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Interpreting Racial and Ethnic Income and Wealth Gaps: Framing Matters

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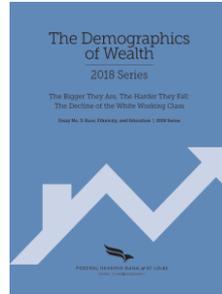
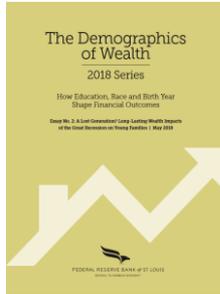
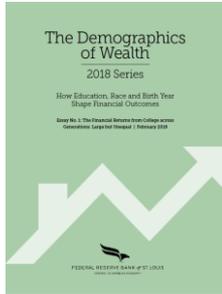
**In collaboration with Ana H. Kent and Lowell R. Ricketts. The views expressed here do not necessarily reflect those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.*

Interpreting Racial and Ethnic Income and Wealth Gaps: Framing Matters

- Income and wealth data from the Federal Reserve's *Survey of Consumer Finances*
- The importance of framing
 - The “post-racial” model of income and wealth
 - A model that allows structural, systemic and other unobservable factors to matter
- Application: Does higher ed level the playing field?

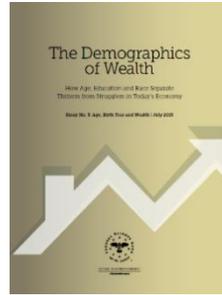
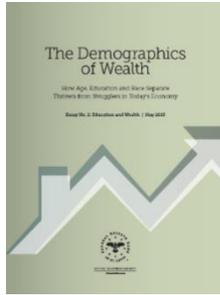
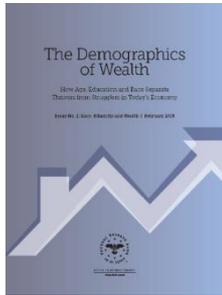
The Demographics of Wealth Series

2018 Series



- HFS essay series links income, wealth and other socio-economic outcomes to a family's:
 - Race/ethnicity
 - Education (own and parents')
 - Age and birth year.

2015 Series

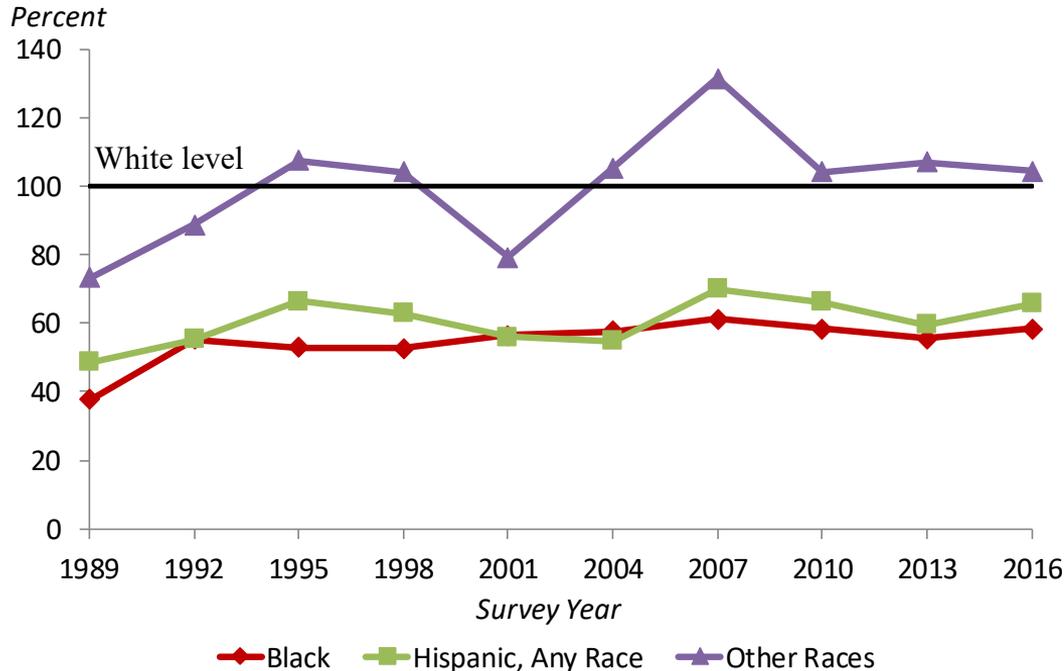


- Your race/ethnicity, education and birth year are strong predictors of your adult outcomes.

