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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

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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

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competitive pressures? Job-market difficulties specific to Hispanic and black college graduates probably played a role, especially over the longer term. Financial decision-making appears even more important in explaining large wealth declines among Hispanic and black college-educated families during the Great Recession and its aftermath.

Higher education typically boosts income and wealth. The first row of Table 1 shows differences in 2013 median income between families with college degrees and families without. The median income among all families headed by someone with a degree was 2.4 times the median income among families headed by someone without such a degree. The ratio was somewhat larger among whites and Asians than among blacks and Hispanics, but all were within the range of two to three times.

Table 2 shows that higher education is even more strongly associated with wealth accumulation. The typical college-educated family had between three and 10 times more wealth than its racial or ethnic counterpart without a degree. The white and Asian wealth ratios shown in the table are noticeably larger than those of blacks and Hispanics. One reason why the income and wealth ratios are highest among white and Asian college graduates is that they are more likely than black or Hispanic college graduates to have graduate or professional degrees. Advanced degrees typically provide significantly higher earnings and are strongly associated with greater wealth accumulation.¹

Higher education protects wealth, but only among white and Asian families. Another financial benefit of having more education may be its “protective” effect on wealth. Better-educated families often withstand major economic and financial shocks better than those with less education. For example, the median wealth of all families headed by a four-year college graduate declined by 24 percent between 2007 and 2013. The decline among families without a college degree, however, was 48 percent. (Both figures are adjusted for inflation, as are all figures in the balance of this article.)

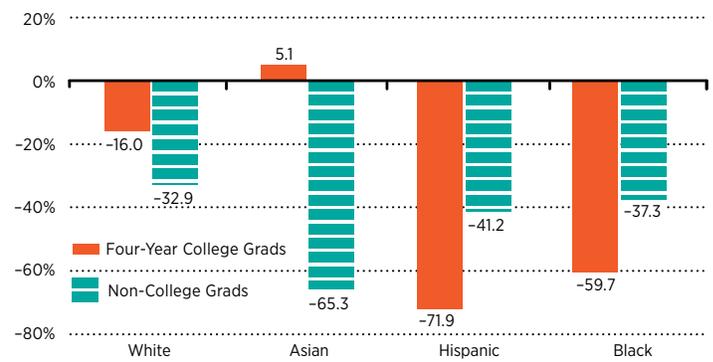
The reasons why having a college degree might appear to protect wealth during turbulent times are complex. They probably include both stronger attachment to and performance in the job market during recessions as well as purely financial factors, including balance-sheet choices and financial behaviors. Education is a strong predictor of the quality of financial decision-making.

Figure 1 compares the changes in median wealth between 2007 and 2013 among families headed by four-year college graduates versus those with less education. White and Asian college-headed families generally fared much better than their less-educated counterparts. The typical Hispanic and black college-headed family, on the other hand, lost much more wealth than its less-educated counterpart. Median wealth declined by about 72 percent among Hispanic college-grad families versus a decline of only 41 percent among Hispanic families without a college degree. Among blacks, the declines were 60 percent versus 37 percent.

Figure 2 suggests that relative changes in family income may have contributed to the better wealth experience of college-educated Asian families and the worse experience of college-educated black families. However, changes in median incomes

FIGURE 1

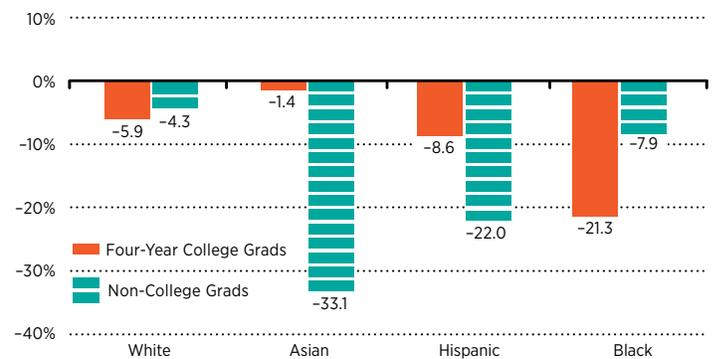
Change in Median Real Net Worth between 2007 and 2013



SOURCE: Survey of Consumer Finances.

FIGURE 2

Change in Median Real Income between 2007 and 2013



SOURCE: Survey of Consumer Finances.

among whites and Hispanics run counter to their respective wealth changes. Therefore, the link between changes in income and changes in wealth is imperfect at best, at least during the most recent economic cycle.

Financial choices probably played a bigger role than income fluctuations in determining wealth outcomes in recent years. Figure 3 shows that the median debt-to-income (DTI) ratios among college-educated Hispanic and black families in 2007—on the eve of the Great Recession—were far higher than those among any other group.

In particular, the typical DTI ratio of a college-educated Hispanic family was 100 percentage points higher than the typical DTI ratio of a non-college-educated Hispanic family, while the gap was 140 percentage points among blacks. Compounding this potentially severe squeeze on cash flow were balance sheets heavily concentrated in residential real estate, which subsequently plunged in value. Declines in the average value of owner-occupied homes among college-educated Hispanic and black families between 2007 and 2013 were 45 percent and 51 percent, respectively. The average value of owner-occupied homes declined 25 percent among college-educated white families and increased 6 percent among college-educated Asian families.²

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Income trends are important in the longer term. College graduates typically accumulate much more wealth over long periods than do those without a college degree. The median wealth among all college graduates increased by 52 percent between 1992 and 2013, while the median wealth among all non-college grads declined by 26 percent. As Figure 4 shows, higher education was strongly associated with greater wealth accumulation among whites and Asians, while a college degree was associated with a much worse wealth trend by a typical Hispanic or black family.

