



Researching Family Balance Sheets to Strengthen
Families and the Economy | stlouisfed.org/hfs

Racial and Ethnic Wealth Gaps

Nebraska Council on Economic Education
July 7, 2020

Lowell Ricketts, Lead Analyst

**These are my 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: Race and Ethnicity
- Does College Level the Playing Field?
- Why Are Demographics So Powerful?
- Ideas for Moving Forward

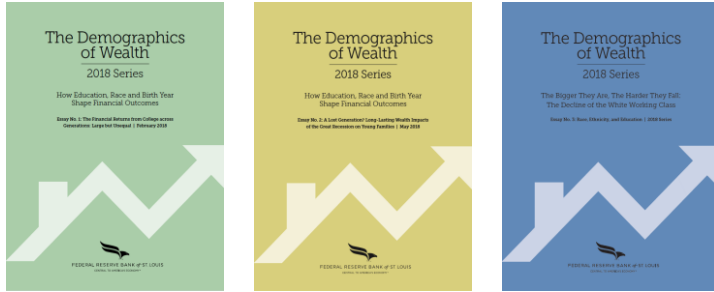
THE DEMOGRAPHICS OF WEALTH

Why Do Assets and Wealth Matter?

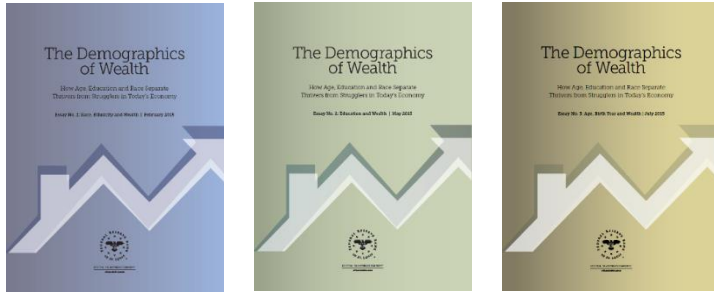
- Household well-being is derived not solely from income and consumption, but also from building savings and assets. (Sherraden 1991)
- Wealth buffers against misfortune and helps build your future: retirement, children's education, a bequest.
- Lack of income means you don't get by; lack of assets means you don't get ahead. (Boshara 2002)

The Demographics of Wealth Series

2018 Series



2015 Series

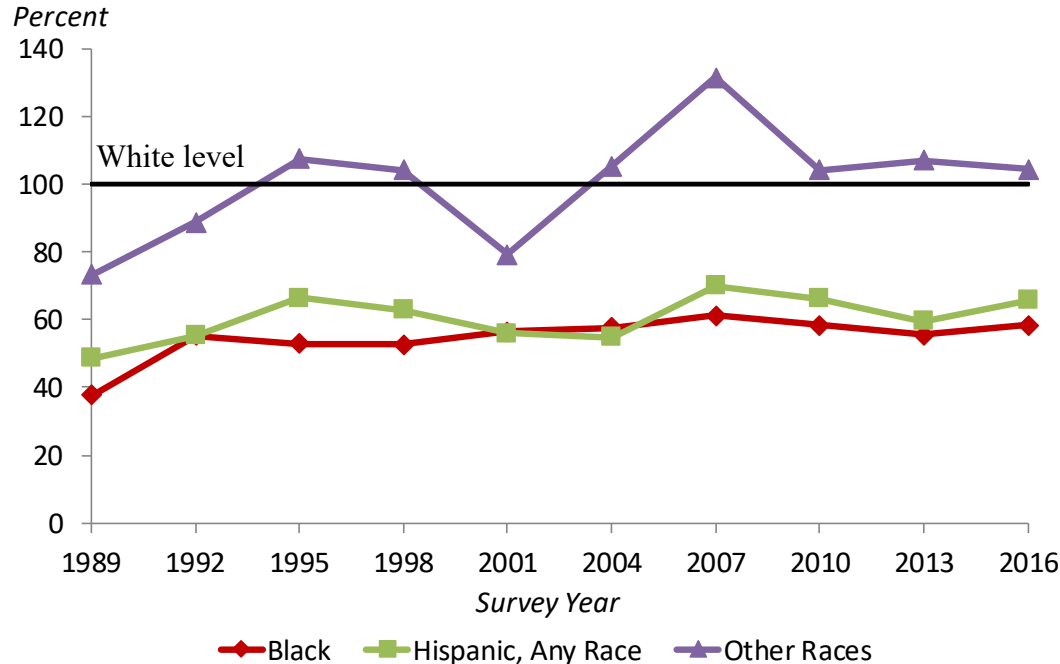


- Essay series links income, wealth and other socio-economic outcomes to a family's:
 - Race/ethnicity
 - Education (own and parents')
 - Age and birth year
- Your race/ethnicity, education and birth year are strong predictors of your adult outcomes.

