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Closing Racial and Ethnic Wealth Gaps: College is Not Enough

Toward One Wisconsin
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**These are our own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*



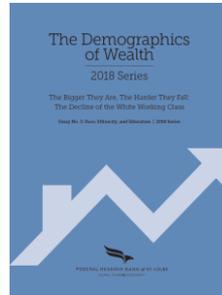
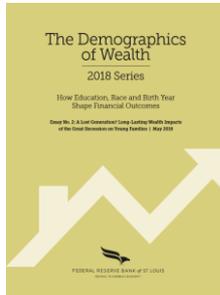
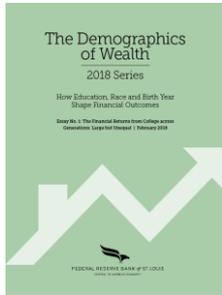
Overview

- The Demographics of Wealth
- Does College Level the Playing Field?
- College is Not Enough
- Why Are Demographics So Powerful?
- Ideas for Moving Forward

THE DEMOGRAPHICS OF WEALTH

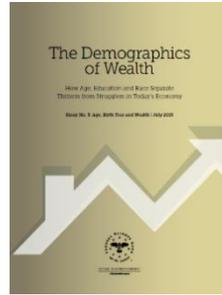
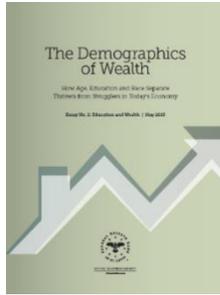
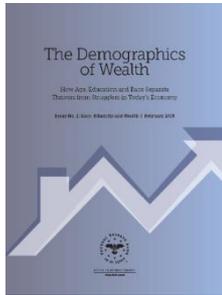
The Demographics of Wealth Series

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.

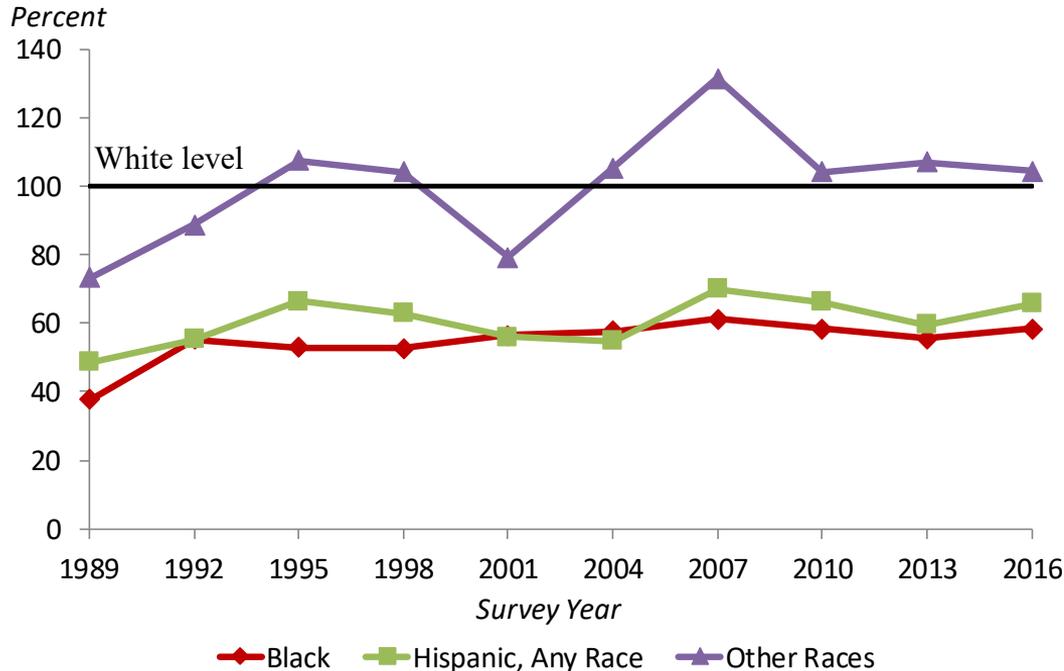
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Race, Ethnicity and Wealth

- Four groups based on race or ethnicity of the survey respondent:
 - Non-Hispanic white
 - Non-Hispanic black or African-American
 - Hispanic of any race
 - Other or multiple races (Asian, American Indian, Alaskan Native, Native Hawaiian, Pacific Islander, other race, identifies with more than one race)

