



Resource and Community Forum
Delta State University

Academic Success and Financial Skills: Keys to Building Wealth

March 16, 2016

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Challenges of the 20th and 21st Centuries

**“The problem of the 20th century
is the problem of the color line.”**

--W.E.B. DuBois, 1908





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“The problem of the 21st century is the problem of the [racial] skill gap.”

--Roland G. Fryer, Jr., 2011



Much of What Follows is Based on the Research of Roland G. Fryer, Jr.



- **The Henry Lee Professor of Economics, Harvard University, <http://scholar.harvard.edu/fryer/home>.**
- **Youngest African-American to receive tenure at Harvard (age 30).**
- **Research focuses on education reform, social interactions and police use of force.**
- **Director of the Education Innovation Laboratory at Harvard.**
- **Winner of the 2015 John Bates Clark Medal as the outstanding economist under 40 years of age.**
- **Recipient of a MacArthur “genius” fellowship.**
- **Keynote speaker at our May 25-26, 2016, conference on race, education and wealth at the St. Louis Fed—register here: <https://www.event.com/events/does-college-level-the-playing-field-racial-and-ethnic-differences-in-family-wealth-among-college-education-registration-b7edeed086746f58ef0380b4f5ff3a6.aspx>.**





The World According to Fryer



- **Relative to the 20th century, the significance today of discrimination as an explanation for racial inequality across economic and social indicators has declined.**
- **Racial differences in social and economic outcomes are greatly reduced when one accounts for educational achievement (= traditional skills).**
- **Therefore, the new challenge is to understand the obstacles undermining the achievement of black and Hispanic children in primary and secondary school (K-12).**

Source: Roland G. Fryer, Jr., “Racial Inequality in the 21st Century: The Declining Significance of Discrimination,” *Handbook of Labor Economics*, 2011, p. 857.



Why The Racial Skill/Educational-Achievement Gap Matters So Much

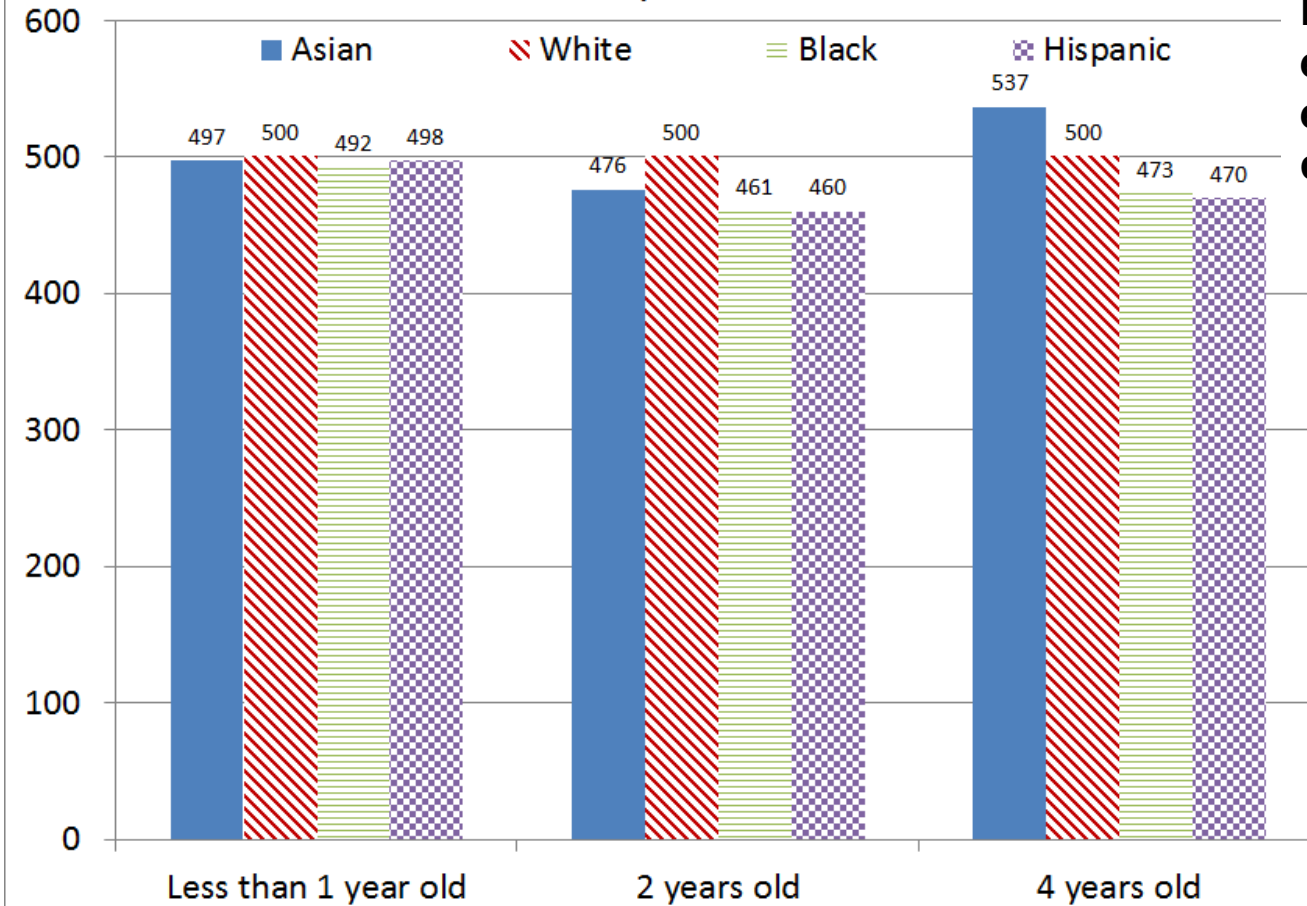
- **Eliminating the racial skill gap would greatly reduce or eliminate these disparities:**
 - **Income inequality**
 - **Unemployment gap**
 - **Incarceration gap**
 - **Health gap**
- **We at HFS believe a related racial and ethnic financial-skills gap also undermines wealth-building.**
 - **Too little long-term saving (for education, retirement, etc.).**
 - **Inadequate liquid assets (emergency savings).**
 - **Inadequate asset diversification.**
 - **Excessive debt.**