[Demographics of Wealth Essays](#)

Black & Hispanic Income Gaps Closing Slowly

Median Real Income, Relative to Non-Hispanic White Families

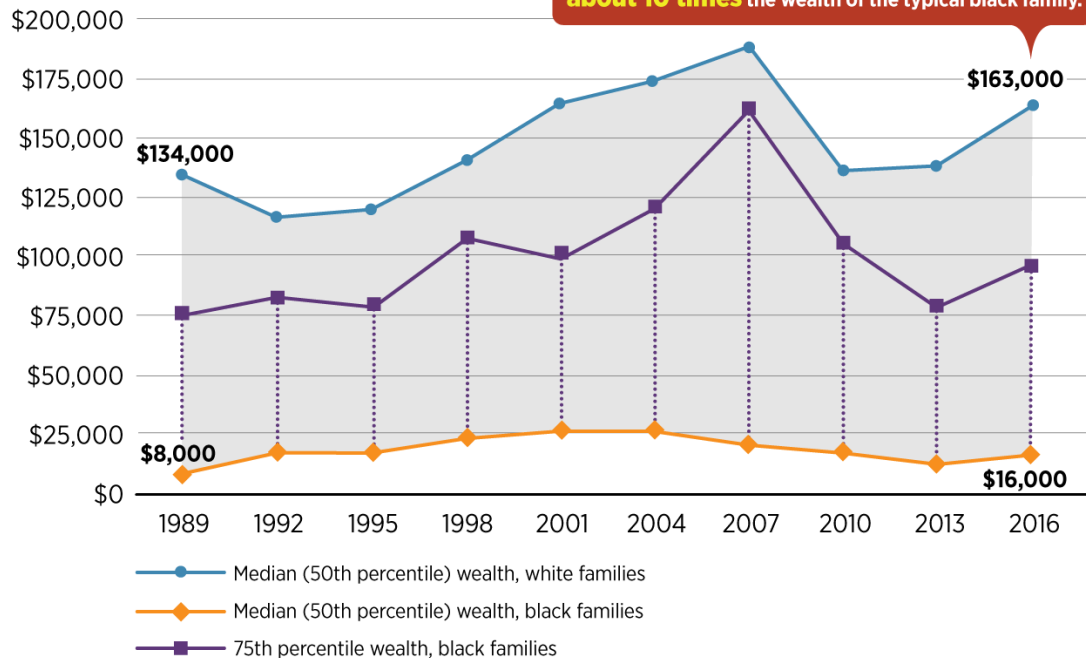


Source: Federal Reserve Board's Survey of Consumer Finances.

- 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 has surpassed the typical white family's income.

