

Wealth Gaps in Education

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Wealth and Education



Wealth and Education

1. So what?
 - ▶ Intergenerational Persistence of Wealth & Role of Education
2. What?
 - ▶ The Association Between Parental Wealth and Education
3. Why?
 - ▶ How Does Wealth Translate into Educational Advantage?

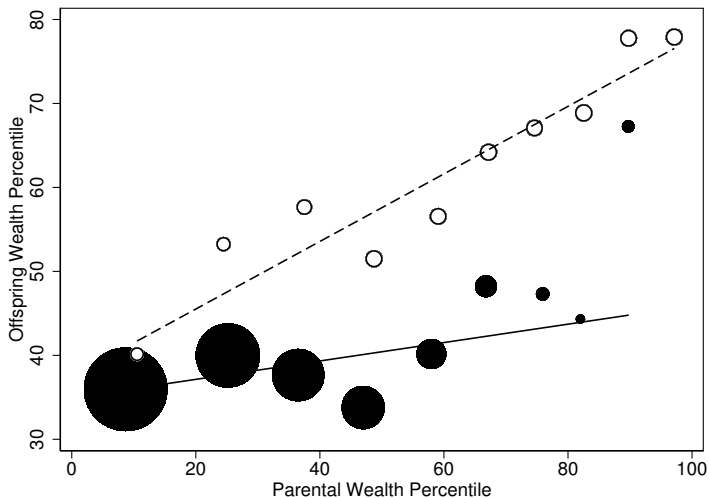
Data

Panel Study of Income Dynamics (PSID)

- ▶ Nationally representative household panel study since 1968
- ▶ Since 1984, net worth information (~ a dozen asset types)
- ▶ Genealogical sample design

Intergenerational Wealth Persistence & The Role of Education

Intergenerational Correlations in Wealth: By Race



Source: Pfeffer & Killewald (2018). "Generations of Advantage"

Channels of Wealth Transmission

Degree of Mediation of Intergen. Wealth Corr.

- ▶ Inter-vivo transfers & bequests **12%**
- ▶ Other mediators (associated with parental & child wealth)
 - ▶ Education **26%**
 - ▶ Home ownership **28%**
 - ▶ Marriage **14%**
 - ▶ Business ownership **8%**

Summary



- ▶ Intergenerational rigidity in the wealth distribution
 - ▶ 10 percentile change in parental wealth associated with 4 percentile change in children's wealth
- ▶ Large racial gaps
 - ▶ Not just in wealth attainment but also intergenerational wealth transmission
- ▶ Wealth inequality in education is one of the main channels through which wealth is transmitted across generations

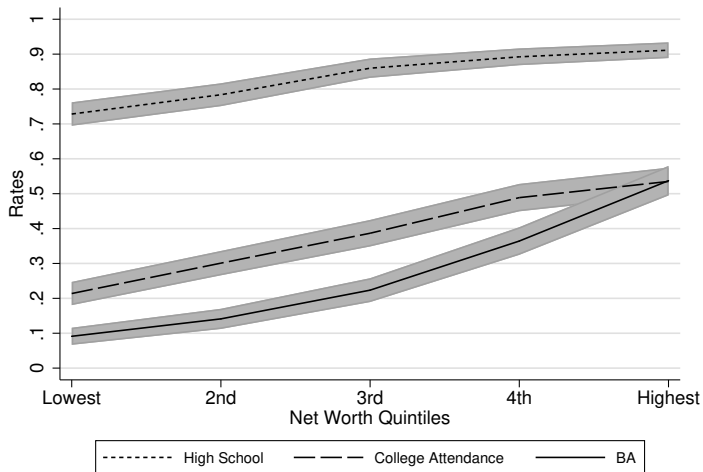
Full paper: Pfeffer & Killewald (2018). "Generations of Advantage"

