

DIALOGUE WITH THE FED

Beyond Today's Financial Headlines

Does College Level the Playing Field?

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The views expressed here are those of the speakers and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.



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WELCOME AND INTRODUCTION

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SETTING THE STAGE: DOES COLLEGE LEVEL THE PLAYING FIELD?

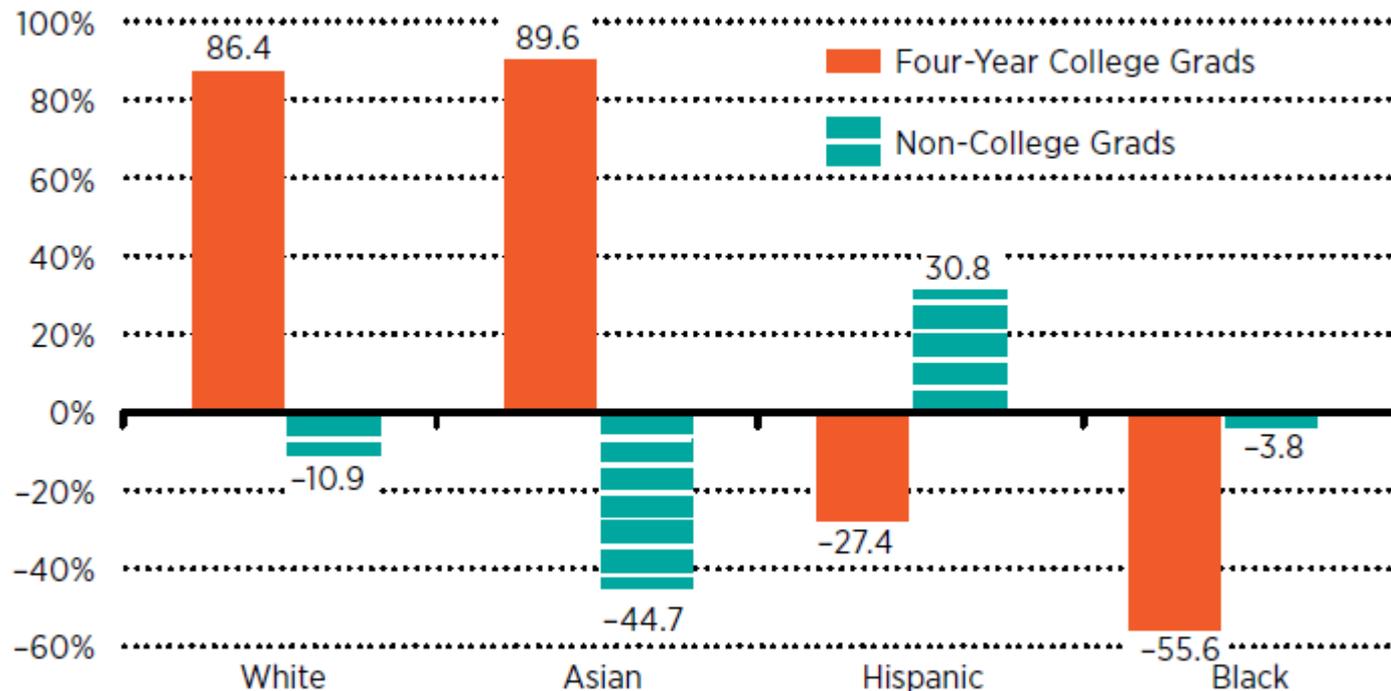
What's Driving Diverging Wealth Outcomes Among College Graduates of Different Races and Ethnicities?

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Median Hispanic and Black College Grads Are Losing Wealth in Two Comparisons

Change in Median Real Net Worth between 1992 and 2013



SOURCE: Survey of Consumer Finances.

See Emmons and Noeth (2015).