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Black & Hispanic Income Gaps Closing Slowly

Median Real Income, Relative to Non-Hispanic White Families



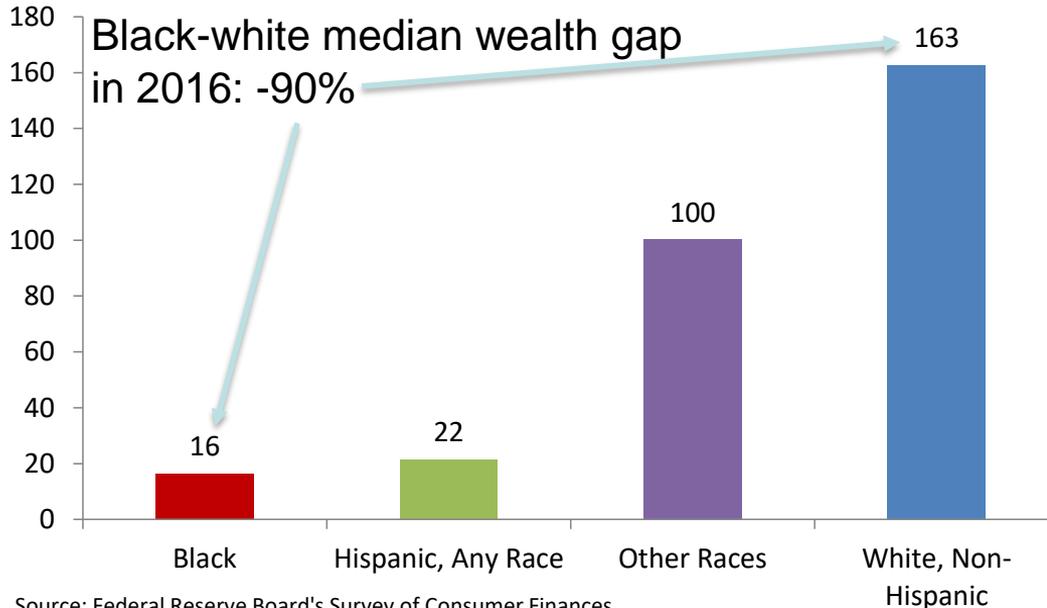
Source: Federal Reserve Board's Survey of Consumer Finances.

- Data from the Federal Reserve's Survey of Consumer Finances.
- Typical (median) income of black and Hispanic families has moved closer to that of white families but remains 40% lower.
- The typical "other-race" family (mostly Asian) has surpassed the typical white family's income.

Racial/Ethnic Wealth Gaps Larger than Income

Median Household Net Worth, by Race/Ethnicity of Respondent, 2016

Thousands of 2016 \$



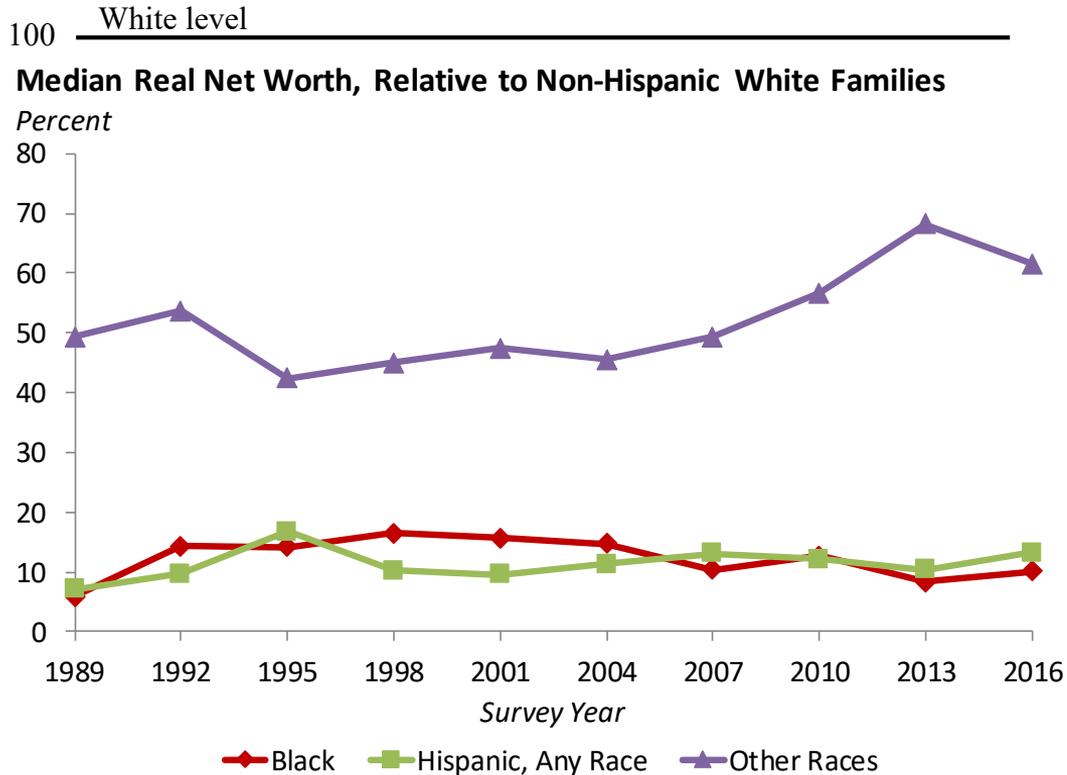
Source: Federal Reserve Board's Survey of Consumer Finances.