Black & Hispanic Income Gaps Closing Slowly

Median Real Income, Relative to Non-Hispanic White Families



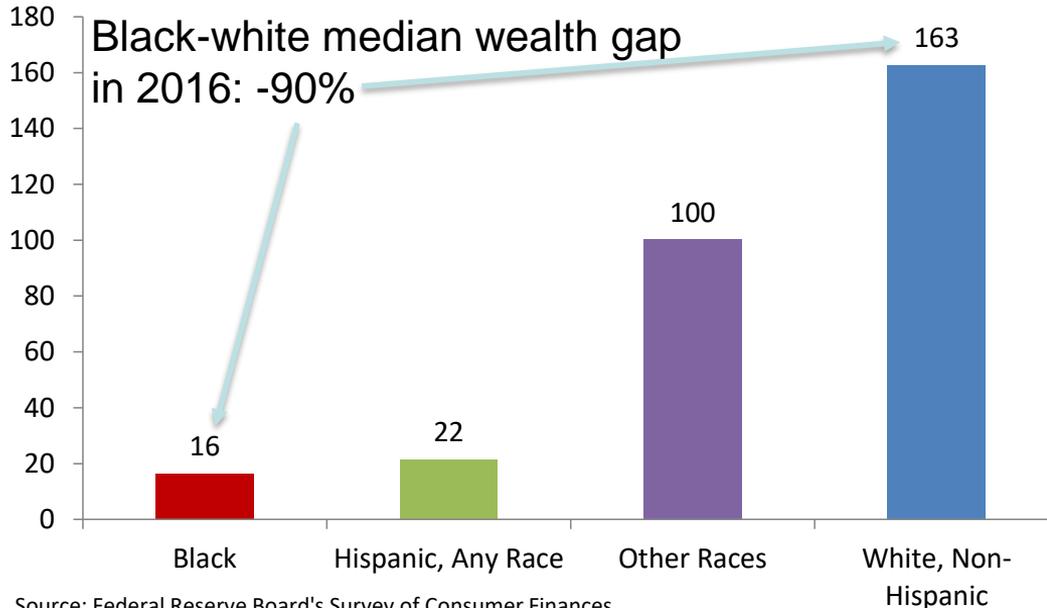
Source: Federal Reserve Board's Survey of Consumer Finances.

- 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 \$



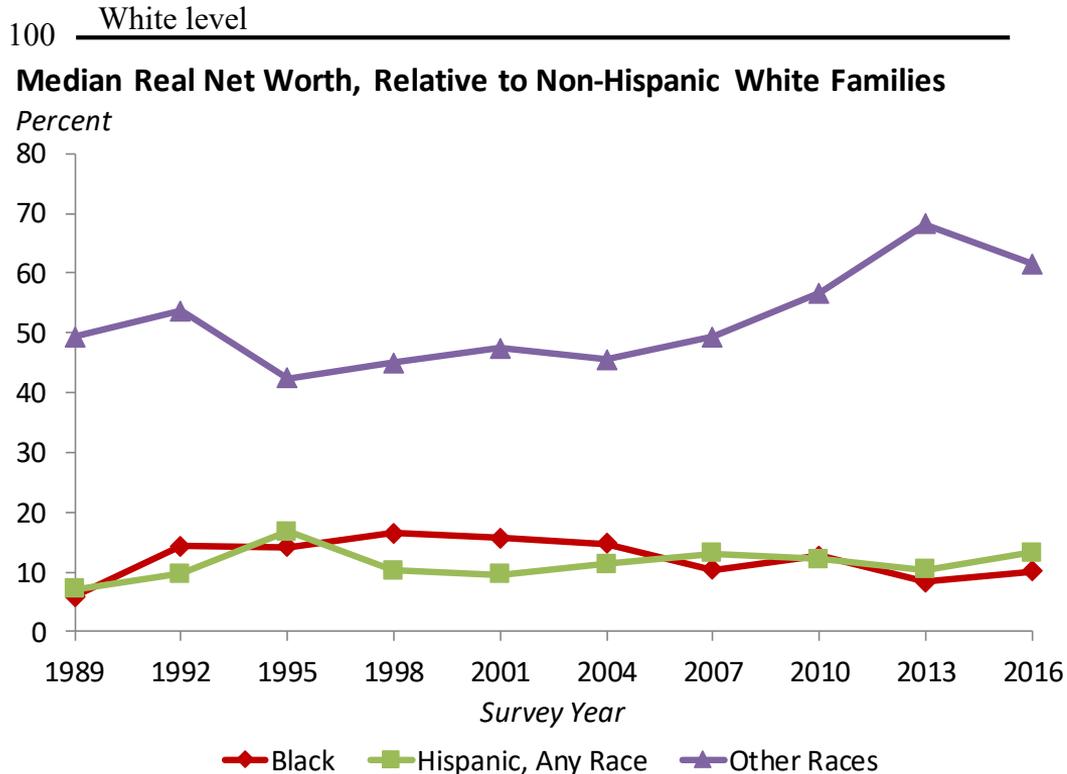
Source: Federal Reserve Board's Survey of Consumer Finances.