Wealth Gaps in Education

Sample

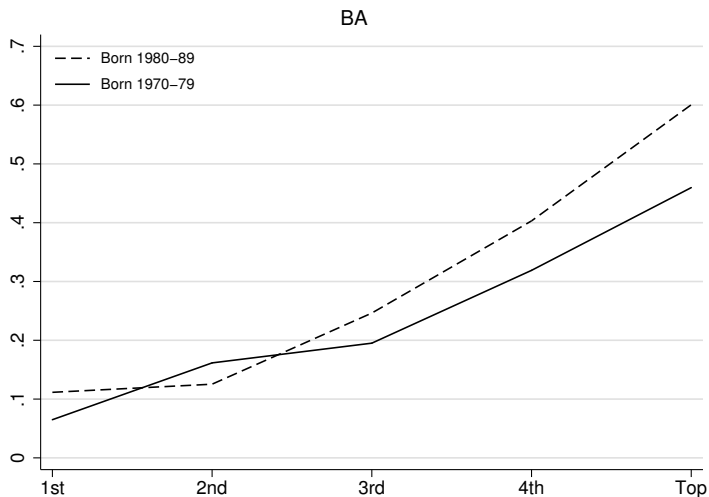
- ▶ Children born in 1970s and 1980s
- ▶ Family wealth, measured at
 - ▶ children's ages 10-14
 - ▶ → first PSID wealth waves (1984, 1989, 1994, 1999)
- ▶ Educational attainment, measured at
 - ▶ age 20: high school graduation & college access
 - ▶ age 25: college graduation

Wealth Gaps in Education



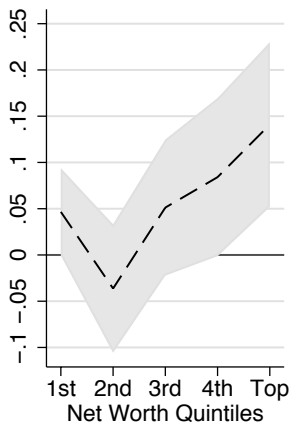
Source: Pfeffer (2018). Growing Wealth Gaps in Education

Growing Wealth Gaps in College Graduation



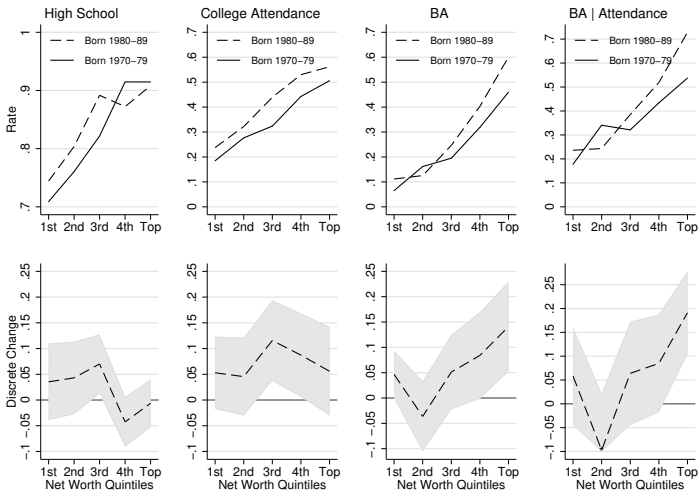
Source: Pfeffer (2018). Growing Wealth Gaps in Education

Growing Wealth Gaps in College Graduation



Source: Pfeffer (2018). Growing Wealth Gaps in Education

Growing Wealth Gaps in College Persistence

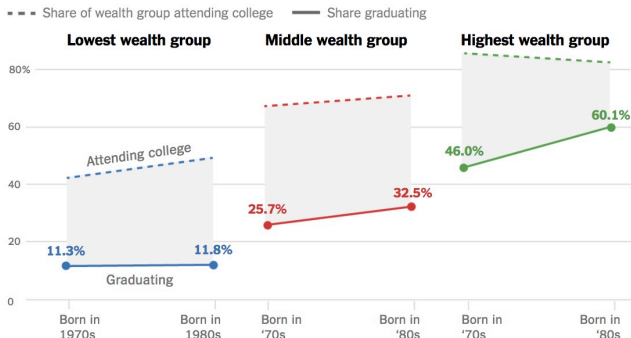


Source: Pfeffer (2018). Growing Wealth Gaps in Education

Growing Wealth Gaps in College Persistence

More Students, and Yet...

For the poorest wealth group, college attendance has risen, but college graduation has not.



Note: Wealth categories are based on a person's parents' wealth when the person was 10-14 years old. Lowest wealth group is the bottom 40 percent of households; middle wealth is the middle 40 percent; upper wealth is the top 20 percent. Educational outcomes are at age 25. Source: Fabian Pfeffer, "Growing Wealth Gaps in Education," the journal Demography. | By The New York Times

Source: NYT, March 26 2018



It may be even worse ...

