use them to analyze income distribution for smaller areas. Yet many neighborhood interactions take place at the scale of neighbors on the same block or in the same apartment building, rather than in the neighborhoods of several thousand people represented by census tracts.<sup>2</sup>

This paper presents the results of an empirical study of income mixing in neighborhoods of US cities using the neighborhood clusters data, a relatively neglected

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<sup>1</sup> See Cityscape (1997) for discussion of several such policy experiments.

<sup>2</sup> Mayer (2001), using census and PUMS data, estimates the variance of income within census tracts for each state. Bradbury (1996) studies regional trends, Mayer (1996) considers intra-metropolitan differences in income inequality and Madden (1996, 2000) emphasizes metropolitan areas.

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