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.

DOES COLLEGE LEVEL THE PLAYING FIELD?



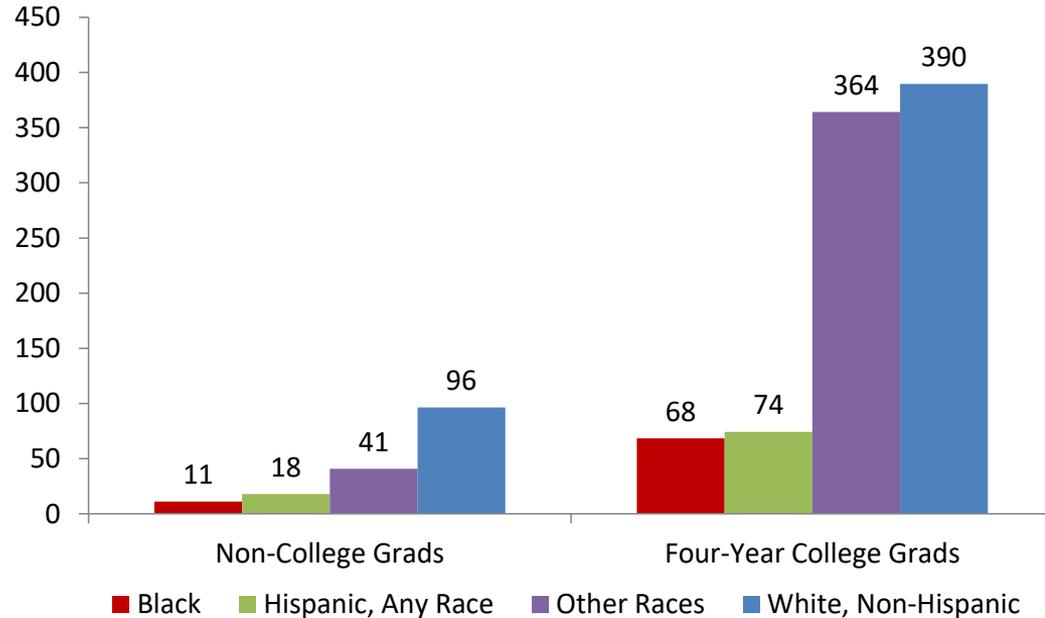
Can Higher Education Close These Gaps?

- A college education is widely held as a powerful source of upward mobility.
- Can higher education close the racial wealth gap?
- We find that a college degree is associated with higher expected earnings and wealth accumulation for all families, regardless of race or ethnicity.
- However, the returns are unequal across groups at even the highest levels of education.

Racial Wealth Gaps Remain Despite College

Median Household Net Worth, by Race/Ethnicity and Education, 2016

Thousands of 2016 \$



Note: College grads include any family headed by someone with a four-year degree or higher.

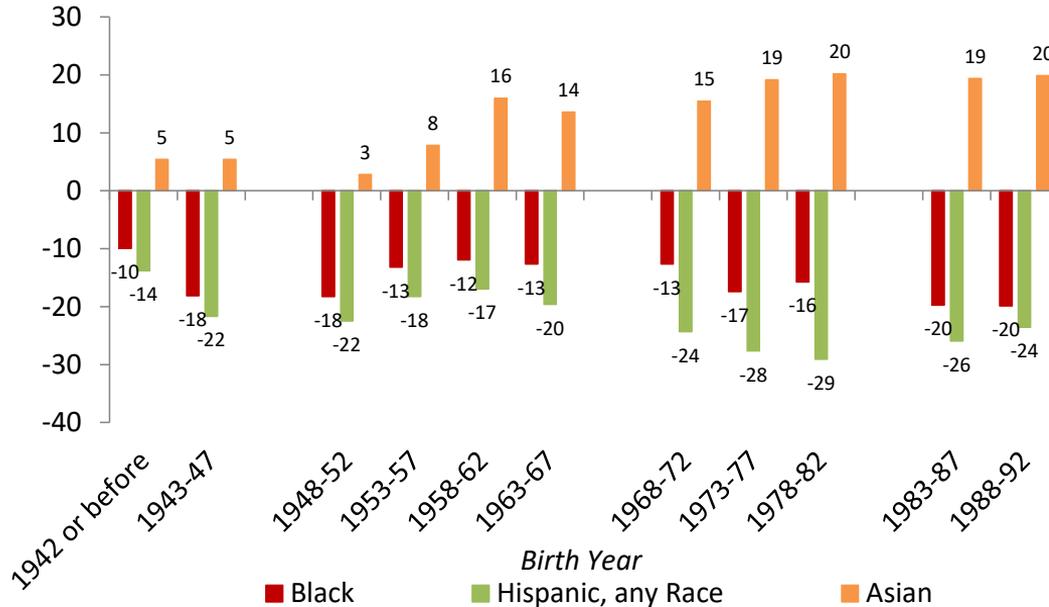
Source: Federal Reserve Board's Survey of Consumer Finances.