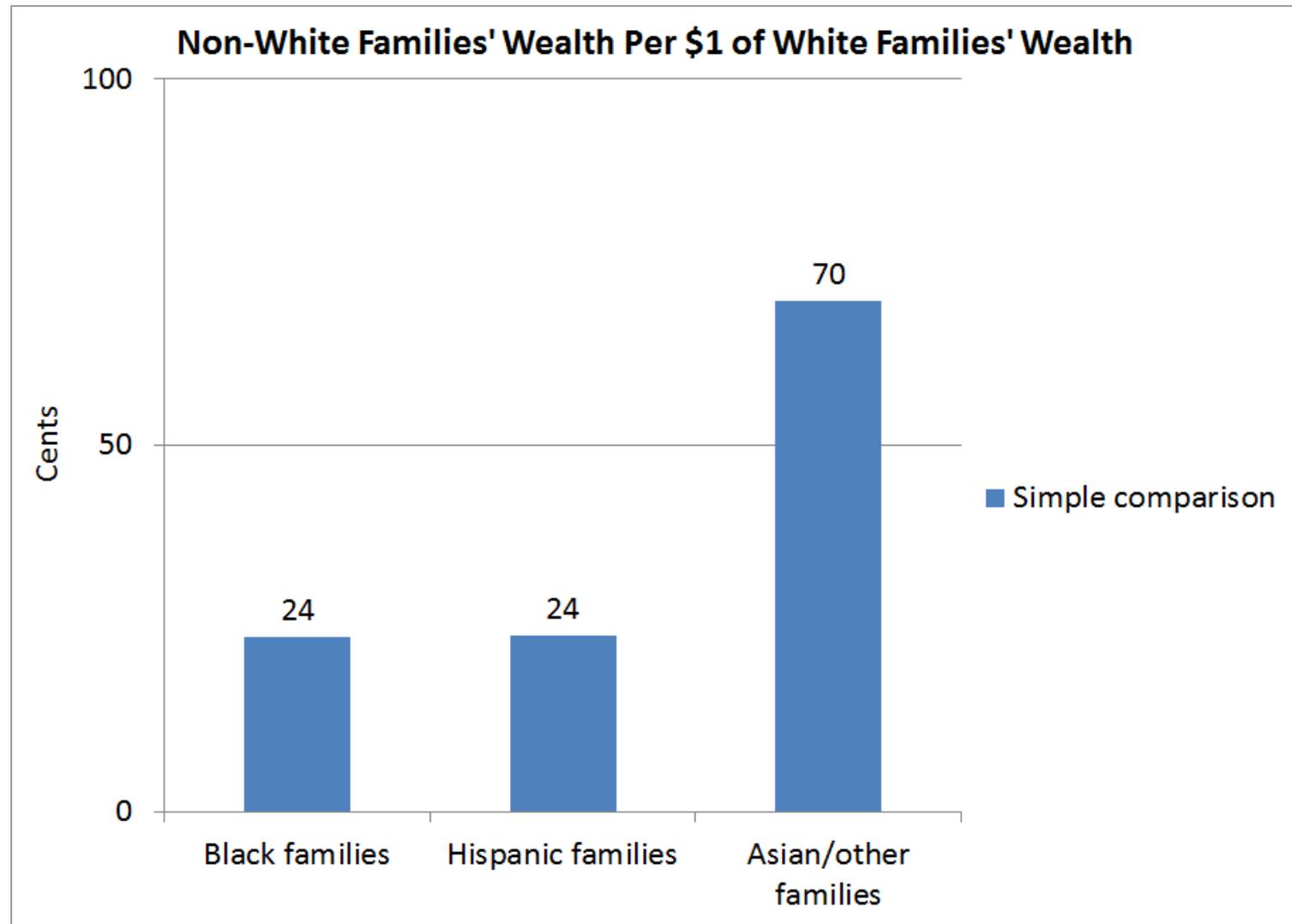
What's Driving Diverging Wealth Outcomes?

- **Two ways to understand the college wealth gaps and trends:**
 - **“Post-racial” model (standard approach in economics): Every family faces the same opportunities and choices.**
 - Implication: Poor wealth outcomes reflect poor individual choices.
 - **Structural model (sociological approach): Peer groups and context may be more important than individual choices.**
 - Implication: Poor wealth outcomes reflect poor opportunities.

Evidence that Points to the Structural/Sociological Model

- 1. Racial and ethnic wealth gaps are not converging at any education level despite the declining significance of overt discrimination in education, labor markets and financial services.**
- 2. College itself has become an engine of widening disparities across race and ethnicity.**

