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# Is College the Great Equalizer?

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# Overview

- Higher education is associated with greater expected wealth for all racial/ethnic groups.
- However, the size and form of expected returns are starkly different between racial/ethnic groups.
- These wealth gaps appear to be structural and systemic, at least in part.
- Rather than a Great Equalizer, college has become an unwitting engine of inequality.

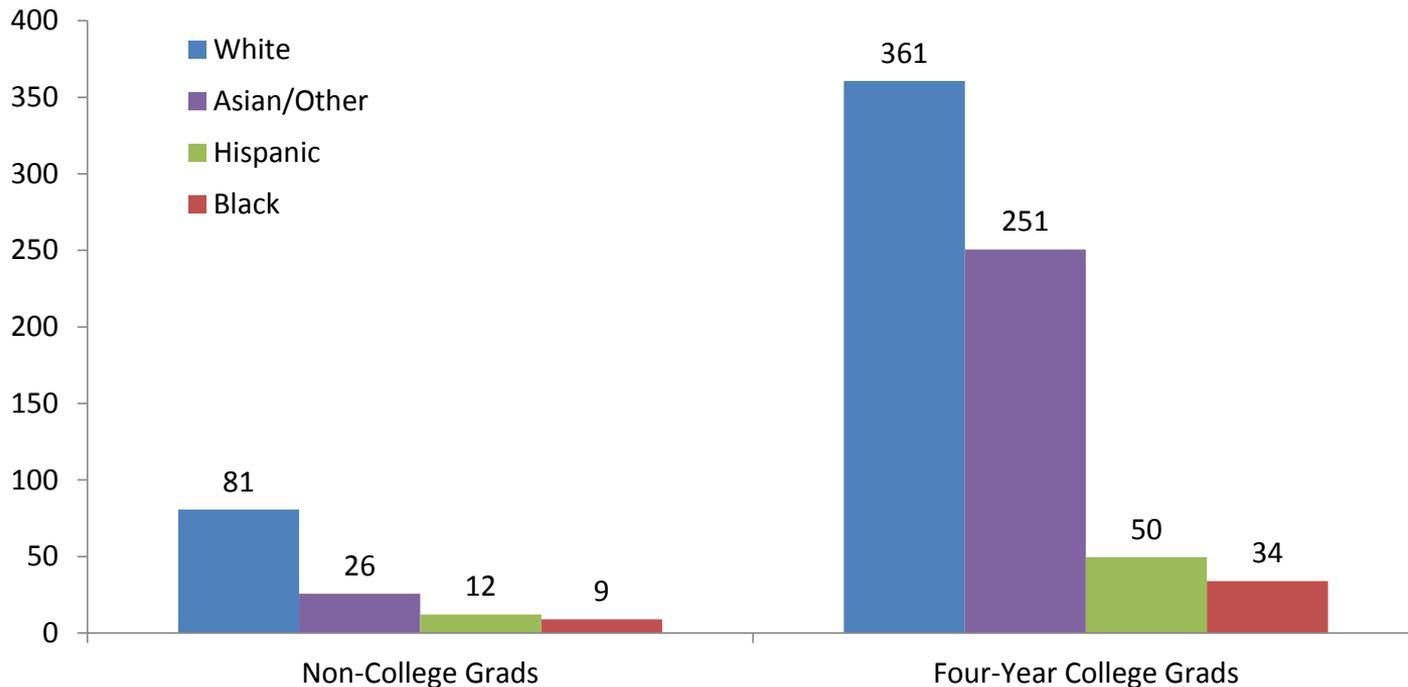
# An Important Clarification and the Returns to Education

- We are **NOT** saying that college isn't worth it.
- The returns to higher education in terms of expected income and wealth are at an all-time high.
- The extent of the expected gains differs significantly across racial/ethnic groups.
- A college education is associated with greater financial resiliency for some groups and not others.