- Importantly, a college degree is associated with greater median wealth for *all groups*.
- However, the racial wealth divide remains even among college-educated families.
- Among college-educated peers, the black-white gap is 17 cents per dollar.

Attainment Gaps Are Growing

Difference in College Attainment Rates, Relative to Whites, 2017

Percentage Points



Notes: Attainment rates include four-year college degree or higher. Population aged 25 and over.

Source: Census Bureau's Current Population Survey, 2017 Annual Social and Economic Supplement.

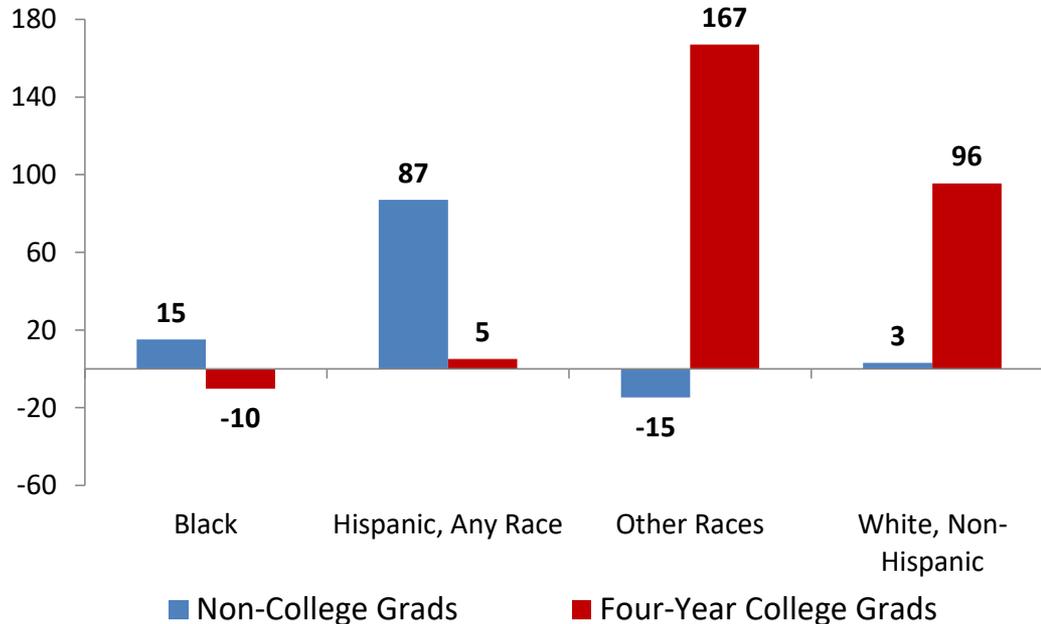
- College attainment rates have generally increased over time for all groups.
- However, they have increased unevenly across groups.
- The black-white gap in attainment among individuals born between 1983-92 is at a recent peak.



Similar Education, Different Returns Over Time

Change in Median Real Net Worth between 1992 and 2016

Percentage Difference



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

- Since 1992, there have been significantly different returns to a college degree by race/ethnicity.
- Median net worth among black families headed by college grads *declined*.
- Meanwhile, median net worth among white college grads doubled.

College Itself Has Become an Engine for Widening Disparities

- Returns associated with a college degree have been higher among white graduates.
- Those returns have increased for white graduates and declined for black graduates over time.
- The black-white college attainment gap is growing over time.
- These facts and trends point toward *increasing* racial and ethnic wealth gaps in the future.

What's Driving These Divergent Wealth Outcomes Among Graduates?

- Our Center organized a [research conference](#) in May 2016 that explored potential causes for this disparity.
- Commissioned papers looked at multiple factors:
 - The college experience
 - Labor market outcomes
 - The homeownership experience
 - Family structure
 - Wealth transfers

COLLEGE IS NOT ENOUGH

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.