First, Compare Wealth of All Families

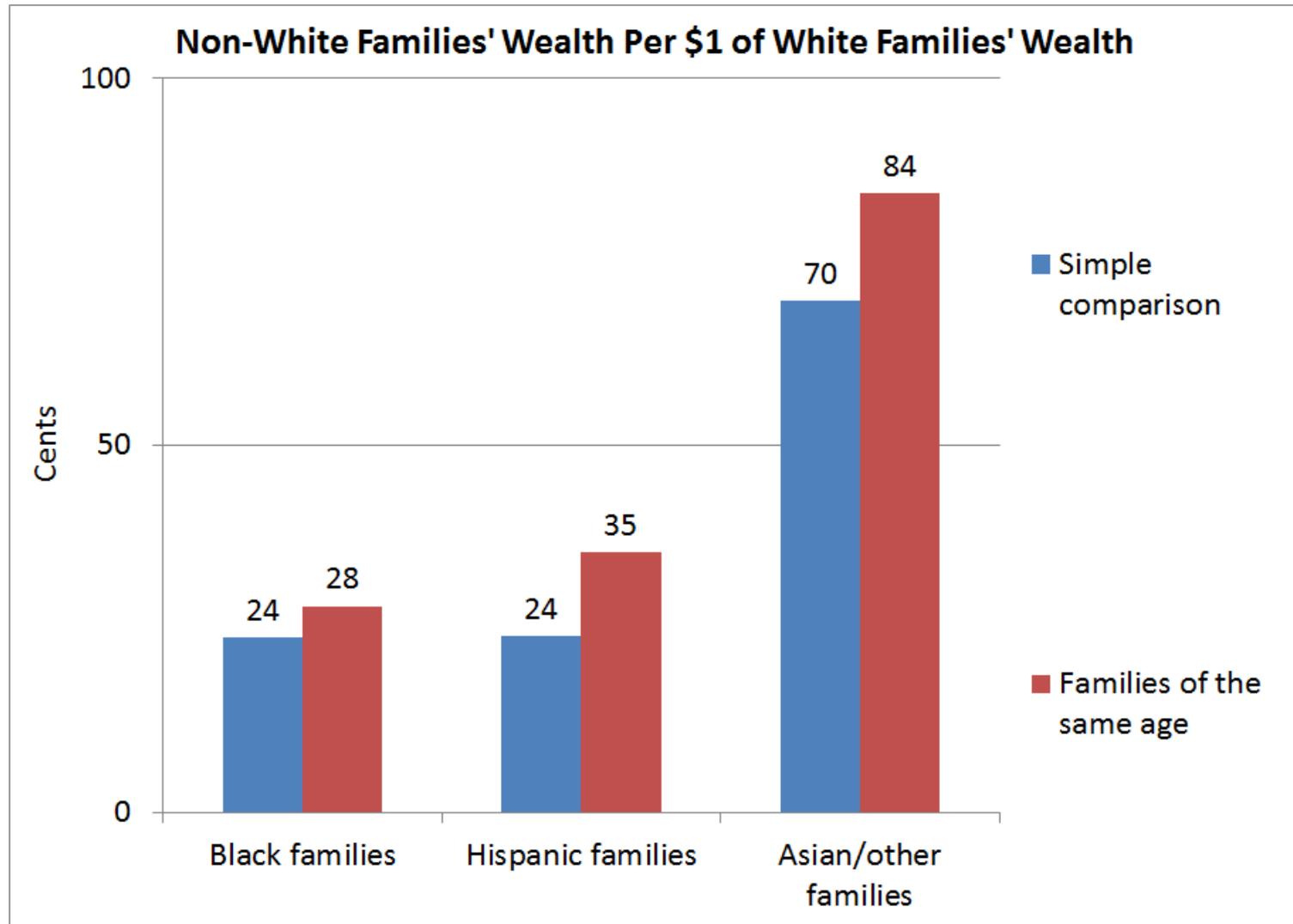


See Emmons and Ricketts (2017a).

But This is Not “Apples-to-Apples”