# College Linked to Wealth Gains for All Groups

**Median Household Net Worth, by Race/Ethnicity and Educational Attainment of Household Head, 2013**

*Thousands of 2013 \$*

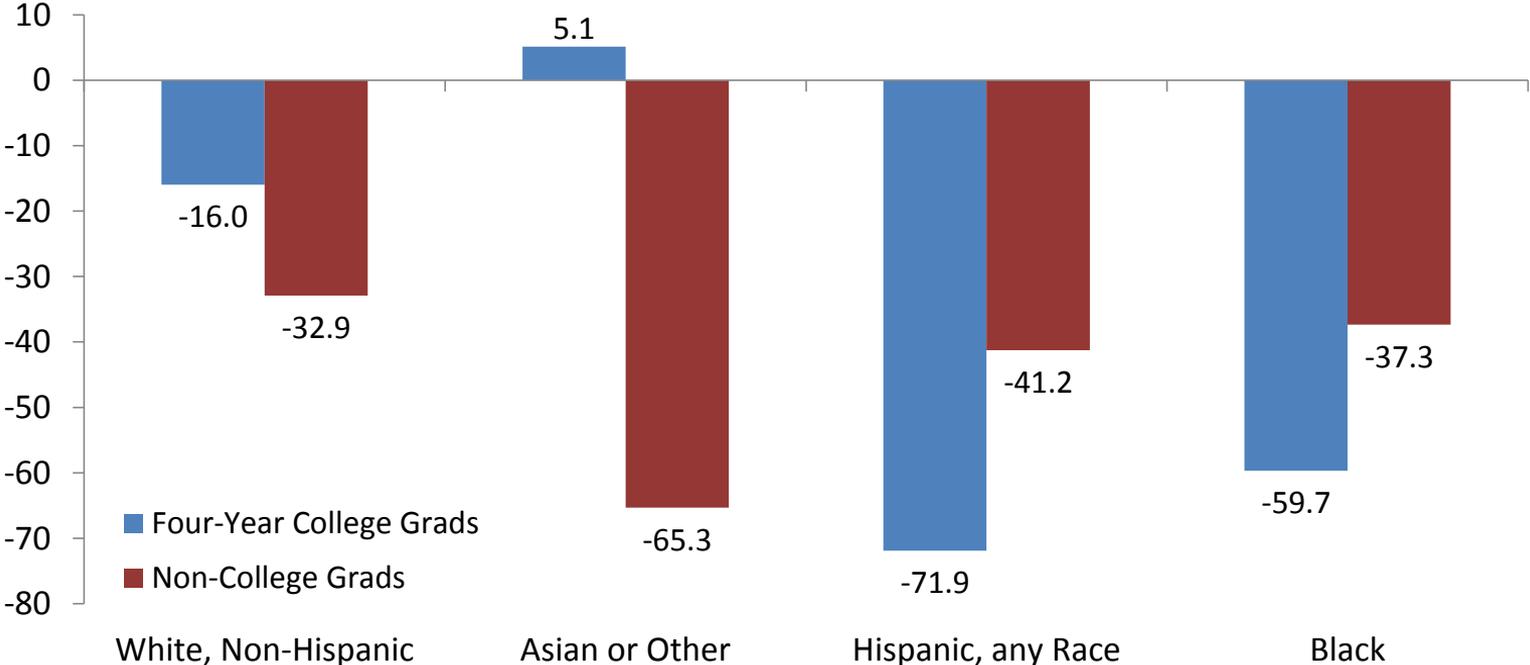


Source: Federal Reserve Board of Governors, Survey of Consumer Finances.

# Black, Hispanic Grads Fared Worst in Recession

Change in Median Real Net Worth between 2007 and 2013

Percent

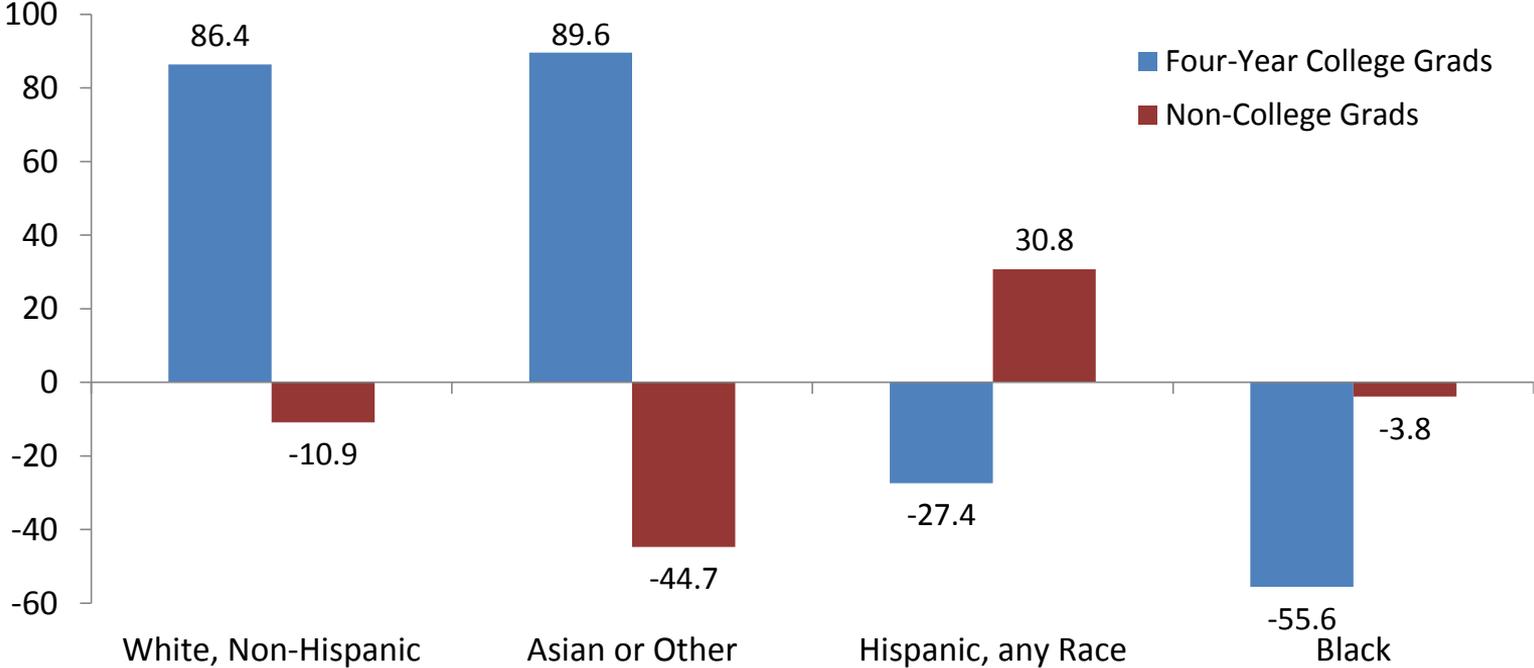


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Recession Erased Over a Decade of Gains

Change in Median Real Net Worth between 1992 and 2013

Percent



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# What's Driving Diverging Wealth Outcomes Among College Graduates?

- Organized a research conference in May 2016 that attempted to explain the disparity.
- Papers looked at the role of:
  - College experience
  - Labor market outcomes
  - Homeownership experience
  - Family structure
  - Wealth transfers