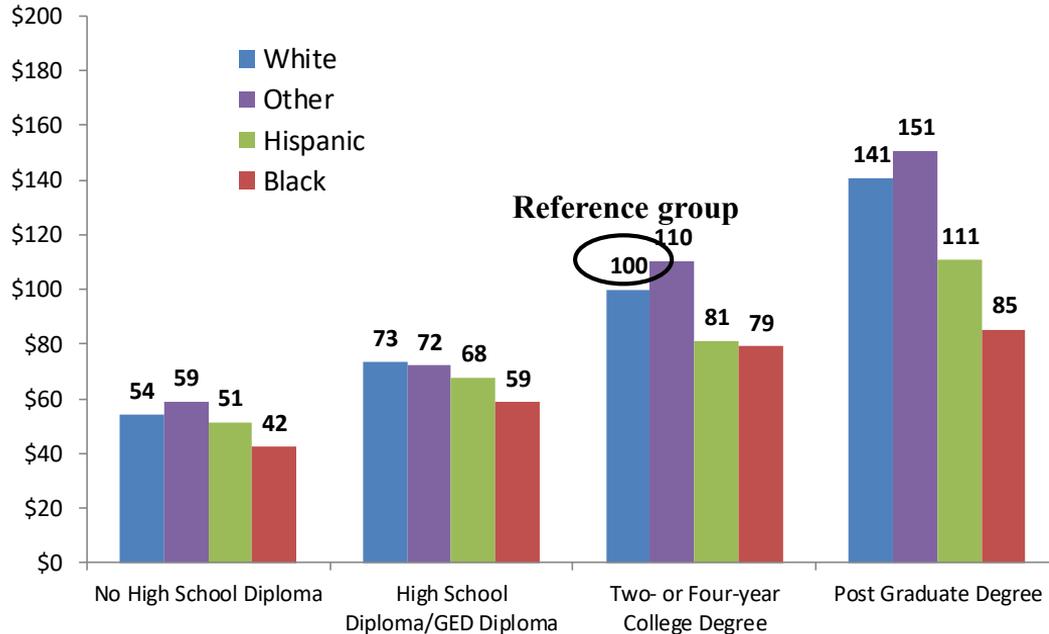
Application: Does Higher Ed Close Wealth Gaps?

- 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



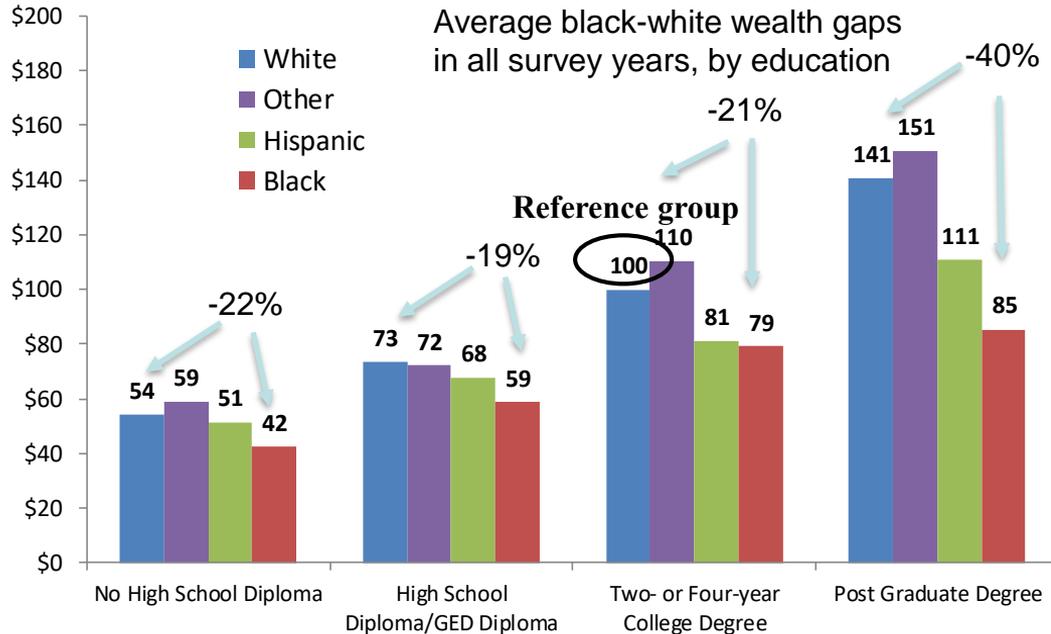
Source: Federal Reserve Board's Survey of Consumer Finances and author's calculations.