No Differences in Mental Function Before Age 1; Large Gaps by Kindergarten

**SAT-Style Scores of Mental Function by Race:
White Mean = 500; Standard Deviation = 100**

SAT-style points



**Implication:
High-quality
early-childhood
enrichment is
critical.**

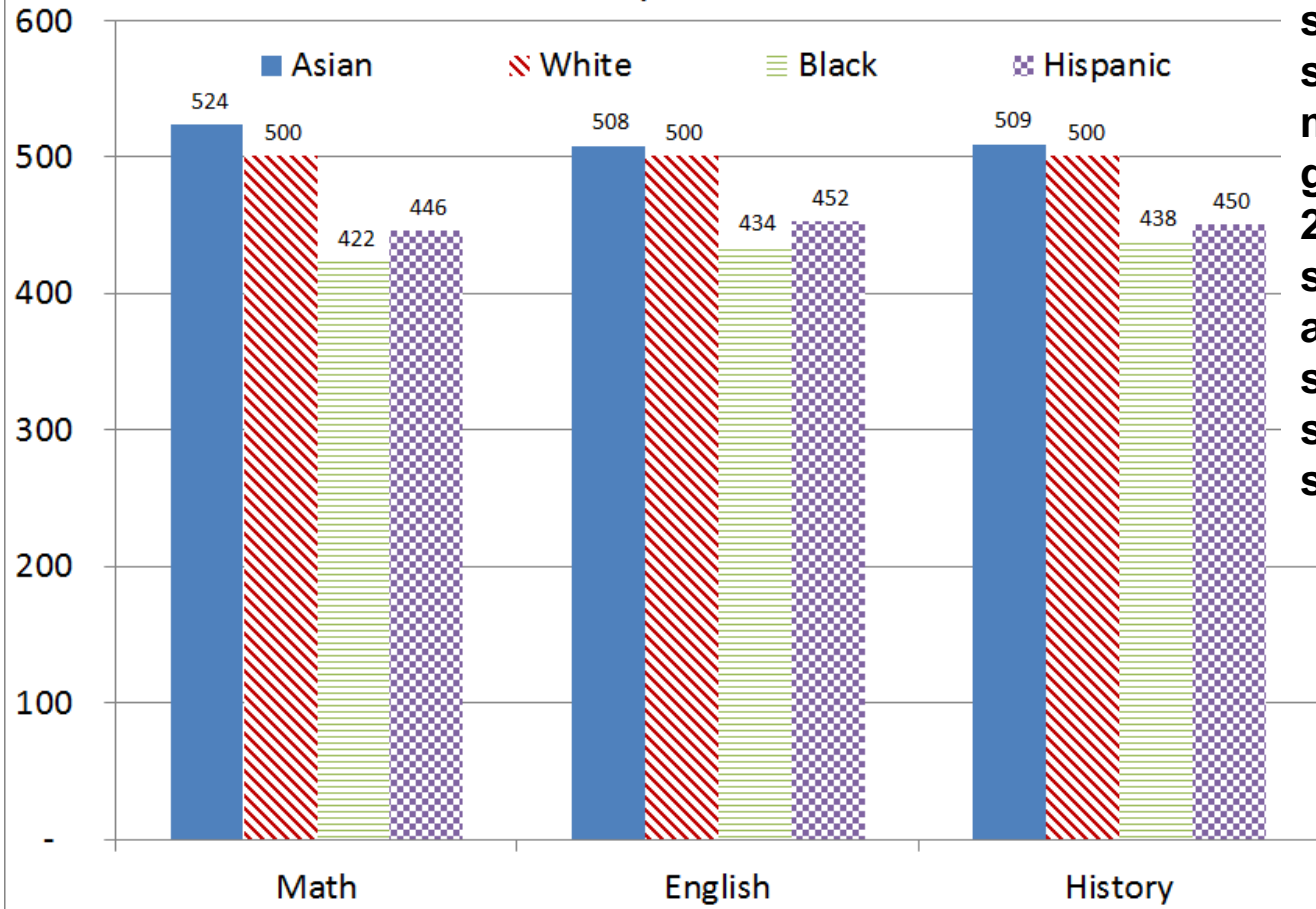
Source: Roland Fryer, Jr., *Handbook of Labor Economics*, 2011; Table 5.