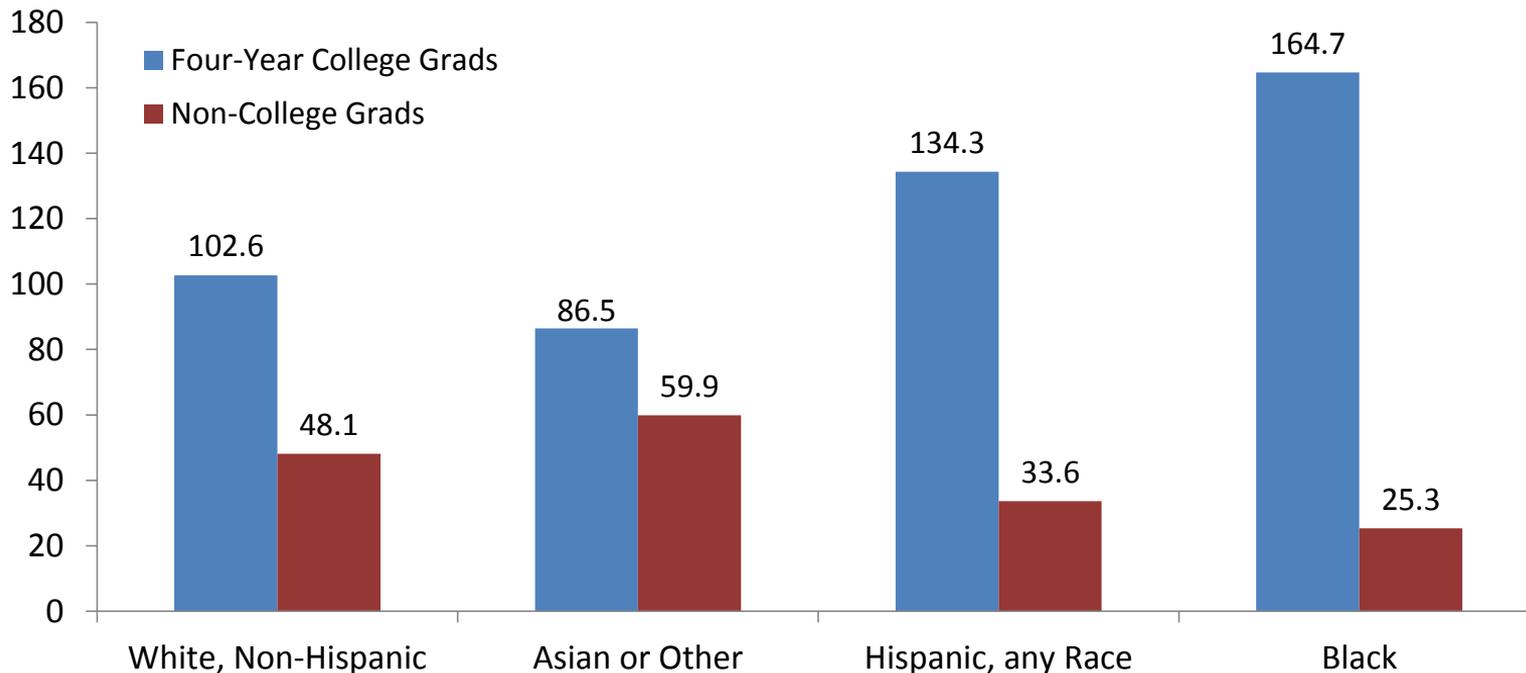
# The Homeownership Experience

- While not a definitive answer, the homeownership experience of graduates likely played a role.
- Evidence of substantial leverage in the form of mortgage debt on the eve of the Great Recession.
- Foreclosure rates among the most affluent black and Hispanic borrowers were worse than the poorest whites and Asians. (Garriga, Ricketts, and Schlagenhauf 2017)

# Minority Grad's Were in a Precarious Position

## Median Debt-to-Income Ratio in 2007

Percent

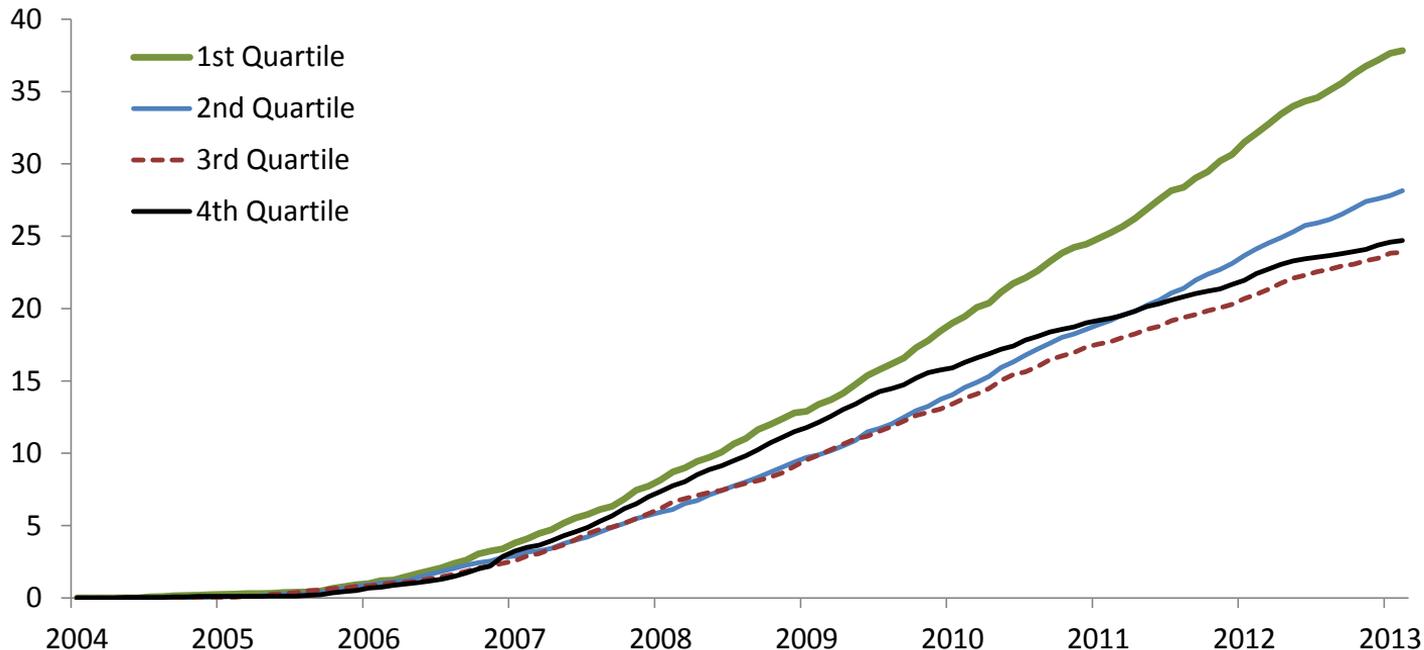


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Stunning Number of Mortgages Entered Foreclosure