- 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.

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.

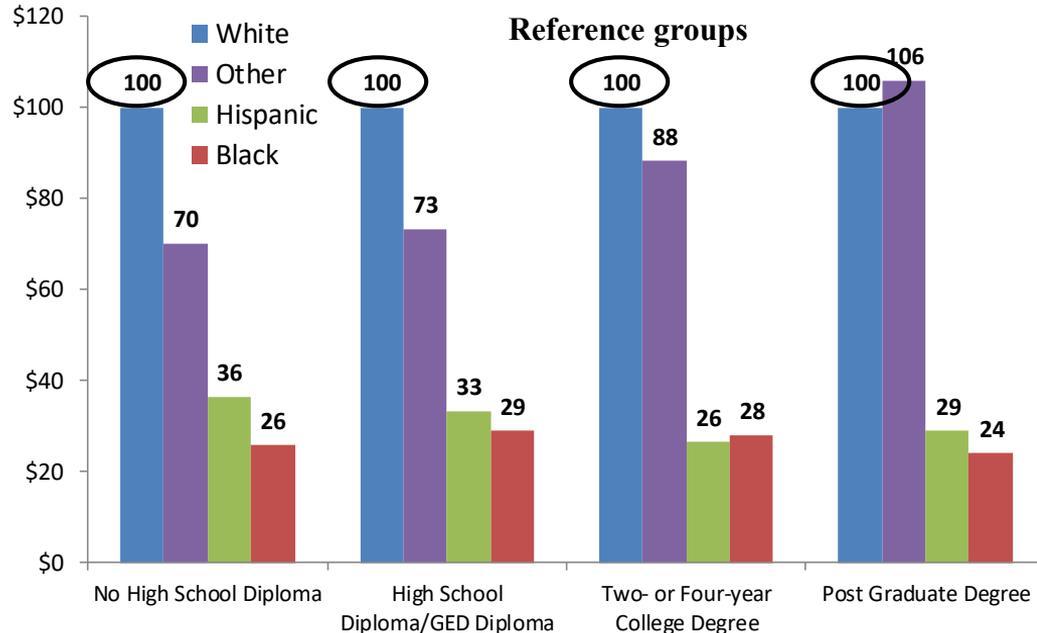
Application: Does Higher Ed Close Wealth Gaps?

- 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.

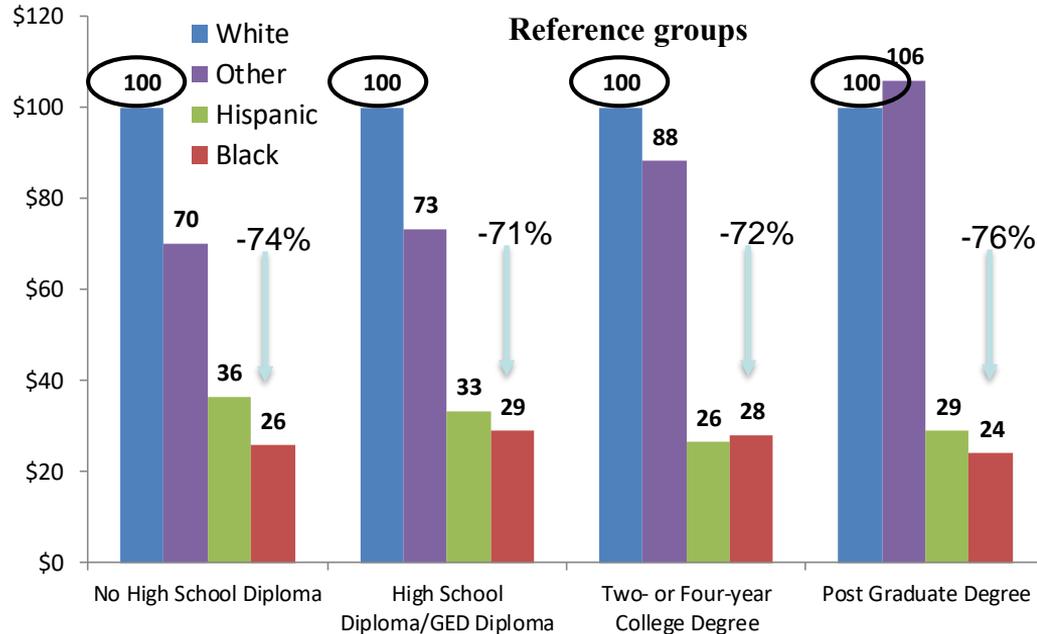
- This is a model in which structural, systemic and other unobservable factors related to race or ethnicity are assumed to define where individual agency begins.
- Compare within ed levels.
- Model isolates maximum gap that could be due to race-related factors.