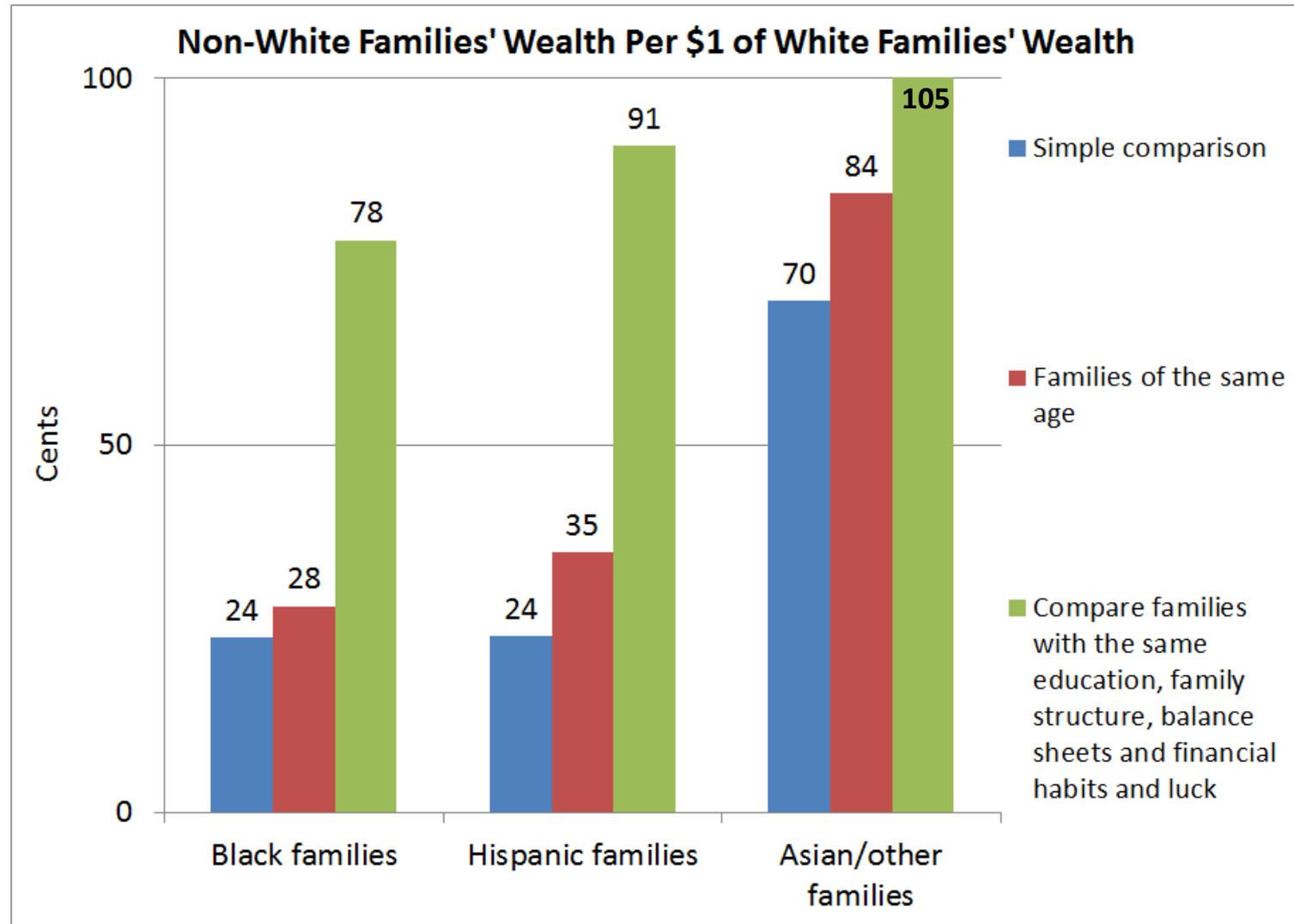
- **Many group characteristics differ that may be associated with building wealth:**
 - **Average age.**
 - **Attainment of various levels of education.**
 - **Family structures, including the number of adults and children in the household.**
 - **Share of families that are homeowners.**
 - **Amount and type of financial assets owned.**
 - **Amount of various kinds of debt owed.**
 - **Inheritances received.**
 - **Health.**