## Foreclosure Stock, Black Borrowers, by Income Rank Within Racial/Ethnic Group

Percentage Share of Cumulative Loans Entering Foreclosure



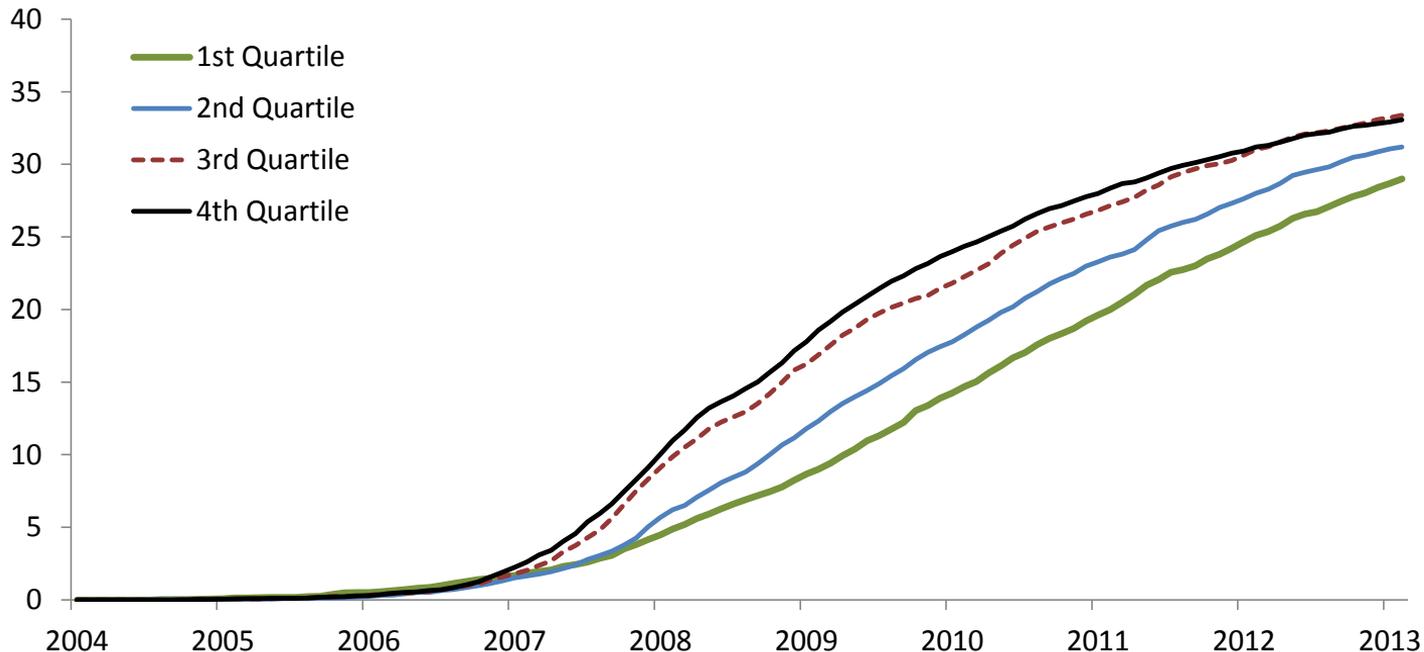
Source: McDash data from Black Knight Financial Services, HMDA data from Board of Governors

NOTE: We use the last date that the loan started a foreclosure process. Therefore, loans which go in and out of foreclosure show up later.

# Stunning Number of Mortgages Entered Foreclosure

## Foreclosure Stock, Hispanic Borrowers, by Income Rank Within Racial/Ethnic Group

Percentage Share of Cumulative Loans Entering Foreclosure



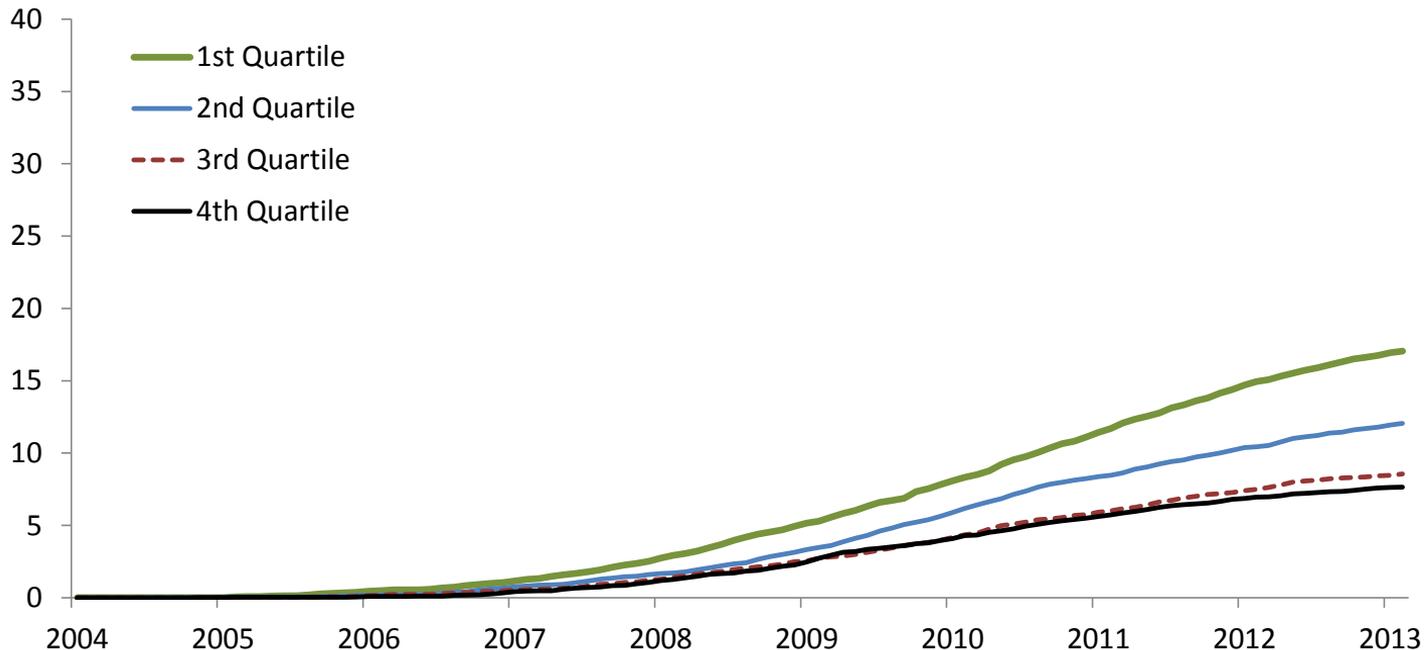
Source: McDash data from Black Knight Financial Services, HMDA data from Board of Governors

NOTE: We use the last date that the loan started a foreclosure process. Therefore, loans which go in and out of foreclosure show up later.