1. Beyond parents' wealth: Extended family wealth
2. Differences in college quality
3. Growing wealth inequality

Extension 1: Extended Family Wealth

Family members besides parents contribute

- ▶ see e.g. college grandparental visit days

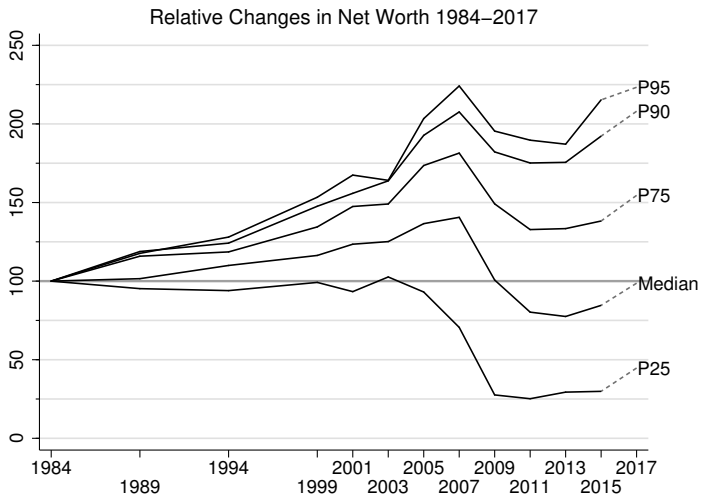
Evidence

- ▶ Three-generational wealth correlation also driven to a large extent by education (Pfeffer/Killewald 2018)
- ▶ Uncle/aunt wealth as independent predictor of educational attainment (Prix/Pfeffer 2017)
- ▶ Direct effects of grandparental wealth on children's educational achievement even in Sweden (Hällsten/Pfeffer 2018)
 - ▶ Independent contribution of grandparental wealth as large as that of parental wealth
 - ▶ Adjusted GPA gap between children from bottom vs top (P10-P90) of grandparental wealth distribution: 10 percentiles

Extension 2: Wealth Gaps in College Types

- ▶ Association between college type and parental wealth
 - ▶ Jez (2014): Parental wealth correlates with college selectivity
- ▶ Implications for trends in wealth gaps
 - ▶ Underestimated? Growing wealth gaps in college types? (Pfeffer/Vasquez ongoing)
 - ▶ Explained? Growing wealth gap in college persistence as an institutional effect (type of institution)?

Extension 3: Trends in Wealth Inequality



Source: Pfeffer & Schoeni (2016). "How Wealth Inequality Shapes our Future" (updated)



Extension 3: Trends in Wealth Inequality Among Children

Gini coefficient of children's family wealth

- ▶ Growing up in 1980s: .72
- ▶ Growing up in 1990s: .80
- ▶ Growing up today: .88

But

- ▶ Prior increases in wealth inequality account for only a small part of the increase in wealth gaps in education

Summary

- ▶ Wealth gaps in educational attainment are large
 - ▶ Across all levels of education, but particularly college outcomes
 - ▶ Even conditional on family income and other characteristics (not shown)
- ▶ Wealth gaps in educational attainment have
 - ▶ grown for college attainment, driven by children from top 20%
 - ▶ despite signs of decreasing wealth gaps in HS & college access
 - ▶ → large increase in wealth gap in college persistence
- ▶ Wealth gap in college and its growth may be even more significant, when we consider
 - ▶ extended family wealth
 - ▶ college types
 - ▶ more recent cohorts as they grow up more unequal

Full paper: Pfeffer (2018). "Growing Wealth Gaps in Education"

Why?