College-Readiness Varies Substantially Across Race and Ethnicity

**12th-Grade SAT-Style Test Scores by Subject and Race:
White Mean = 500; Standard Deviation = 100**

SAT-style points

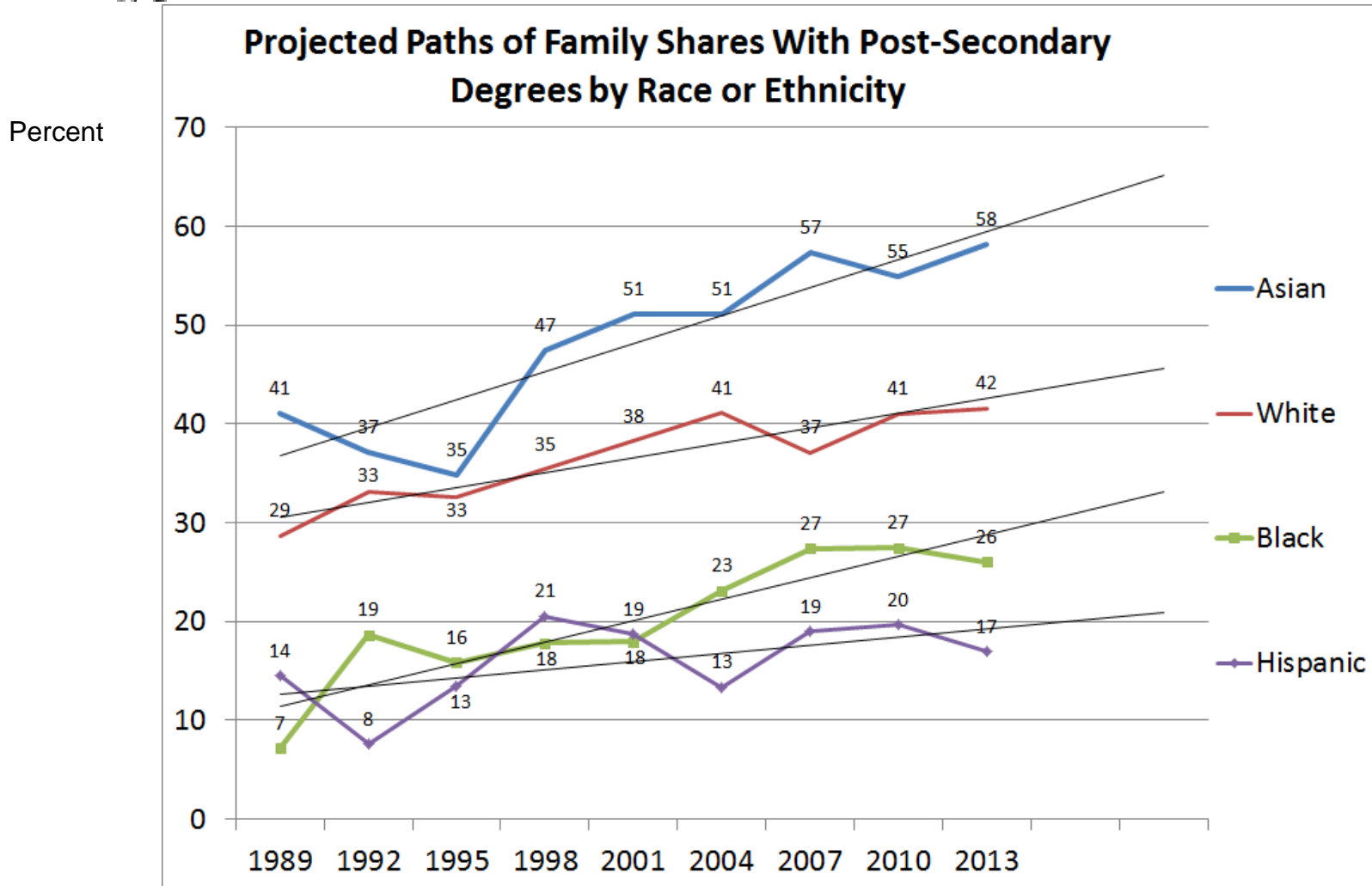


Implications:
 1) Primary and secondary schools (K-12) make initial skill gaps worse;
 2) College success by black and Latino students requires special strategies.

Source: Roland Fryer, Jr., *Handbook of Labor Economics*, 2011; Table 16.



The Current Trend Is Widely Different Rates of College Graduation



Source: Federal Reserve Board, Survey of Consumer Finances



Research on K-12 Education Reform: What Has Been Tried?

- **Smaller schools and classrooms**
- **Mandatory summer school**
- **Merit pay for principals, teachers, and students**
- **After-school programs**
- **Budget, curricular, and assessment re-organization**
- **Policies to lower the barrier to teaching via alternative paths to accreditation**
- **Single-sex education**
- **Data-driven instruction**
- **Ending social promotion**
- **Mayoral/state control of schools**
- **Instructional coaching**
- **Local school councils**
- **Reallocating per-pupil spending**
- **Providing more culturally sensitive curricula**
- **Renovated and more technologically savvy classrooms**
- **Professional development for teachers and other key staff**
- **Getting parents to be more involved**



What Works, According to Fryer's Review of Research Findings?

- Smaller schools and classrooms
- Instructional coaching
- **“The bulk of the evidence finds little to no effect of these interventions... designed to increase achievement in public schools.” (p. 911).**
- **“Despite trillions spent, there is not one urban school district that has ever closed the racial achievement gap.” (p. 917).**
- **“Schools alone can dramatically increase the achievement of the poorest minority students.” (p. 924).**
- Ending social promotion
- Mayoral/state control of schools



Roland Fryer's Recipe for Education Reform: High-Performing Schools

- 1. Frequent teacher feedback**
- 2. Data-driven instruction**
- 3. High-dosage tutoring**
- 4. Increased instructional time**
- 5. Relentless focus on academic achievement**