# Foreclosure Incidence Far Lower for Whites, Even the Lowest Earning

## Foreclosure Stock, White Borrowers, by Income Rank Within Racial/Ethnic Group

Percentage Share of Cumulative Loans Entering Foreclosure



Source: McDash data from Black Knight Financial Services, HMDA data from Board of Governors

NOTE: We use the last date that the loan started a foreclosure process. Therefore, loans which go in and out of foreclosure show up later.

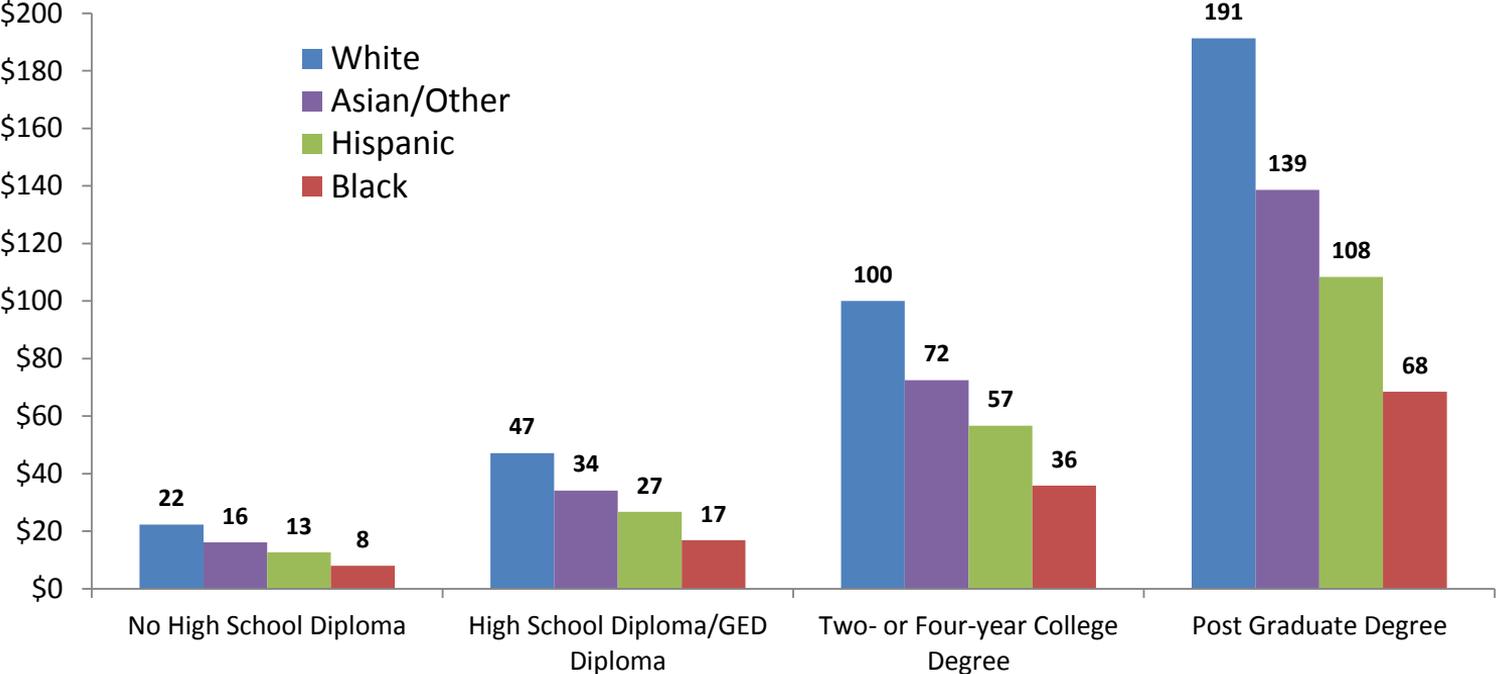
# What's Driving Diverging Wealth Outcomes Among College Graduates?

- A simple comparison of family wealth is not “apples-to-apples”—many group characteristics differ.
- Hypothetically, what if we could compare families with the same:
  - Age and birth year
  - Education level
  - Family structure
  - Balance sheets and financial habits
  - Luck