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 College is Not Enough

- 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.

WHY ARE DEMOGRAPHICS SO POWERFUL?

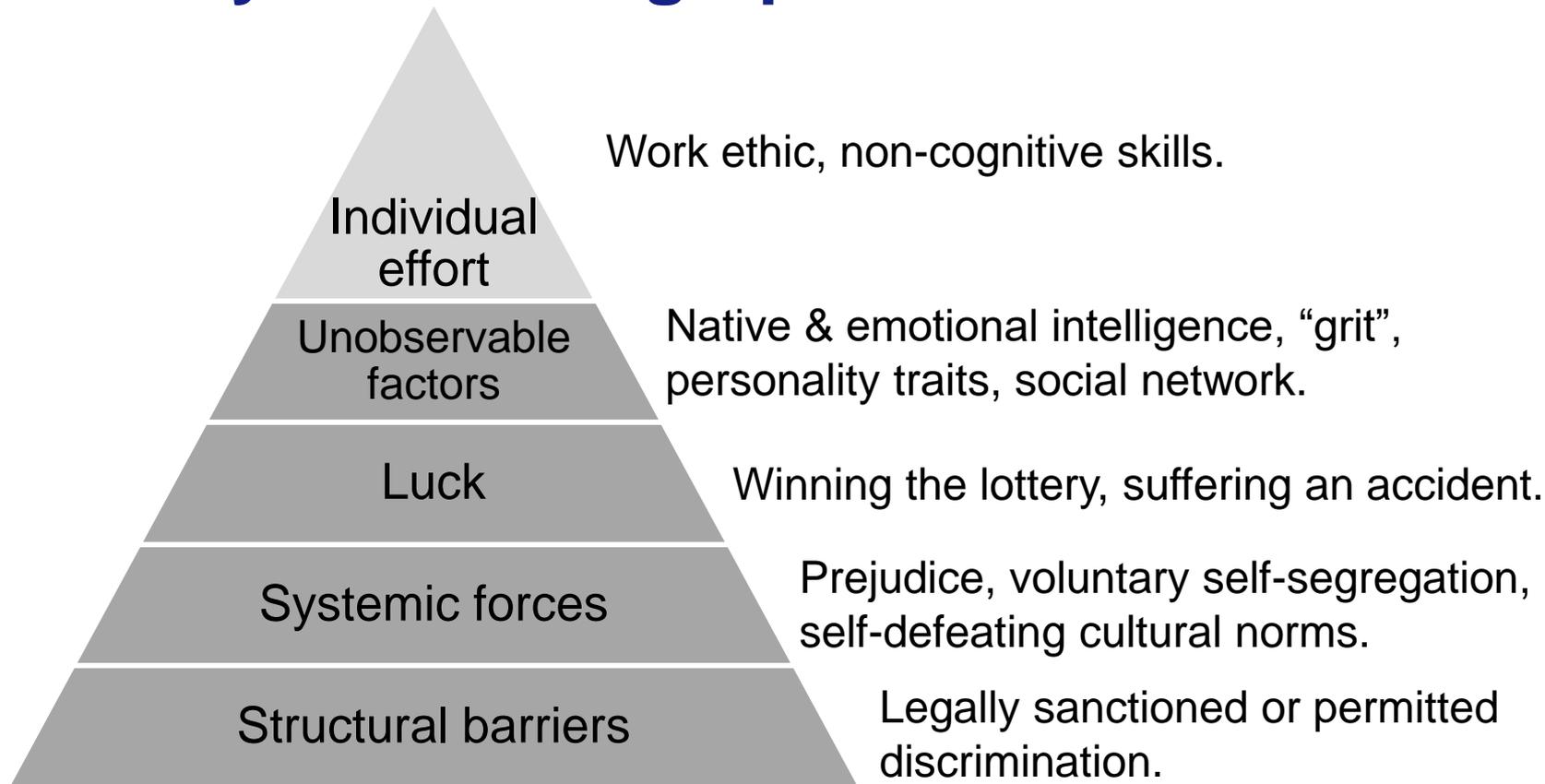
Why Are Demographics So Powerful?

- Basic demographic characteristics are strongly related to typical income and wealth outcomes.
- This framework helps us *predict* but it doesn't *explain* everything.
- Our research suggests that *structural, systemic or other unobservable factors* related to race and ethnicity may be important drivers of wealth inequality.