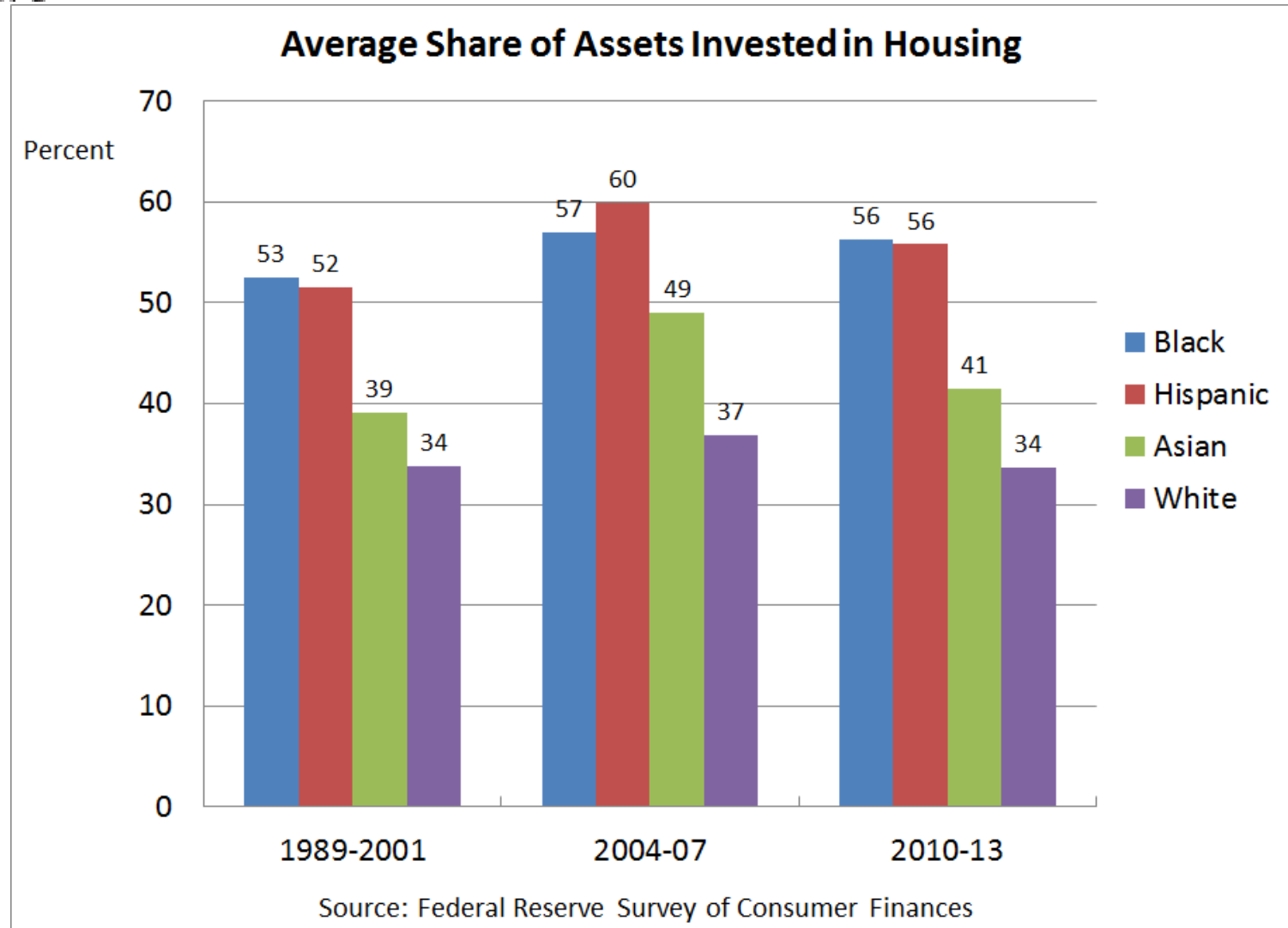


Where Do We Stand In Attacking Skill Gaps?

- **Roland Fryer is 100% correct that racial and ethnic skill gaps in traditional K-12 educational achievement must be reduced for social and economic advancement to occur.**
- **Building wealth also requires stronger financial skills, on which we are not focusing enough attention.**