Racial/Ethnic Wealth Gaps are Wide and Persistent

White/Black Wealth Gap



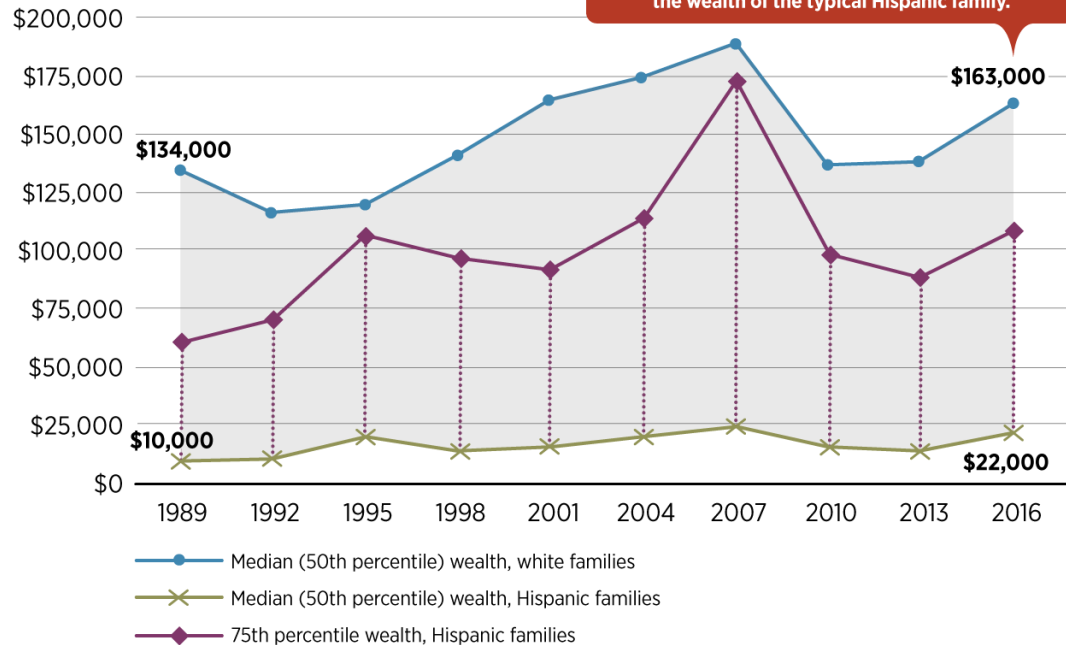
■ FEDERAL RESERVE BANK OF ST. LOUIS

Source: [Kent, Ricketts, Boshara \(2019\)](#)

- Despite other progress, the large racial and ethnic wealth gaps remain essentially unchanged.
- Typical white families had about 10 times wealth of typical black families.
- Even wealthier black families (75th percentile) fall short of white medians (50th percentile).

Racial/Ethnic Wealth Gaps are Wide and Persistent

White/Hispanic Wealth Gap



- Over a nearly three-decade period, the U.S. has seen very little progress in narrowing racial and ethnic wealth gaps.
- In terms of the total wealth pie, white families in 2016 owned 89% of it, while black and Hispanic families owned 3% each.

■ FEDERAL RESERVE BANK OF ST. LOUIS

Source: [Kent, Ricketts, Boshara \(2019\)](#)

DOES COLLEGE LEVEL THE PLAYING FIELD?

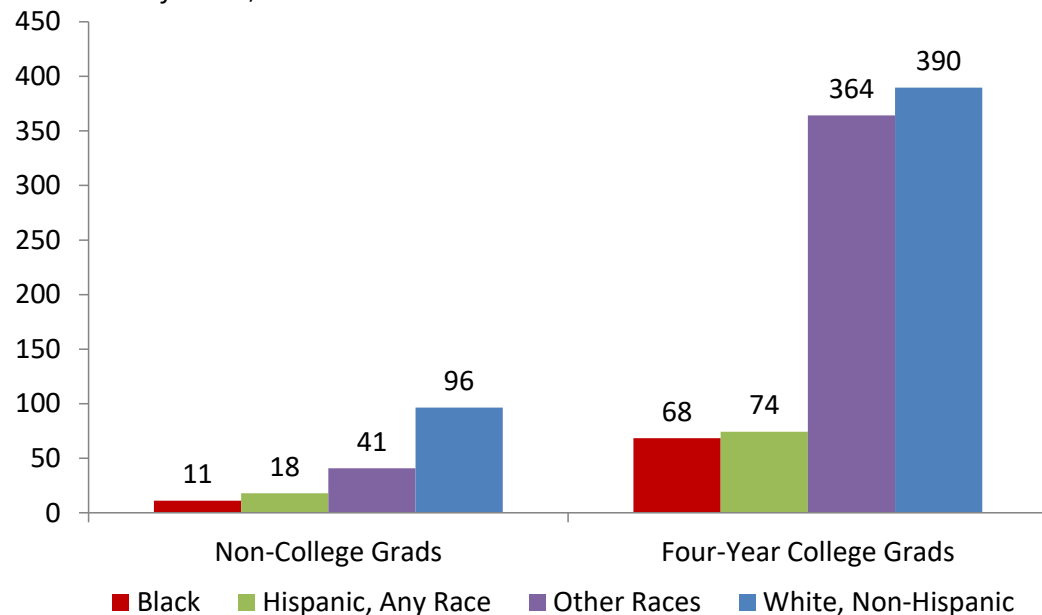
Can Higher Education Close These Gaps?

- 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.