Comparing Families of the Same Age



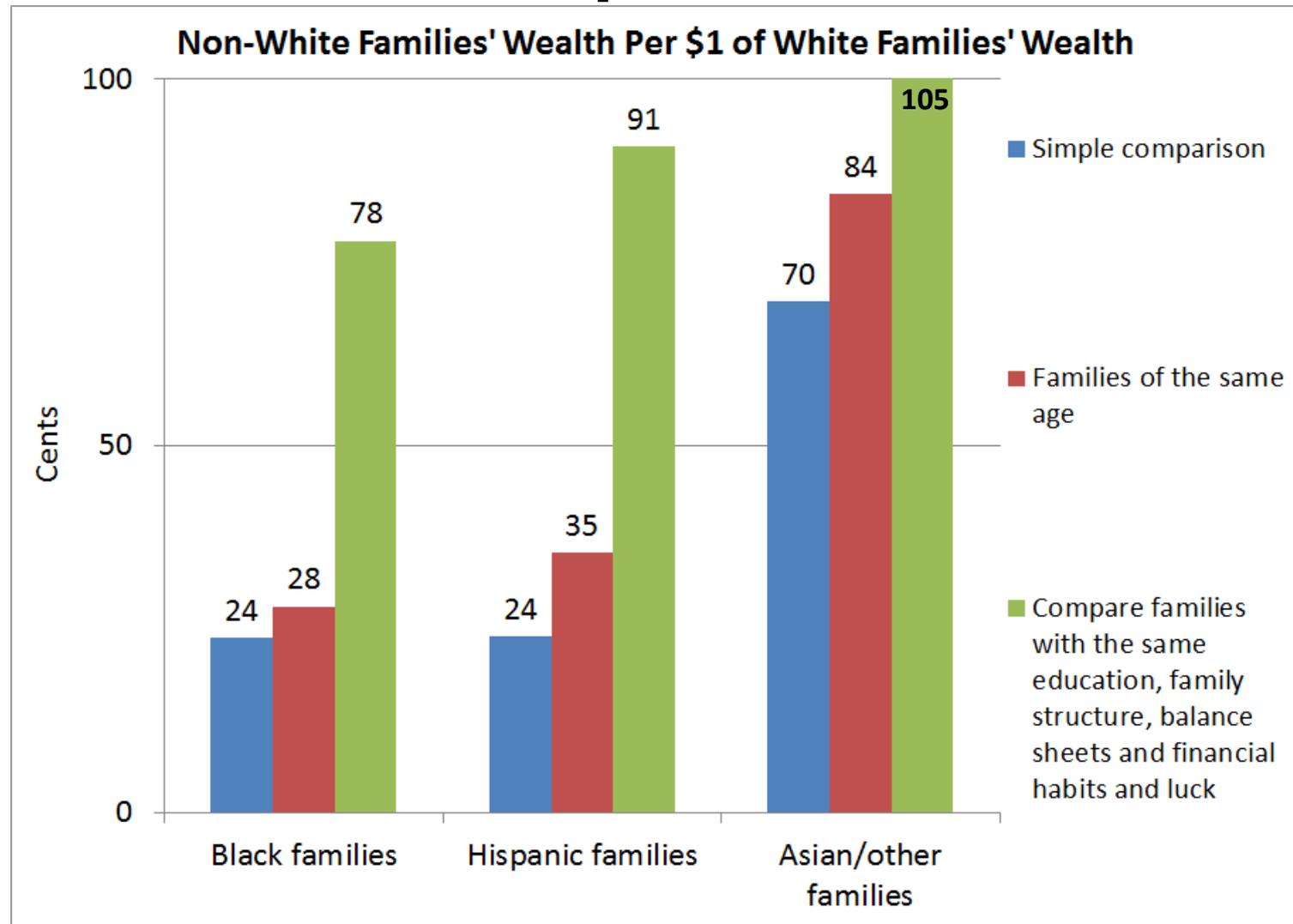
See Emmons and Ricketts (2017a).

Same Age, Education, Family Structure, Luck



See Emmons and Ricketts (2017a).