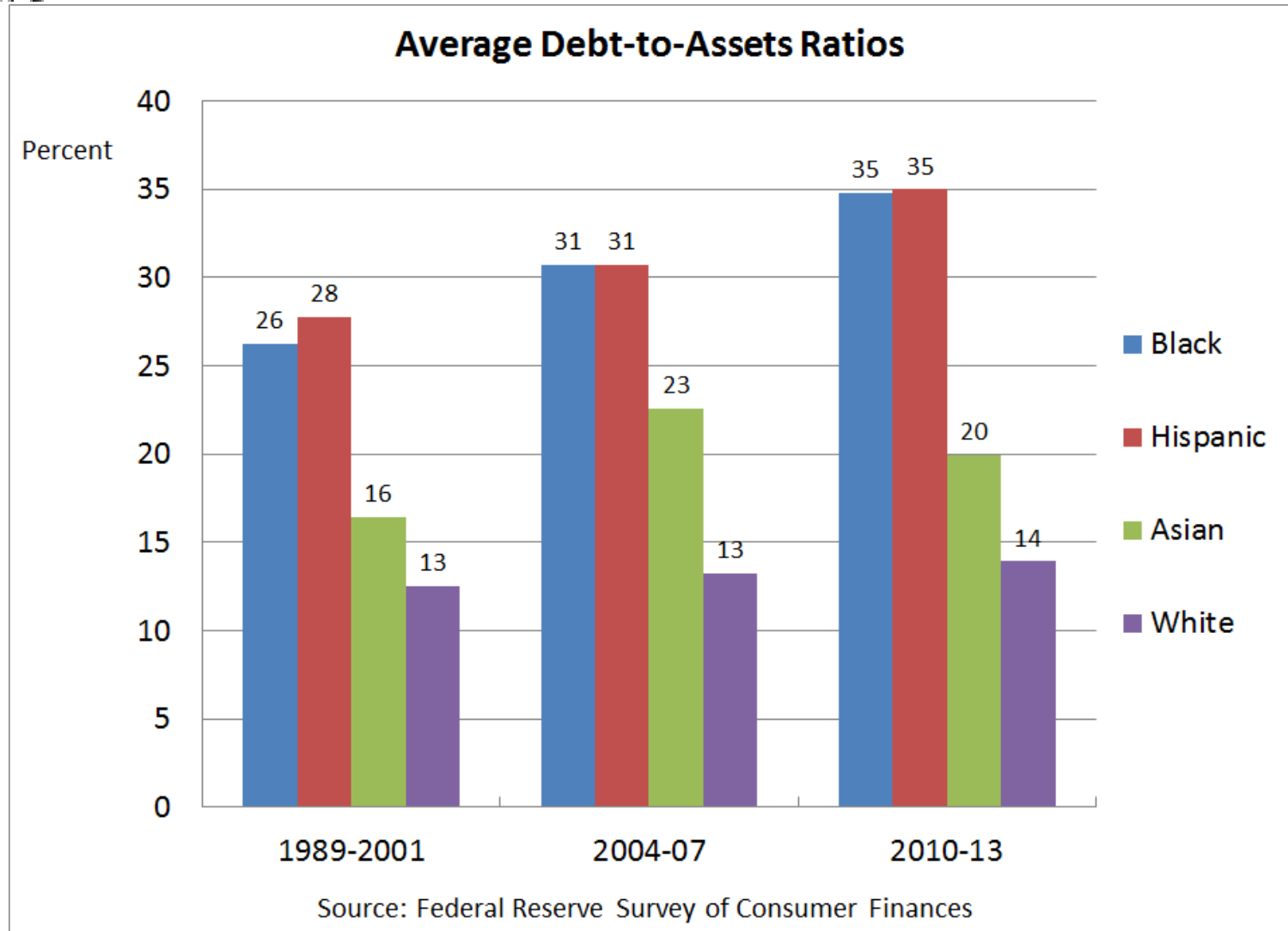


Black and Latino Families Invest Much More of Their Wealth in Houses



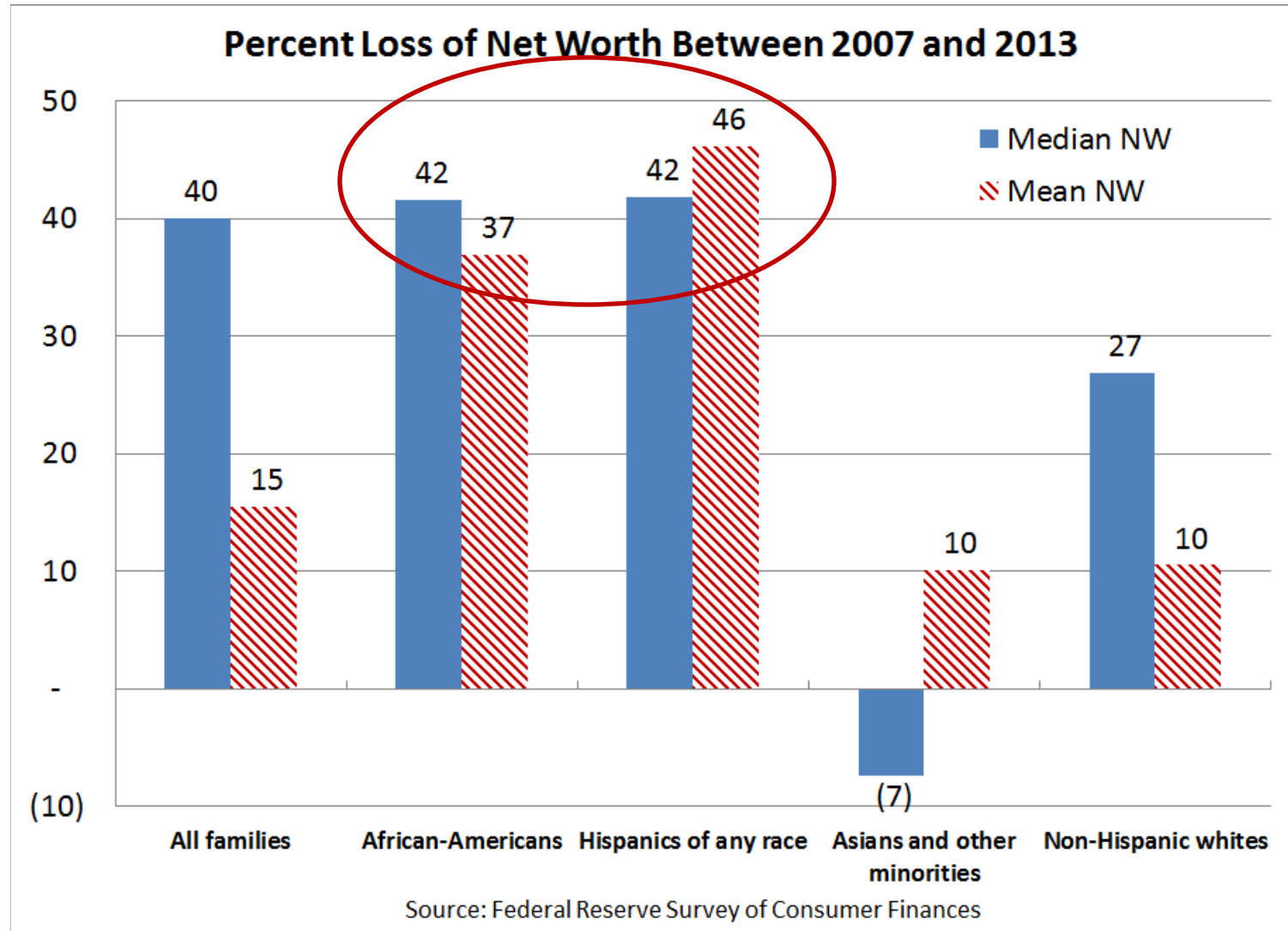


Black and Latino Families Borrow More to Finance Their Assets



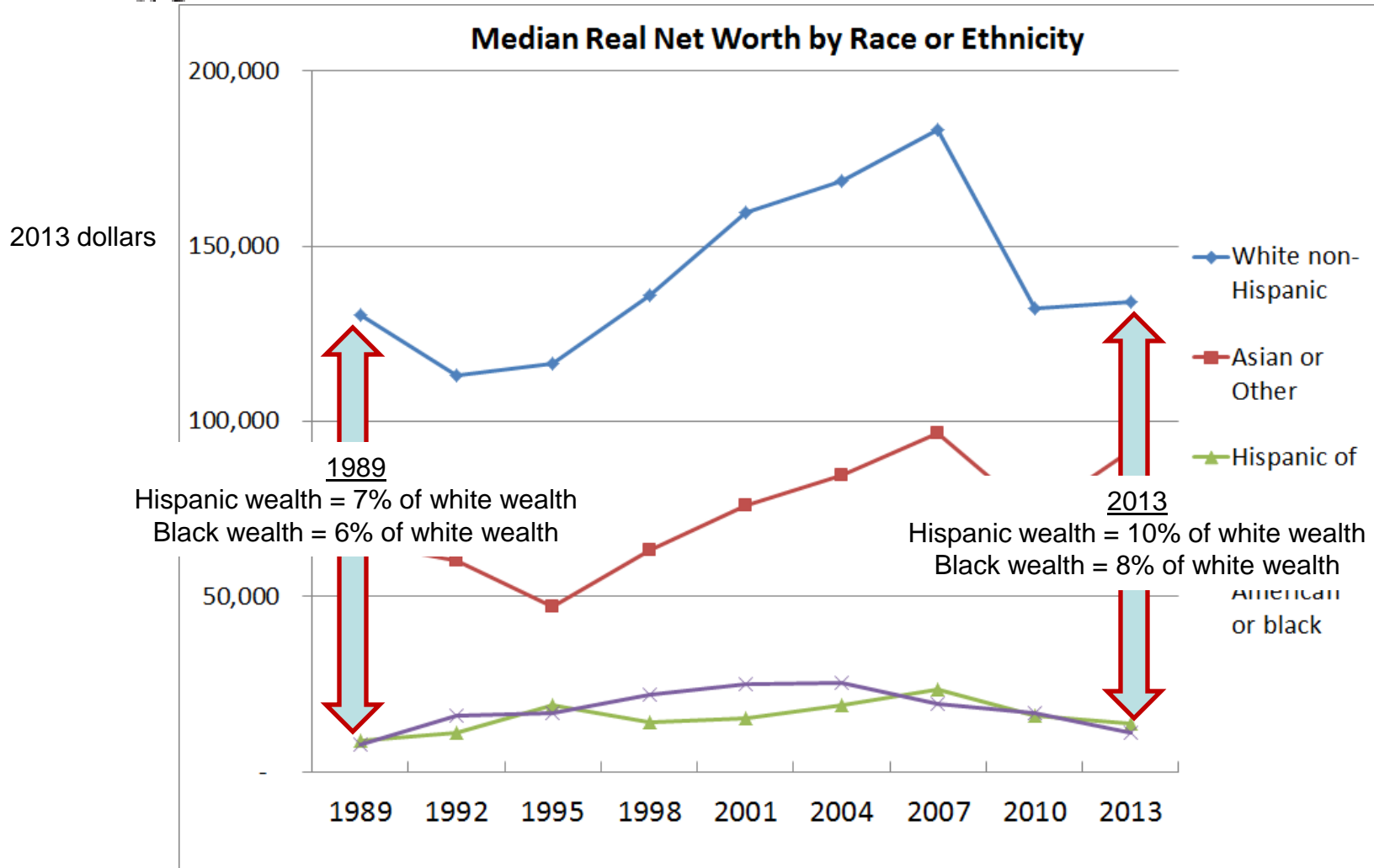


Result: Black and Latino Families Lost 40% of Their Wealth in Housing Crash





Large Racial and Ethnic Wealth Gaps Remain Virtually Unchanged Since 1989



Source: Federal Reserve Board, Survey of Consumer Finances



Major Hurdles To Overcoming Racial Skill Gaps

- **We do not yet know how to close the traditional educational-achievement gap for everyone.**
 - We know what works on a small scale but we don't know how to take it to large scale.
- **The political will to close the traditional achievement gap may be lacking.**
 - It will take time, money and good will—perhaps lots of it.
- **The financial-skills gap isn't widely appreciated.**
 - Liquidity, diversification and prudent leverage are important for building wealth regardless of race/ethnicity.
 - Perhaps less attention is paid to the financial-skills gap because there is so much work to be done addressing the traditional educational-skills gap.