# Large Wealth Gaps Across Education Levels

## Predicted Wealth by Education Level and Race, Baseline Post-Racial Model

Index = Per \$100 of College-Educated White Family's Wealth

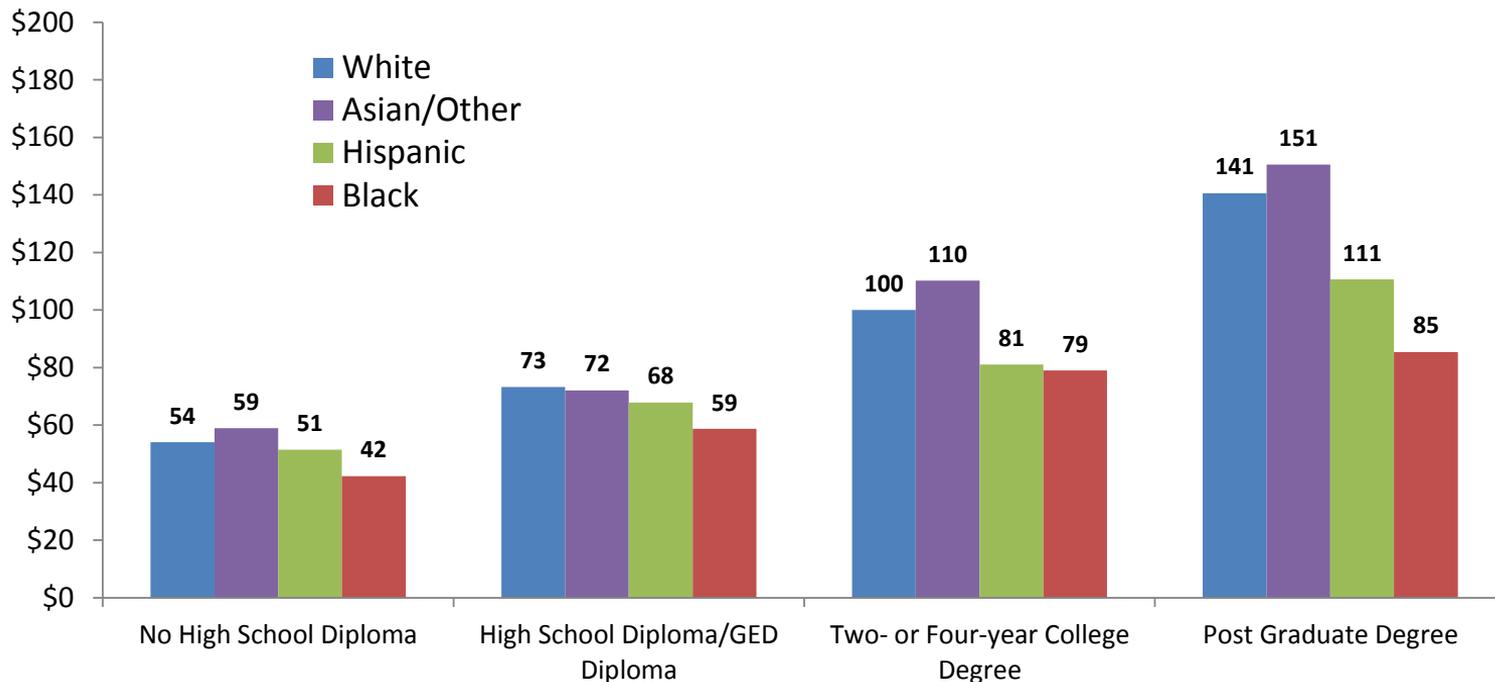


Source: Federal Reserve Survey of Consumer Finances and author's calculations.

# Observable Factors Explain Away Much (Not All)

## Predicted Wealth by Education Level and Race, Full Model

Index = Per \$100 of College-Educated White Family's Wealth



Source: Federal Reserve Survey of Consumer Finances and author's calculations.

# Post-Racial vs. Structural Model

- How tenable are the implications of the post-racial model?
- To be as successful, minority families should:
  - Receive the same amount of gifts and inheritances.
  - Marry at the same rate; have same number of kids.
  - Have the same health outcomes.
  - Make the same financial decisions.

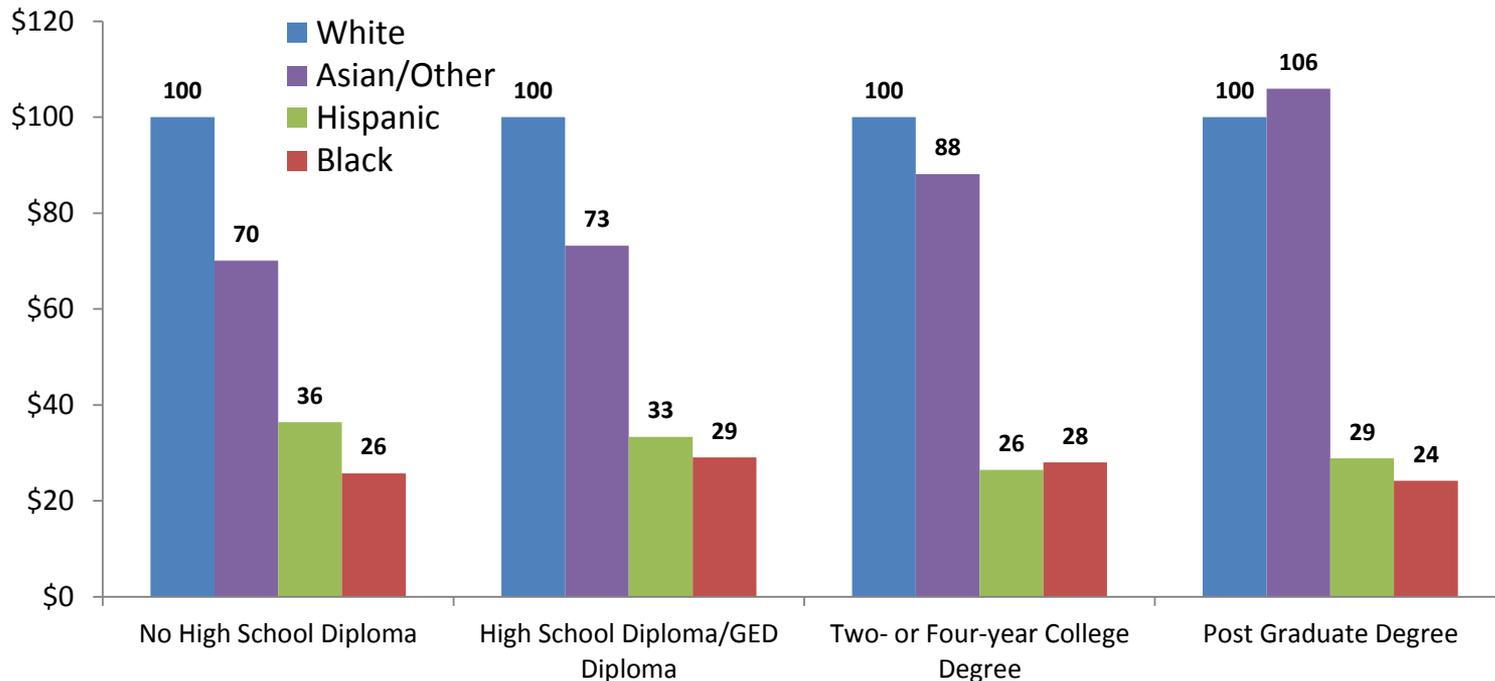
# Structural Model

- In this model, peer groups (social capital) and context shape opportunities and choices.
- Variables are demeaned to reflect idiosyncratic differences of families from their peer groups.
- Means are estimated by:
  - Race/ethnicity
  - Age group
  - Survey year group.