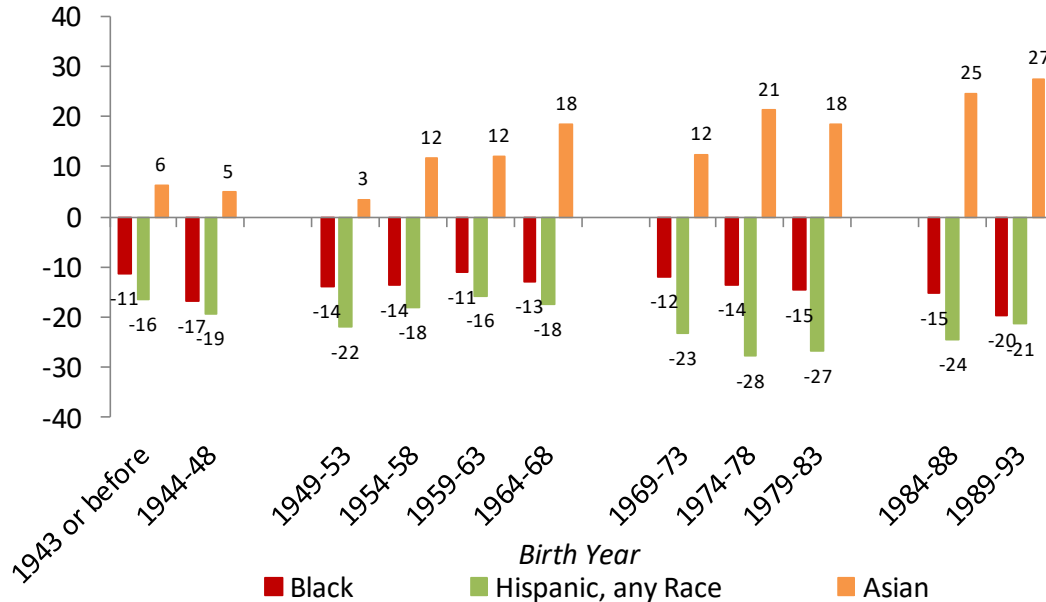
- Importantly, a college degree is associated with greater median wealth for *all groups*.
- However, the racial wealth divide remains even among college-educated families.
- Among college-educated peers, the black-white gap is 17 cents per dollar.



Attainment Gaps Are Growing

Difference in College Attainment Rates, Relative to Whites, 2018

Percentage Points



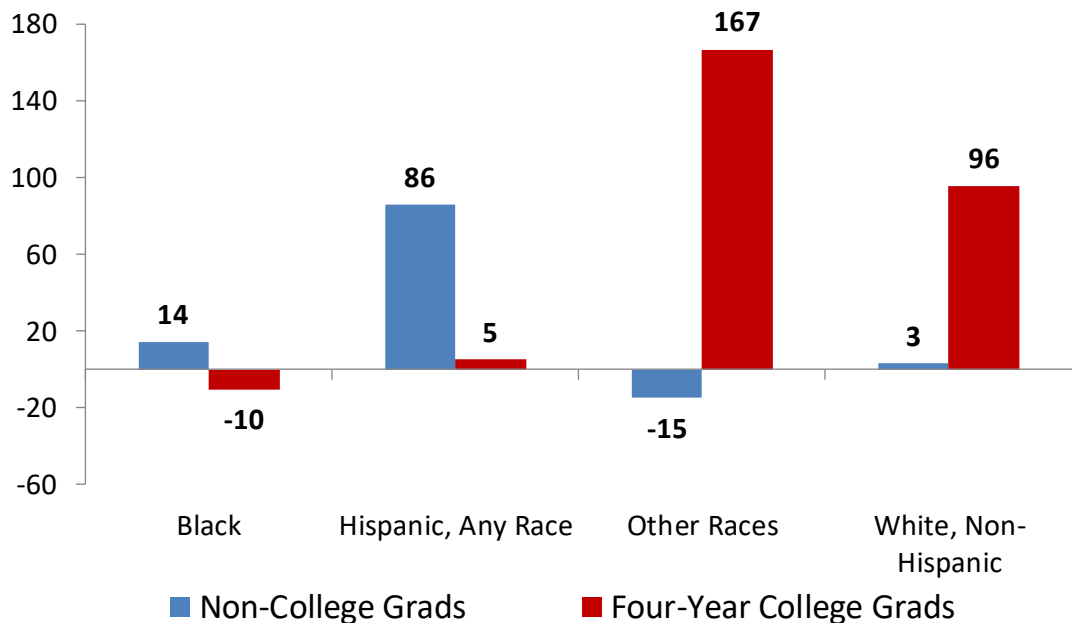
Notes: Attainment rates include four-year college degree or higher. Population aged 25 and over.
Source: Census Bureau's Current Population Survey, 2018 Annual Social and Economic Supplement.
[Emmons and Ricketts \(2017\)](#)

- 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 1989-93 is at a recent peak.