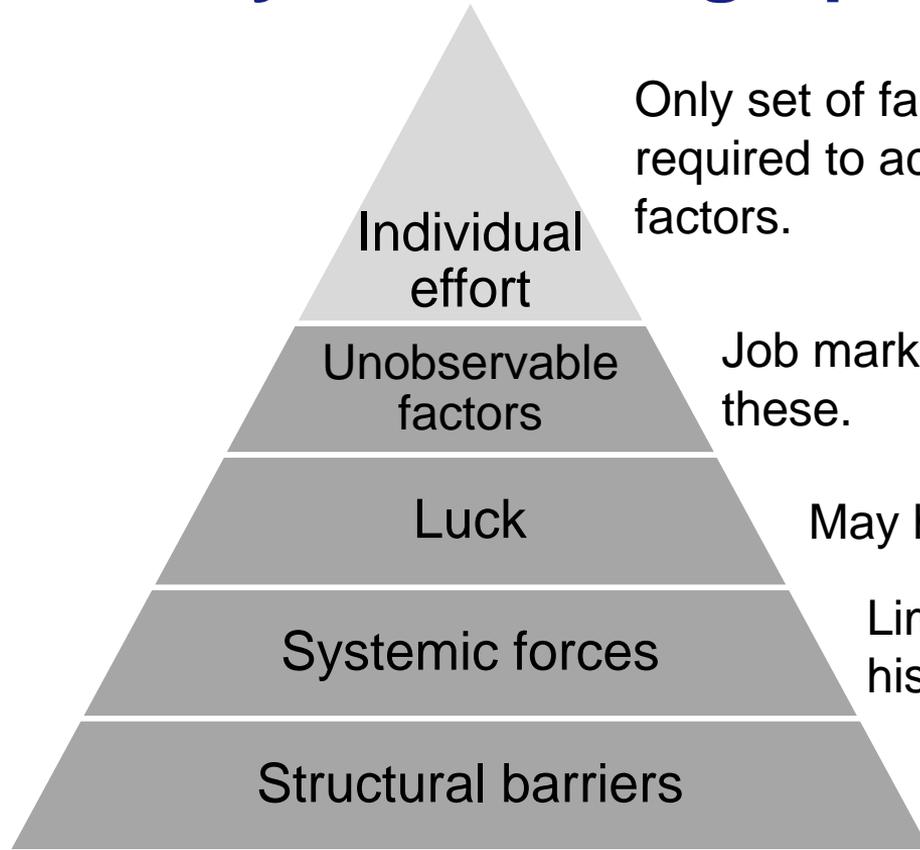
Why Are Demographics So Powerful?

- Historical discrimination and disadvantage created large wealth gaps in the past, which profoundly affect today's children and adults.
- Ongoing structural and systemic barriers make it difficult to narrow wealth gaps.
- Peer groups matter, individual choices are made in context of systemic and structural factors.

Why Are Demographics So Powerful?



Why Are Demographics So Powerful?



Only set of factors that are fully in our control, required to achieve full potential given previous factors.

Job market and financial success requires these.

May help or hinder to some degree.

Limit chances to gain wealth; may have historical links to structural factors.

Historical discrimination, wealth cumulates across generations.

IDEAS FOR MOVING FORWARD

Conversation One vs. Conversation Two

(Jackson 2017)

- **Conversation one** outlines expedient, small-scale interventions aimed to solve tightly defined problems or improve existing institutions.
- **Conversation two** involves a deeper discussion about where wealth gaps come from and what larger-scale changes might close them.
- Both conversations are necessary but often in social sciences the first is preferred or crowds out the second.

Conversation One

- Child Development Accounts / College Savings Accounts
 - Established at birth or when child enters kindergarten.
 - Universal (for all kids) and progressive (more for the poor)
 - Over 40 programs/policies in the U.S., some state- and city-wide.
 - Research shows positive impacts on child development, maternal health, and college outcomes.

Conversation Two

- **Not** endorsing any specific policy but conversation two involves bold proposals such as:
 - Renewed pursuit of desegregation of primary and secondary schools.
 - Disassociate school funding from neighborhood wealth.
 - End residential segregation (by race and income).
 - Universal higher education.
 - Wealth redistribution.

Conclusion

- The racial wealth gap has been wide and persistent.
- Higher education cannot close these gaps, at least not on its own.
- Wealth gaps have complex foundations, there likely are structural and systemic factors at play.
- Closing these wealth gaps is no small task given deep-rooted causes, realistic policy proposals need big ideas along with proven interventions.

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