# Peer Groups and Context Dominate Outcomes

## Predicted Wealth by Education Level and Race, Full Structural Model

Index = Per \$100 of College-Educated White Family's Wealth



Source: Federal Reserve Survey of Consumer Finances and author's calculations.

# Two Ways to Understand Large Racial and Ethnic Wealth Gaps

- “Post-racial” model: Every family faces the same opportunities and choices
  - Poor wealth outcomes reflect poor choices.
- Structural model: Peer groups and context are more important than individual choices.
  - Poor wealth outcomes reflect poor opportunities.
- These models are not mutually exclusive.

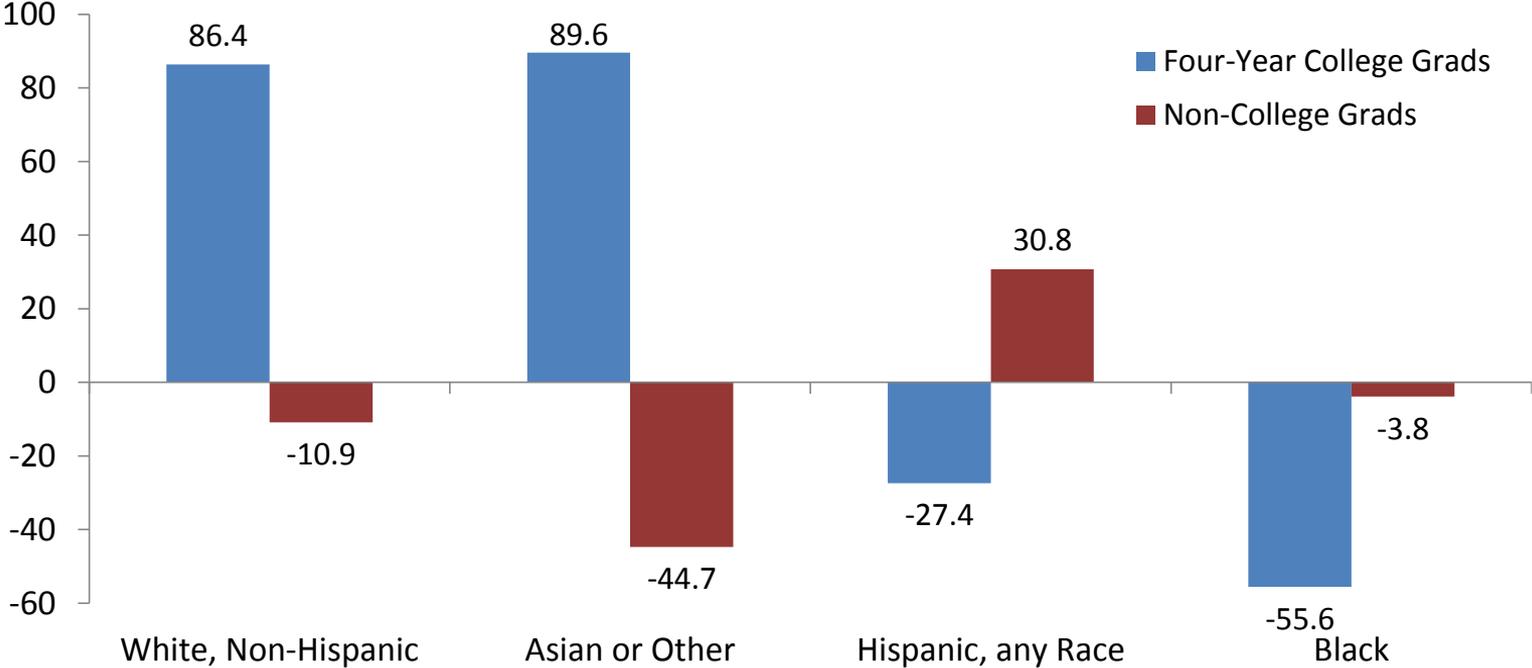
# College Itself Has Become an Engine for Widening Disparities

- White and Asian college graduates are getting wealthier over time.
- Black and Hispanic college graduates are getting poorer over time.
- College-attainment gaps are growing.
- These facts and trends point toward *increasing* racial and ethnic wealth gaps in the future.