Similar Education, Different Returns Over Time

Change in Median Real Net Worth between 1992 and 2016

Percentage Difference



Source: Survey of Consumer Finances, [Emmons and Noeth \(2015\)](#) updated with 2016 data.

- 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 Unwitting 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.

WHY ARE DEMOGRAPHICS SO POWERFUL?

Why Are Demographics So Powerful?

- Historical discrimination and disadvantage created large wealth gaps in the past, which profoundly affect today's children and adults ([Aaronson et al.](#) 2019).
- Continuing discrimination and disadvantage hamper full participation and achievement ([Howell and Korver-Glenn](#) 2018).
- Ongoing structural and systemic barriers make it difficult to narrow wealth gaps ([Emmons and Ricketts](#) 2017).

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 ideas 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

- Racial and ethnic wealth gaps are very large and persistent.
- Higher education, instead of being the great equalizer, in some ways exacerbates inequality.
- Closing wealth gaps is no small task given deep-rooted causes and systemic factors.
- Realistic proposal needs big ideas along with proven interventions.

Connect With Us



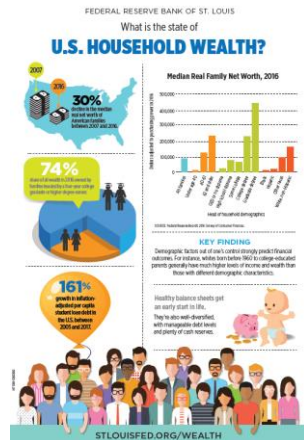
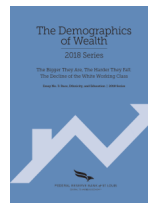
Center for
**HOUSEHOLD
FINANCIAL
STABILITY®**

Researching Family Balance Sheets to Strengthen
Families and the Economy | stlouisfed.org/hfs

STLOUISFED.ORG/HFS



Newsletter



References

- Aaronson, Daniel; Hartley, Daniel; Mazumder, Bhash. “The Effects of the 1930s HOLC “Redlining” Maps.” Chicago Fed Working Paper No. 2017-12, 2017, Revised February 2019, [Link](#).
- Boshara, Raymond J. “Poverty is More Than a Matter of Income.” *New York Times*, September 29, 2002, [Link](#).
- Bricker, Jesse; Dettling, Lisa J.; Henriques, Alice; Hsu, Joanne W.; Jacobs, Lindsay; Moore, Kevin B.; Puck, Sarah; Sabelhaus, John; Thompson, Jeffrey; Windle, Richard A. “Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances.” *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System, September 2017, Vol. 103, No. 3. [Link](#).
- Emmons, William R.; Kent, Ana H.; and Ricketts, Lowell R. *The Demographics of Wealth*, 2018 Series. Federal Reserve Bank of St. Louis. [Link](#).
- Emmons, William R.; and Noeth, Bryan J. “Why Didn’t Higher Education Protect Hispanic and Black Wealth?” Federal Reserve Bank of St. Louis *In the Balance*, 2015, Issue 12, [Link](#).
- Emmons, William R.; and Ricketts, Lowell R. “College is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps.” Federal Reserve Bank of St. Louis *Review*, First Quarter 2017, Vol. 99, No. 1, pp. 7-39, [Link](#).
- Howell, Junia; and Korver-Glenn, Elizabeth. “Neighborhoods, Race, and the Twenty-first-century Housing Appraisal Industry.” *Sociology of Race and Ethnicity*, October 2018, Vol. 4, No. 4. [Link](#).
- Jackson, Michelle. “Don’t Let “Conversation One” Squeeze Out “Conversation Two.” *Pathways*, Spring 2017, pp. 32-36, [Link](#).
- Kent, Ana H.; Ricketts, Lowell R.; and Boshara, Raymond J. “What Wealth Inequality in America Looks Like: Key Facts & Figures.” Federal Reserve Bank of St. Louis’ *Open Vault*, August 14, 2019. [Link](#).
- Sherraden, Michael W. *Assets and the Poor: New American Welfare Policy*. Armonk, N.Y.: M.E. Sharpe, 1991.