Note: "Other Races" includes Asians, Native Alaskans, Pacific Islanders, Native Americans, and families identifying with more than one race or ethnicity.

- Racial/ethnic wealth gaps in 2016 vis-à-vis the median/typical white family are much wider than income gaps
 - Black families (-90%)
 - Hispanic families (-87%)
 - Other families (-39%)



Racial/Ethnic Wealth Gaps Very Persistent



Source: Federal Reserve Board's Survey of Consumer Finances.

- Relative wealth of typical black and Hispanic families has improved a bit since 1989, but the gaps remain close to 90 percent.
- Other nonwhite families' wealth remains below typical white family's, despite higher income.

Two Ways to Interpret Large, Persistent Racial and Ethnic Income and Wealth Gaps

- The standard “post-racial” model: Assume that every family faces the same opportunities and choices.
 - Poor wealth outcomes therefore reflect poor choices.
- A model that allows “structural, systemic or other unobservable factors”: Assume that peer groups and context may be just as important as individual choices.
 - Poor wealth outcomes may reflect poor opportunities.

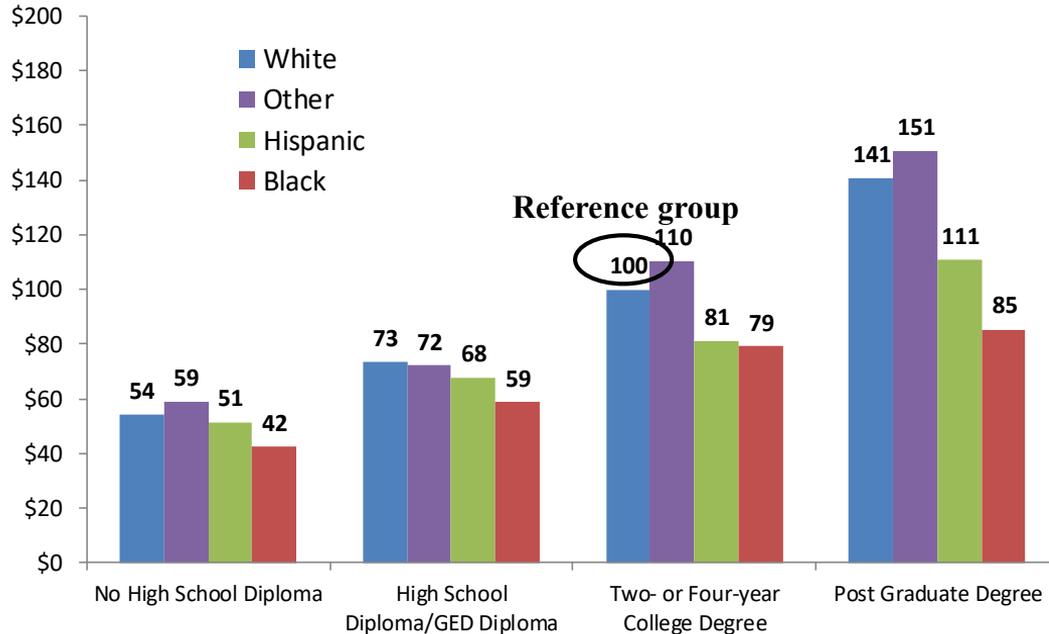
Application: Does Higher Ed Close Wealth Gaps?

- Analyze racial and ethnic wealth groups using Model 1.
 - Reference group is families of white 2- or 4-year college grads.
 - Control for differences in age, education, family structure, financial/balance-sheet characteristics, health, inheritances.
 - How much of the racial/ethnic wealth gap remains “unexplained”?