Figure 5 suggests that adverse long-term income trends among Hispanic and black college grads may be an important factor. The median income of college-grad white families grew by 13 percentage points more than their non-college counterparts. The median income of college-grad Asian families grew 31 percent, while the median income of their non-college counterparts fell 9 percent over the same period.

Conversely, median Hispanic and black college-grad incomes fell 10 percent and 12 percent, respectively, while the median incomes of their non-college counterparts rose 16 percent and 17 percent, respectively.

Higher education alone cannot level the playing field. Evidence presented here suggests that college degrees alone do not provide short-term wealth protection, nor do they guarantee long-term wealth accumulation. The underlying factors causing racial and ethnic wealth disparities undoubtedly are complex and deeply rooted. Further research is needed.³ ■

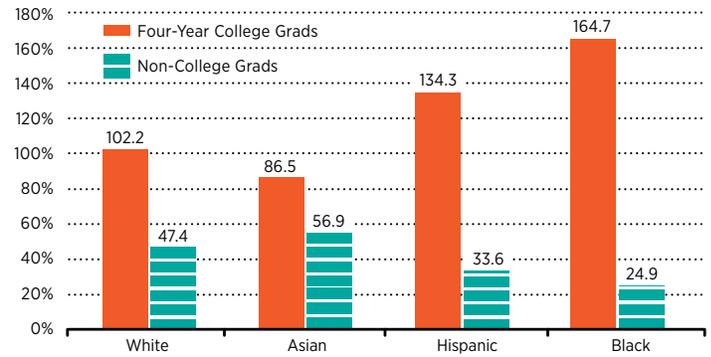
William R. Emmons is senior economic adviser at the Center for Household Financial Stability at Federal Reserve Bank of St. Louis. Bryan J. Noeth is a lead policy analyst at the Center.

ENDNOTES

- 1 Emmons, William R.; and Noeth, Bryan J. "Education and Wealth," *The Demographics of Wealth*, Federal Reserve Bank of St. Louis, April 2015, No. 2. See www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/essay-2-the-role-of-education. Also, all references to four-year college graduates in this article include people who have advanced degrees.
- 2 These figures refer to the percent change in the average value of owner-occupied housing owned by all members of a particular group in 2007 and 2013, whether they are homeowners or not. This statistic therefore captures both the decline in value of homes retained by their 2007 owners through 2013 as well as the loss of a house through foreclosure or other distressed sale.
- 3 For more information, see Emmons, William R.; and Noeth, Bryan J. "Race, Ethnicity and Wealth," *The Demographics of Wealth*, Federal Reserve Bank of St. Louis, February 2015. Available at: www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/essay-1-race-ethnicity-and-wealth.

FIGURE 3

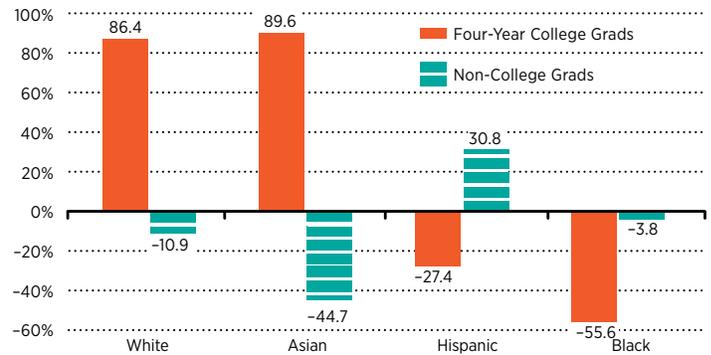
Median Debt-to-Income Ratio in 2007



SOURCE: Survey of Consumer Finances.

FIGURE 4

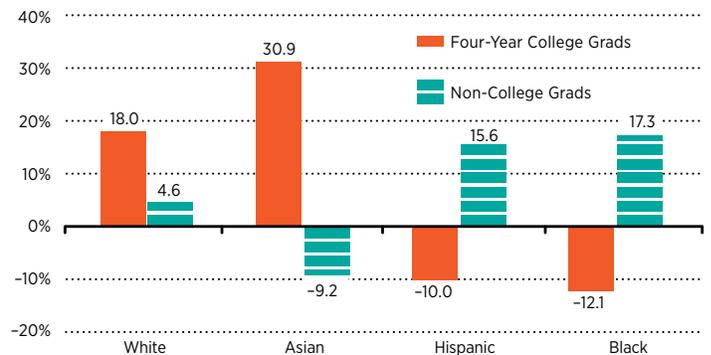
Change in Median Real Net Worth between 1992 and 2013



SOURCE: Survey of Consumer Finances.

FIGURE 5

Change in Median Real Income between 1992 and 2013



SOURCE: Survey of Consumer Finances.