Economist: I Can “Explain” and Eliminate the Gaps—Act Like Whites

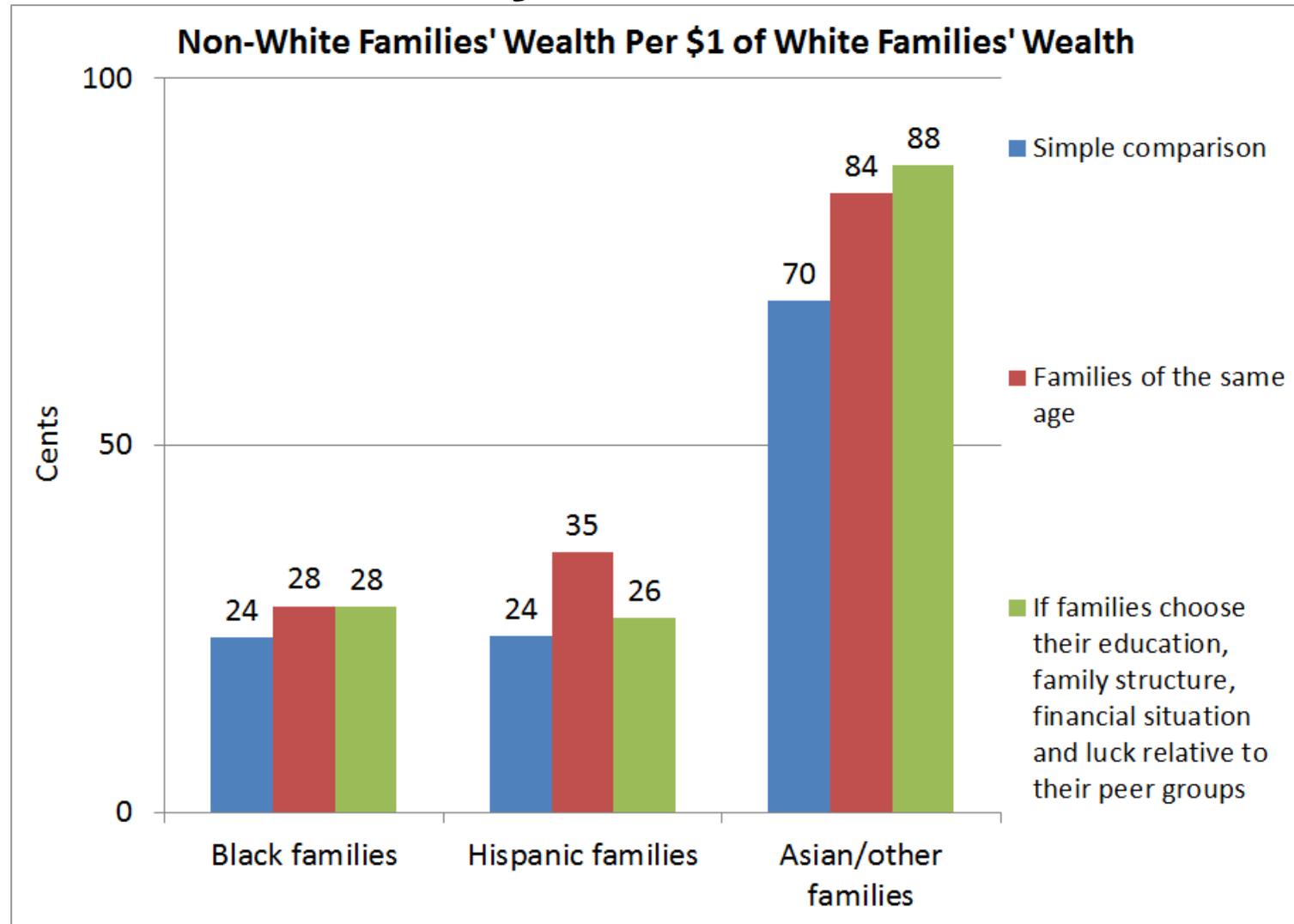


See Emmons and Ricketts (2017a).

Sociologist: Thought Experiment is Flawed

- **Do all families freely choose their education, family structure, financial situation and luck facing identical constraints, opportunities and rewards?**
- **No—structural and systemic factors shape our choices:**
 - **Structural factors: Obstacles and constraints that differ by race and ethnicity.**
 - **Systemic factors: Differing rewards, motivations and opportunities.**

Sociologist's Thought Experiment: Choices Constrained by Racial/Ethnic Context



See Emmons and Ricketts (2017a).