# Hispanic and Black College Grads Losing Wealth

Change in Median Real Net Worth between 1992 and 2013

Percent

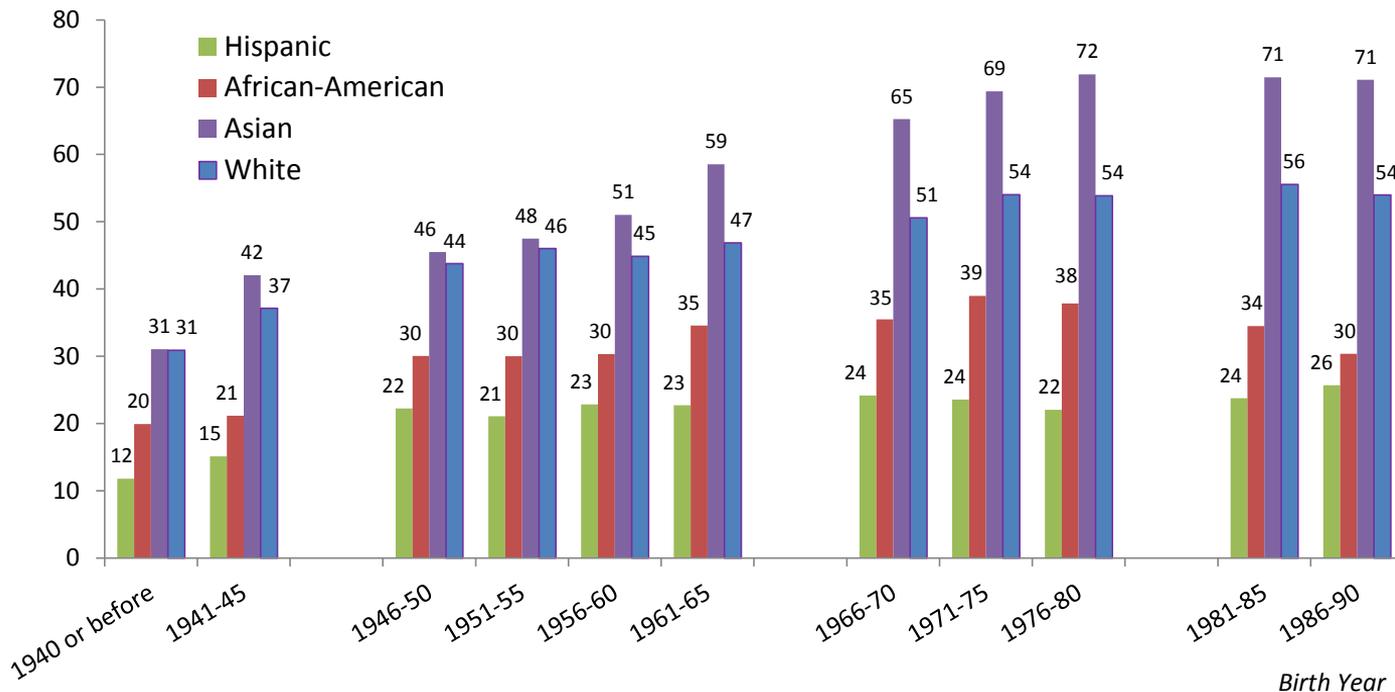


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# College Attainment Rising for All Groups...

Four-Year College Degree Attainment Rates, by Race/Ethnicity, 2015

Percent

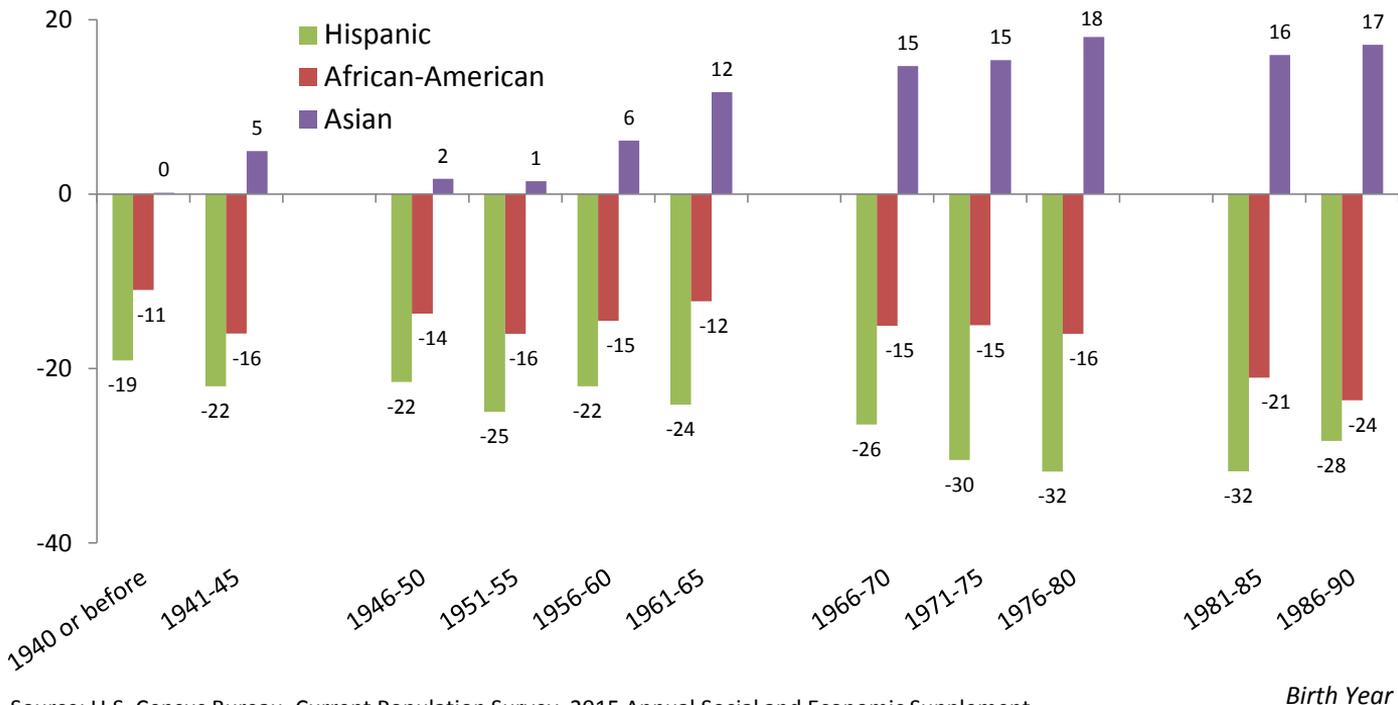


Source: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement.

# But Gaps Are Growing

## Differences in Four-Year College Degree Attainment Rates, by Race/Ethnicity, 2015

*Difference from White Attainment Rates, Percentage Points*



Source: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement.

*Birth Year*

# Is College the Great Equalizer?

- The value of a college degree has never been higher.
- However, a college education is associated with very different wealth outcomes across racial/ethnic groups.
- Wealth gaps have complex foundations, there likely are structural and systemic factors at play.
- Wealth outcomes and attainment rates suggest that not only has higher education not lived up to the moniker of the Great Equalizer, but it may exacerbate inequality.