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Good afternoon,
The theme of this current session is Wealth Gaps in Education.

What, exactly, is wealth? Like income, wealth is a measure of economic wellbeing, representing the value of assets owned by households. Net wealth or net worth, the difference between total assets and total liabilities, or debts, is more commonly used as a relative measure of individual-level or group positioning. Wealth, however, represents much more. It can serve as a form of insurance that buffers households from negative income shocks, providing a sense of security and social class insurance. Wealth is important because of what it confers in our society: access to social status and political power, capital, selective educational institutions, and better health. Wealth also tends to be passed down intergenerationally, perpetuating inequalities over time.

There are many factors scholars point to that explain wealth accumulation and wealth inequality. We can organize the most studied factors into the following three groups: (1) those that determine available resources; (2) those that affect consumption choices; and (3) those that establish the social context in which wealth generation occurs. This last group of factors is the focus of this session, a large portion of my current research, and Fabian's two papers.

One key takeaway from this session is that institutions of higher education and the credentials they confer are associated with wealth generation and the perpetuation of wealth inequality.

Both papers are already published and readily available online; today I will focus on a key finding from each and then briefly contextualize it within today's conference theme.

Paper #1:

In their paper exploring correlations of wealth across generations, Pfeffer and Killewald extend the common intergenerational wealth analysis beyond the parent-child dyad to include a third generation, grandparents. They find that grandparent wealth is an independent predictor of adult grandchildren's wealth. They also explore several different channels to explain the observed intergenerational correlations.

Performing a decomposition analysis, they write: "We find the largest differences in the intergenerational transmission of wealth by race." The two-generational correlation in wealth positions is only half as strong for African-Americans as for whites (0.18 versus 0.36). Indicating weaker intergenerational persistence, "their results indicate that the higher intergenerational correlation in wealth for whites than African-Americans is not exclusively due to African-Americans' severe underrepresentation at the very top of the distribution: Race differences in mobility appear across the wealth distribution."

Their results also show that “greater mobility for African-Americans is not symmetric, but is dominated by greater rates of downward mobility.” The authors find that for both races education plays a greater explanatory role in intergenerational wealth and social class persistence than homeownership, bequests/inheritances, business ownership, and marriage. I was not surprised by the finding on marriage. In previous work, I examined differences in wealth levels between black and white women due to marriage and marital history and found that marriage is not the wealth-creating mechanism for older black women that it is for older white women.

So why has education, followed by homeownership, been wealth enhancing? And, why haven't other mechanisms (bequests/inheritances; marriage; business ownership) been as wealth enhancing for African Americans, in particular?

In addition to the definition of wealth I provided earlier, wealth has also helped to establish and maintain a system of racial status and hierarchy in America. The history of financial asset building and wealth accumulation in America for most black families (and other economically marginalized populations) has been one of economic immobility, theft, loss, and debt accumulation, which has positioned African Americans at the bottom of the wealth distribution across generations.

The mechanisms through which white Americans have been able to build wealth and transfer wealth intergenerationally have been historically denied to black Americans. In this respect education is a unique, wealth enhancing mechanism for at least a couple of reasons.

First, once attained, it is not easily stripped away. So, for a population with a high risk of financial wealth loss, education became a consistent means by which households could across generations build, and if need be rebuild, their wealth.

Second, when predominantly white institutions of higher education discriminated against or prevented black students or slaves from attending, African Americans created their own institutions (Cheyney University being the first established in 1837 then known as the Institute for Colored Youth) in response.

These Historically Black Colleges and Universities (HBCUs) trained and educated the black young adults who would go on to compose a large contingent of the black middle class.

Black Americans have fought and continue to fight for education as a means of (economic) freedom. And although not guaranteed, higher education is seen as an asset because it is used as a form of social mobility.

“Looking back” or historically speaking, higher education has been worth it for African Americans as a means of wealth creation.

Paper #2:

Pfeffer (2018) examines the relationship between wealth inequality and educational attainment across two birth cohorts.

He writes, “Most pressingly, however, this paper provides the first evidence that wealth inequality in college graduation has been rising further over recent cohorts, with the college graduation rates of children from higher wealth backgrounds surging while children from lower wealth levels have been left behind”

These results suggest at least two possible interpretations: the first interpretation is that the top 20% percent are able to maintain their wealth position via a college degree.

It also suggests that given children from high net worth household are obtaining them at increasing rates, the returns to a college degree are remain high and/or are increasing.

If you are from a wealthy family, pursuing post-secondary education presents little downside risk. Parents’ social and economic resources are key determinants of their adult children’s college success, as parents use their finances and knowledge resources to help their children navigate postsecondary institutions, contribute money to college expenses, and incur debt on behalf of their children. Families with wealth can essentially provide the resources to get their child, even if she is a marginal student, across the finish line.

The result is that young adults from more socioeconomically advantaged backgrounds—by wealth, income, and education—complete college at higher rates, and with less debt greater extent than their counterparts who are from socially disadvantaged backgrounds.

College has always been worth it to those for whom there is minimal or limited financial risk. For them, education has been a sufficient condition for financial security, but not a necessary condition for social and economic mobility.

Why is it that children from lower net wealth households are being left behind?

Financial aid and student loans have increased access to this increasingly expensive investment, but, as many scholars have argued, on exploitative and predatory terms. The growing need for higher education credentialing, combined with decreases in state and federal investment has meant students and their families bear a growing share of the college cost burden, and are being asked to take on more financial risk, one that is not necessarily in recent years a guarantee of economic mobility (or even a guarantee of a college degree).

The authors highlight college persistence as the primary means through which this is occurring.

These are also the students whom experience much more variation in the college process. They have a higher probability of taking on private loans, selecting for-profit institutions, attend less selective public or elite private institutions, take longer to finish, and for whom the returns to their post-secondary educational investment are less certain.

In a society of increasing income inequality and rigid social mobility, obtaining a bachelor's degree remains one of the most salient predictors of middle class attainment and stability.

For these lower net wealth households, education is a necessary, and not sufficient condition for financial security and stability.

What we see now is vast distribution in college offerings to meet the societal demand for college degrees. There is great deal of heterogeneity in the quality of college experiences related to everything from college major, public versus private, non-HBCU versus HBCU, non-profit versus for profit institutions that are contributing to differential returns to the college degree.

Looking ahead, I see parallels with the work my colleague and I have been doing on racial disparities in student loan debt. Similar to black families, low net worth families are less able to draw upon economic resources to protect their young adult children in pursuit of a college degrees or from high debt burdens, exploitative and predatory higher education markets, and features that would reduce time to degree and increase the probability of college completion.

Thank you

Papers referenced:

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