Interpreting the Gaps Requires a Framework

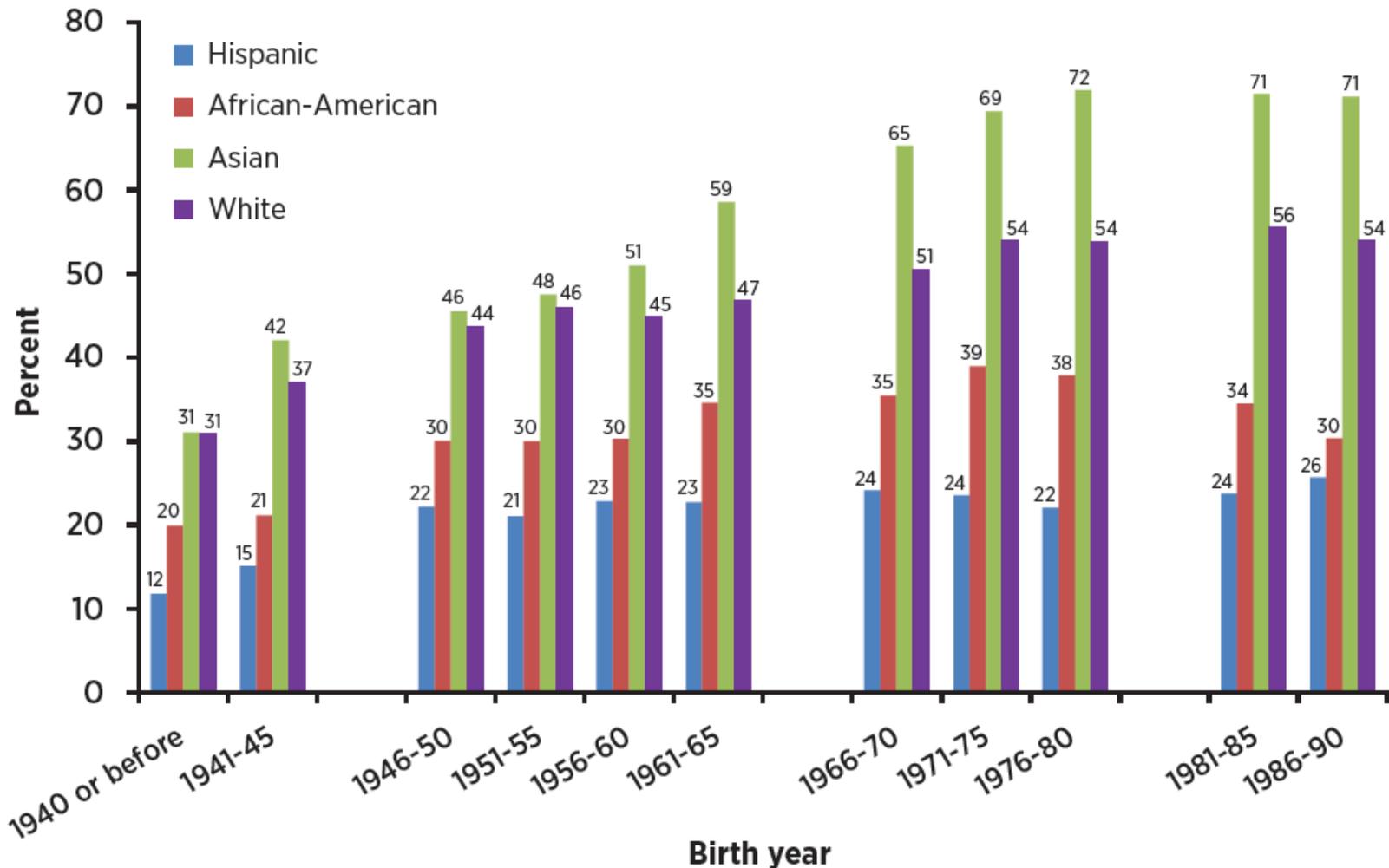
- **Economist: Post-racial framework.**
 - Every family faces the same opportunities, rewards, choices, obstacles, barriers.
 - Poor wealth outcomes reflect poor choices.
 - To improve, low-wealth families (and groups) need to make better choices.
- **Sociologist: Structural/systemic framework.**
 - Opportunities etc. differ by race, ethnicity.
 - Poor wealth outcomes reflect poor opportunities and different rewards.
 - To materially reduce wealth gaps, structural and systemic factors must change.

Second Piece of Evidence that Points to the Structural/Sociological Model

1. Racial and ethnic wealth gaps are not converging at any education level despite the declining significance of overt discrimination in education, labor markets and financial services.
2. **College itself has become an engine of widening disparities across race and ethnicity.**

College Attainment Rising for All Groups...