For More Information

Center for Household Financial Stability

www.stlouisfed.org/household-financial-stability

In the Balance articles

www.stlouisfed.org/publications/in-the-balance

Demographics of Wealth series

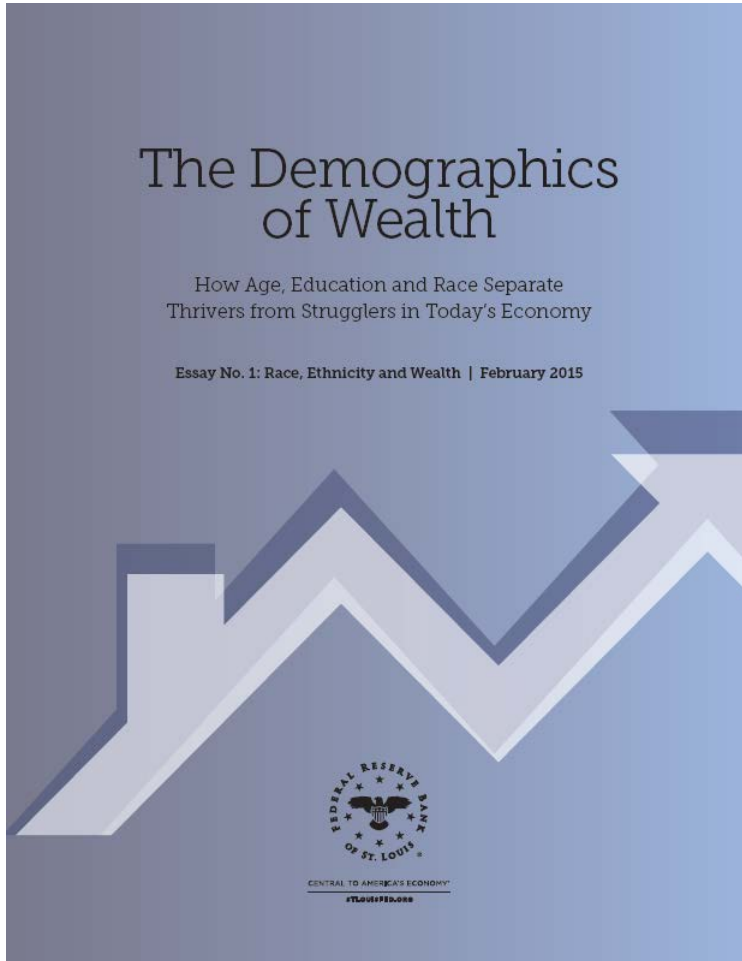
www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth



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



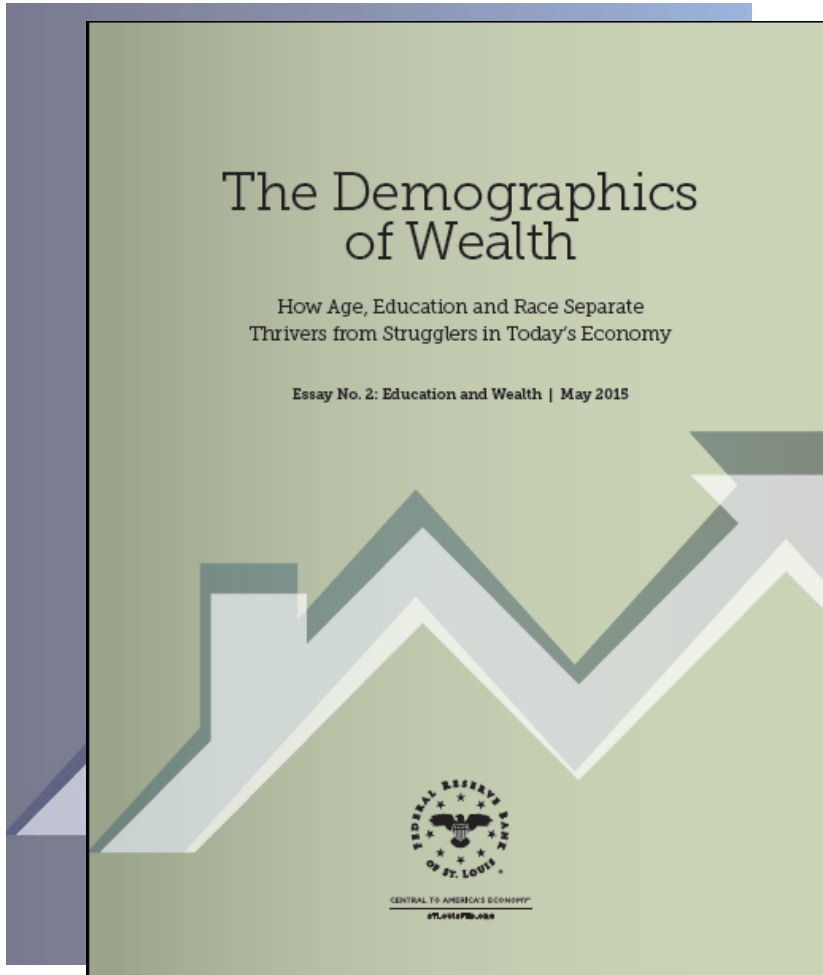
The Demographics of Wealth: An Essay Series



- www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth
- **Part 1: Race, Ethnicity and Wealth (Feb. 2015).**