1) If Everyone “Copied” White College Grads, What Would the Racial Wealth Gaps Be?

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

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



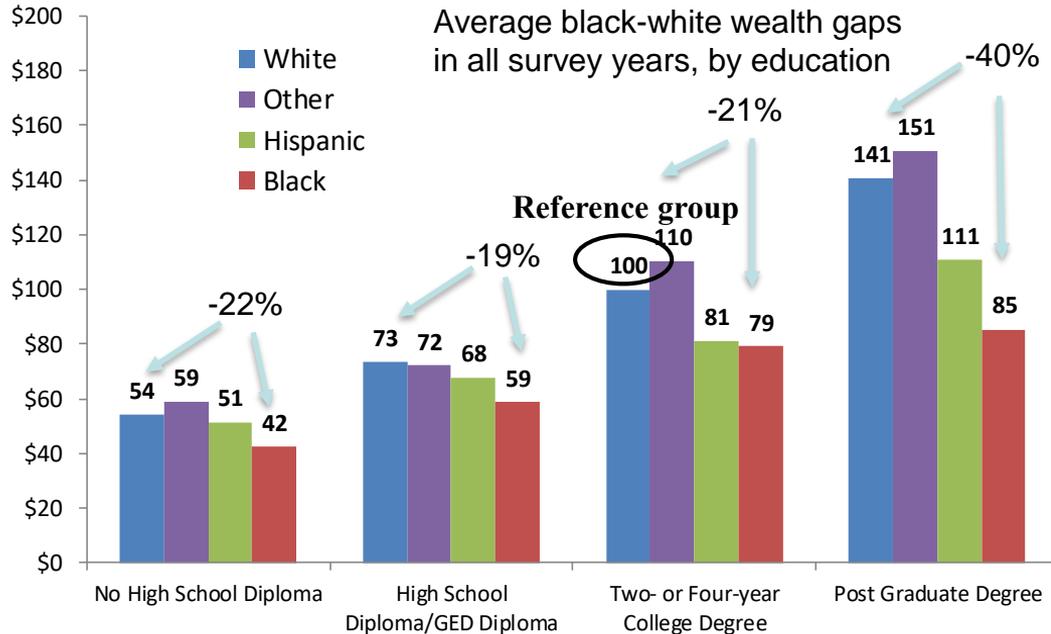
Source: Federal Reserve Board's Survey of Consumer Finances and author's calculations.

- The “post-racial” model is standard in economics.
- Assumes everyone can/should mimic the financial, familial, health and inheritance patterns of the reference group.
- If race doesn't matter, predicted wealth is same for all groups within an education level; RWG=0.

1) If Everyone “Copied” White College Grads, What Would the Racial Wealth Gaps Be?

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

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



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

- Yes, gaps are lower after “controlling” for different choices (financial, familial).
- But racial and ethnic wealth gaps are not zero.
- The “residual” race effects are largest among blacks.
- The residual race/ethnicity effects are largest among post-graduate degree holders.

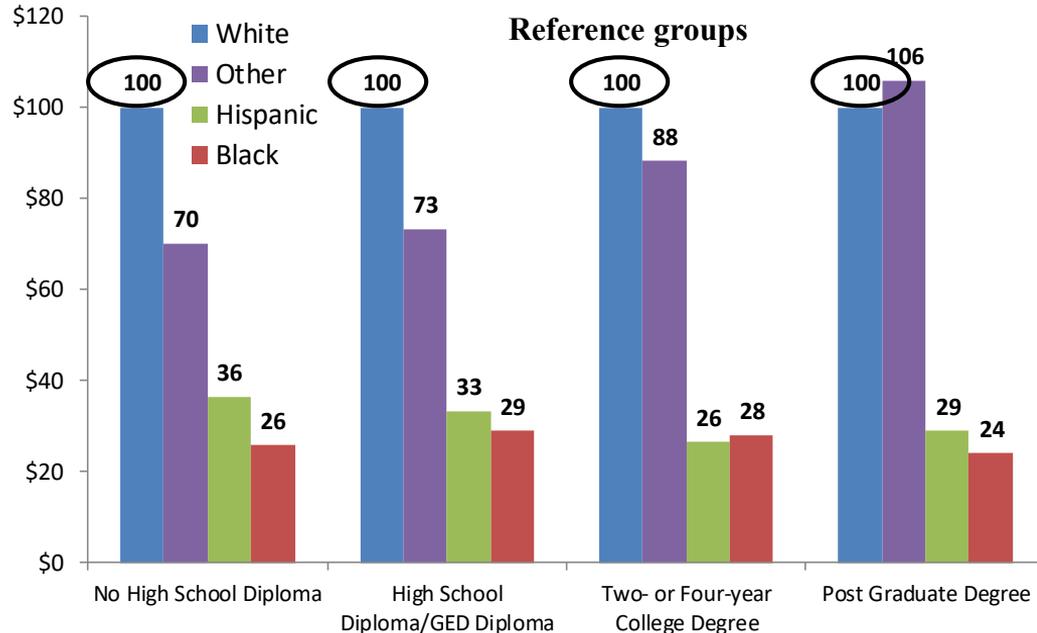
Application: Does Higher Ed Close Wealth Gaps?