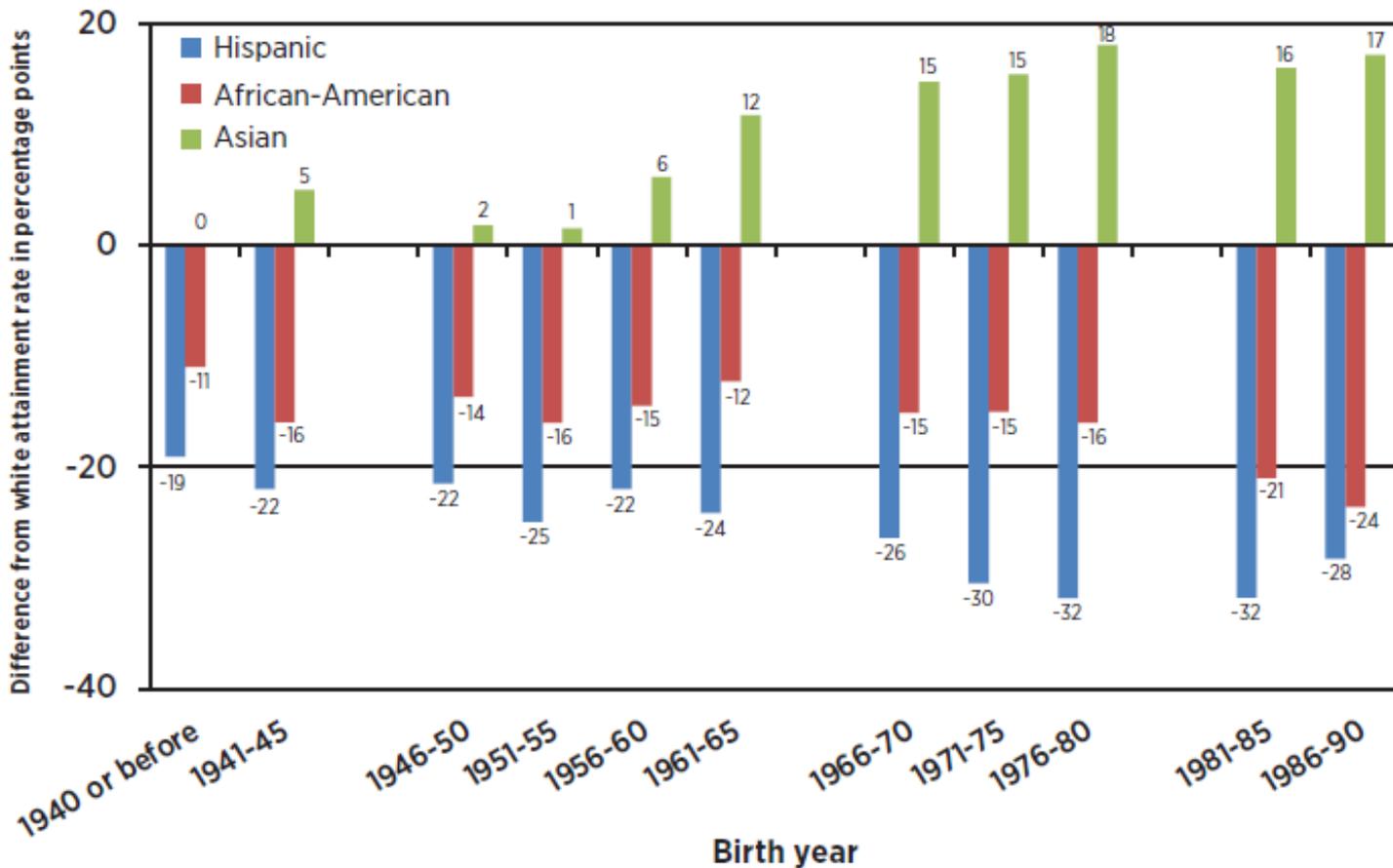
Four-Year College-Degree Attainment Rates (2015)



See Emmons and Ricketts (2017b).

... But Attainment Gaps Are Growing

Differences in Four-Year College-Degree Attainment Rates (2015)



See Emmons and Ricketts (2017b).

In Sum: Diverging Wealth Outcomes Among College Graduates Reflect Structural Factors

- **Large and increasing racial and ethnic wealth gaps reflect structural and systemic factors.**
- **College itself has become an engine of widening disparities.**
- **Significantly reducing or eliminating racial and ethnic wealth gaps will require structural change, for example:**
 - **Permanent desegregation of housing and schools.**
 - **Affirmative action in education and employment.**
 - **Rigorous and targeted financial education and consumer protection.**

HFS Articles Referenced

- **William R. Emmons and Bryan J. Noeth, “Why Didn’t Higher Education Protect Hispanic and Black Wealth?”** *In the Balance*, No. 12, Aug. 2015,
www.stlouisfed.org/publications/in-the-balance/issue12-2015/why-didnt-higher-education-protect-hispanic-and-black-wealth
- **William R. Emmons and Lowell R. Ricketts, “College is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps,”** *Review*, Vol. 99, No. 1, Feb. 2017a,
<https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/college-is-not-enough-higher-education-does-not-eliminate-racial-and-ethnic-wealth-gaps.pdf>
- **William R. Emmons and Lowell R. Ricketts, “College Inadvertently Increases Disparity in Income and Wealth,”** *In the Balance*, No. 16, Feb. 2017b,
<https://www.stlouisfed.org/publications/in-the-balance/issue-16-2017/college-inadvertently-increases-racial-and-ethnic-disparity-in-income-and-wealth>

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PANEL DISCUSSION

AUDIENCE Q & A

Thank you for attending.



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