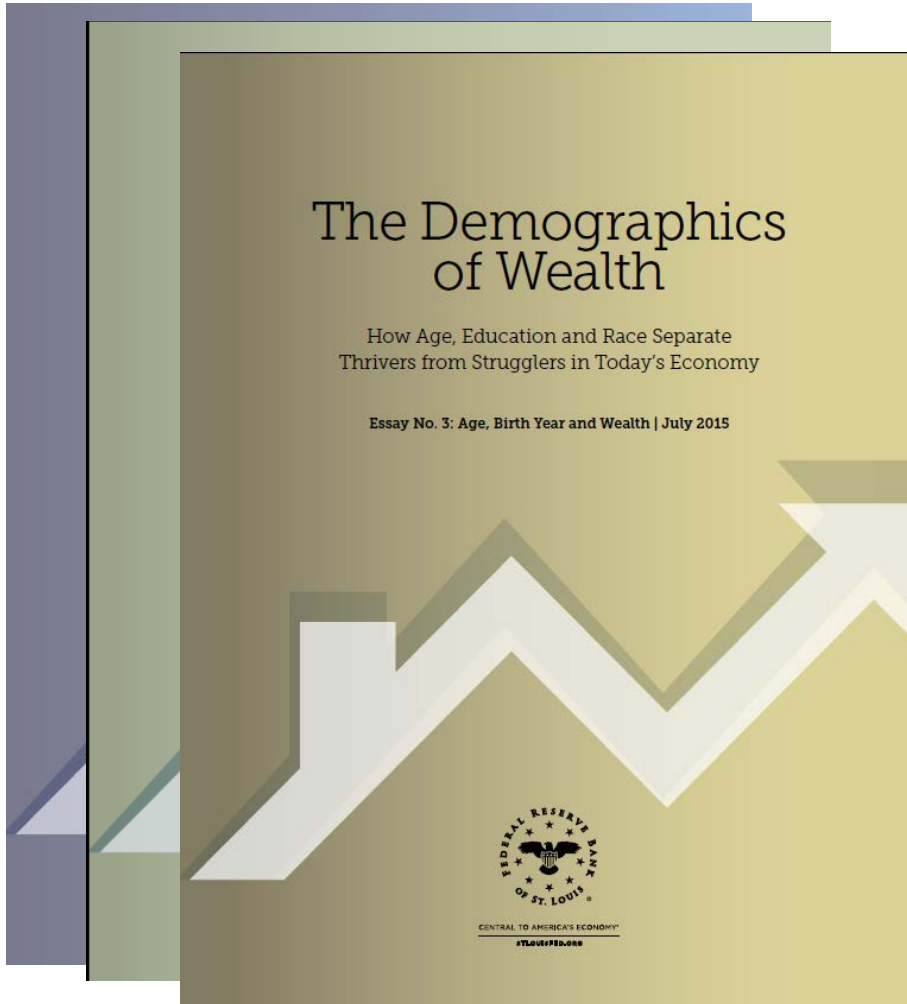
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- **Part 2: Education and Wealth (May 2015).**
- **Part 3: Age, Birth Year and Wealth (July 2015).**



Hispanic and Black College Grads Have Lost More Wealth Than Other Groups



Why Didn't Higher Education Protect Hispanic and Black Wealth?

William R. Emmons and Bryan J. Noeth

College-educated families usually earn significantly higher incomes and accumulate more wealth than families headed by someone who does not have a four-year college degree. The income- and wealth-boosting effects of education apply within all racial and ethnic groups. Higher education may also help "protect" wealth, buffering families against major economic and financial shocks and mitigating adverse long-term trends. Based on two decades of detailed wealth data, we conclude that education does not, however, protect the wealth of all racial and ethnic groups equally.

Compared to their less-educated counterparts, typical white and Asian families with four-year college degrees withstood the recent recession much better and have accumulated much more wealth over the longer term. Hispanic and black families headed by someone with a four-year college degree, on the other hand, typically fared significantly worse than Hispanic and black families without college degrees. This was true both during the recent turbulent period (2007-2013) as well as during a two-decade span ending in 2013 (the most recent data available).

Why didn't higher education protect Hispanic and black family wealth from either short-term turbulence or long-term

(continued on Page 2)



The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis focuses on family balance sheets. The Center's researchers study the determinants of healthy family balance sheets, their links to the broader economy and new ideas to improve them. The Center's original research, publications and public events support researchers, practitioners and policy-makers seeking to rebuild and strengthen the balance sheets of all American households, but especially those harmed by recent economic and financial shocks. For more information, see the web site at www.stlouisfed.org/hfs.

TABLE 1
Median Family Income in 2013

	Four-Year College Graduates	Non-College Graduates	Median College Income as a Multiple of Median Non-College Income
All Families	\$87,250	\$36,523	2.4
White	\$94,351	\$41,474	2.3
Asian	\$92,931	\$32,668	2.8
Hispanic	\$68,379	\$30,436	2.2
Black	\$52,147	\$26,581	2.0

TABLE 2
Median Family Net Worth in 2013

	Four-Year College Graduates	Non-College Graduates	Median College Net Worth as a Multiple of Median Non-College Net Worth
All Families	\$273,586	\$43,625	6.3
White	\$359,928	\$80,692	4.5
Asian	\$250,637	\$25,632	9.8
Hispanic	\$49,606	\$12,160	4.1
Black	\$32,780	\$9,006	3.6

SOURCE FOR BOTH TABLES: Survey of Consumer Finances

- Follow 8 demographically defined groups over time
 - 4 racial/ethnic identities.
 - 2 education levels: 4-year college or no college degree.
- Key assumptions (potential explanations for results)
 - Race/ethnicity-specific determinants of college-degree status are stable over time.
 - College graduates are all alike (or don't differ by race/ethnicity) and are treated the same in job, housing and financial markets.

■ www.stlouisfed.org/~media/Publications/In%20the%20Balance/Images/Issue_12/ITB_August_2015.pdf