- Analyze racial and ethnic wealth groups using Model 2.
 - Reference groups are white families of a given education level.
 - Calculate age/race-specific means for all “control variables.”
 - Define individual choices as difference between actual level and own peer group’s average level in each year.
 - How much of the racial/ethnic wealth gap remains “unexplained”?
 - These numbers are estimates of the structural/systemic/unobservable wealth gaps due to race or ethnicity.

2) What If Your Agency Is Defined as Differences from Group Averages or Norms?

Predicted Wealth by Education Level and Race, Full Structural Model

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



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

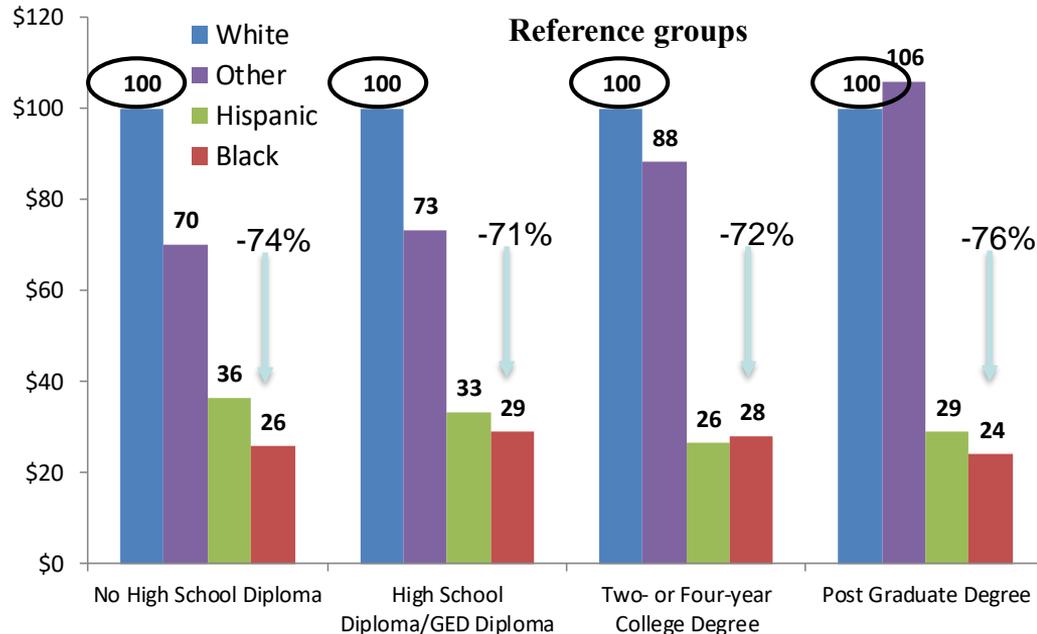
- This is a model in which structural, systemic and other unobservable factors related to race or ethnicity are assumed to define where individual agency begins.
- Compare within ed levels.
- Model isolates maximum gap that could be due to race-related factors.



2) What If Your Agency Is Defined as Differences from Group Averages or Norms?

Predicted Wealth by Education Level and Race, Full Structural Model

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



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

- Average black-white wealth gaps in all survey years are very similar across education levels.
- Black-white gaps generally are the largest.
- Conclusion: Vast majority of the “raw” (-90%) wealth gap is due to “between-group” rather than “within-group” differences.



Summary of “Interpreting Racial and Ethnic Income and Wealth Gaps: Framing Matters”

- Racial and ethnic income and especially wealth gaps are very large and very persistent.
- How we interpret the gaps depends on framing.
 - The standard “post-racial” model of income and wealth blames “poor choices.”
 - A model that includes structural, systemic and other unobservable factors points to “poor opportunities.”
- Higher ed cannot overcome vastly different starting points.

References

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