Understanding Wealth Gaps in Education

How family wealth translates into educational inequality

1. Purchasing Function
2. Insurance Function

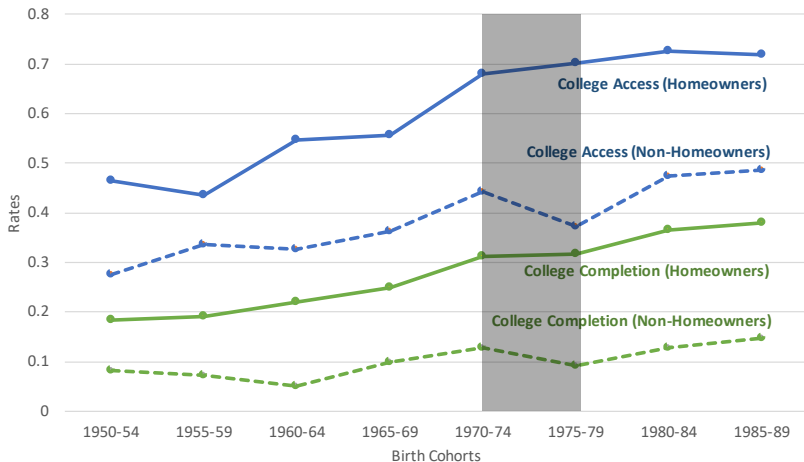
Purchasing Function: Evidence

Wealth supports investments in educational opportunity

- ▶ Over the last decades, parental investments in children have become
 - ▶ larger (Kornrich and Furstenberg 2012),
 - ▶ more unequal by income (Schneider et al. 2018) and wealth (Rauscher 2016)
- ▶ Wealth reduces credit constraints to access college
 - ▶ Housing bubble-induced increase in home equity increased college-going (Lovenheim 2011)

Purchasing Function: Ongoing Work

Parental Housing Wealth & College Outcomes



Purchasing Function: Ongoing Work

Estimating Effects of Housing Wealth on College Outcomes (Pfeffer/Burland ongoing)

- ▶ Re-Authorization of Higher Education Act (HEA) of 1992
 - ▶ Policy discontinuity: Exclusion of home equity from the calculation of financial aid (see also Dynarski 2003)
- ▶ Preliminary results from difference-in-difference models
 - ▶ Policy change increased the home ownership gap in college access by 5-8 percentage points

Insurance Function

Definition: Potential to buffer the socio-economic and socio-psychological consequences of negative outcomes in the attainment process

- ▶ “real and psychological safety nets” (Shapiro 2004)
- ▶ “consumption potential” (Spilerman 2000)



Challenge: No actual transfer needed for effects to emerge

Insurance Function: Evidence & Ongoing Work

Adding credibility to the insurance function

- ▶ Similar associations between family wealth and educational outcomes in contexts with limited need for wealth's purchasing function
 - ▶ Germany (Pfeffer 2011)
 - ▶ Sweden (Hällsten/Pfeffer 2017)
- ▶ Safety net in action:
Wage scars of youth unemployment in Sweden
(Pfeffer/Hällsten ongoing)
 - ▶ Children from wealthy families do not incur wage scars post-unemployment
 - ▶ ... but their parents incur a wealth scar

Summary

- ▶ Purchasing Function of Wealth
 - ▶ Increased investment in children, increasingly met by wealth
 - ▶ Housing wealth as important dimension of growing gaps
 - ▶ Reactive to economic shocks (recession) and policy (HEA)
- ▶ Insurance Function of Wealth
 - ▶ Wealth as private safety net where risk is involved (such as educational decisions)
 - ▶ Potentially more universal mechanism, including in more egalitarian countries
 - ▶ Even in Sweden, effect on educational achievement and later labor market careers






Conclusion

- ▶ Wealth inequality has been on the rise
 - and so has wealth inequality in educational outcomes
- ▶ Wealth gaps in education may be and may become even larger
- ▶ Policy can influence these gaps
 - ▶ Did so successfully in the past, but in the wrong direction
 - ▶ Addressing families' insurance needs requires yet larger interventions
- ▶ Barring those interventions, the wealth distribution will become more rigid across generations

Thank you

APPENDIX

References (links)

-  Pfeffer, Fabian T. 2018. "Growing Wealth Gaps in Education" Demography (online first)
-  Pfeffer, Fabian T. and Alexandra Killewald. 2018. "Generations of Advantage. Multigenerational Correlations in Wealth" Social Forces 96(4): 1411-1442
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-  Prix, Irene and Fabian T. Pfeffer. 2017. "Does Donald need Uncle Scrooge? Extended family's wealth and children's educational attainment in the United States". In: Erola, Jani and Elina Kilpi-Jakonen (eds.). Social Inequality Across Generations. Cheltenham: Edward Elgar: 112-135
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