Does College Level the Playing Field?

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The views expressed here are those of the speakers and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.
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WELCOME AND INTRODUCTION
SETTING THE STAGE: DOES COLLEGE LEVEL THE PLAYING FIELD?

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What’s Driving Diverging Wealth Outcomes Among College Graduates of Different Races and Ethnicities?

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Median Hispanic and Black College Grads Are Losing Wealth in Two Comparisons

Change in Median Real Net Worth between 1992 and 2013

SOURCE: Survey of Consumer Finances.

See Emmons and Noeth (2015).
What’s Driving Diverging Wealth Outcomes?

• Two ways to understand the college wealth gaps and trends:
  – “Post-racial” model (standard approach in economics): Every family faces the same opportunities and choices.
    • Implication: Poor wealth outcomes reflect poor individual choices.
  – Structural model (sociological approach): Peer groups and context may be more important than individual choices.
    • Implication: Poor wealth outcomes reflect poor opportunities.
Racial and ethnic wealth gaps are not converging at any education level despite the declining significance of overt discrimination in education, labor markets and financial services.

College itself has become an engine of widening disparities across race and ethnicity.
First, Compare Wealth of All Families

See Emmons and Ricketts (2017a).
Many group characteristics differ that may be associated with building wealth:

- Average age.
- Attainment of various levels of education.
- Family structures, including the number of adults and children in the household.
- Share of families that are homeowners.
- Amount and type of financial assets owned.
- Amount of various kinds of debt owed.
- Inheritances received.
- Health.

But This is Not “Apples-to-Apples”
Comparing Families of the Same Age

Non-White Families' Wealth Per $1 of White Families' Wealth

See Emmons and Ricketts (2017a).
Same Age, Education, Family Structure, Luck

See Emmons and Ricketts (2017a).
Economist: I Can “Explain” and Eliminate the Gaps—Act Like Whites

Non-White Families’ Wealth Per $1 of White Families’ Wealth

- Black families: 24 cents
- Hispanic families: 24 cents
- Asian/other families: 70 cents

See Emmons and Ricketts (2017a).
Sociologist: Thought Experiment is Flawed

- Do all families freely choose their education, family structure, financial situation and luck facing identical constraints, opportunities and rewards?
- No—structural and systemic factors shape our choices:
  - Structural factors: Obstacles and constraints that differ by race and ethnicity.
  - Systemic factors: Differing rewards, motivations and opportunities.
Sociologist’s Thought Experiment: Choices Constrained by Racial/Ethnic Context

Non-White Families’ Wealth Per $1 of White Families’ Wealth

- **Black families**
  - Simple comparison: 24 cents
  - Families of the same age: 28 cents
  - If families choose their education, family structure, financial situation and luck relative to their peer groups: 28 cents

- **Hispanic families**
  - Simple comparison: 24 cents
  - Families of the same age: 35 cents
  - If families choose their education, family structure, financial situation and luck relative to their peer groups: 26 cents

- **Asian/other families**
  - Simple comparison: 70 cents
  - Families of the same age: 84 cents
  - If families choose their education, family structure, financial situation and luck relative to their peer groups: 88 cents

See Emmons and Ricketts (2017a).
Interpreting the Gaps Requires a Framework

• Economist: Post-racial framework.
  – Every family faces the same opportunities, rewards, choices, obstacles, barriers.
  – Poor wealth outcomes reflect poor choices.
  – To improve, low-wealth families (and groups) need to make better choices.

• Sociologist: Structural/systemic framework.
  – Opportunities etc. differ by race, ethnicity.
  – Poor wealth outcomes reflect poor opportunities and different rewards.
  – To materially reduce wealth gaps, structural and systemic factors must change.
Second Piece of Evidence that Points to the Structural/Sociological Model

1. Racial and ethnic wealth gaps are not converging at any education level despite the declining significance of overt discrimination in education, labor markets and financial services.

2. College itself has become an engine of widening disparities across race and ethnicity.
College Attainment Rising for All Groups…

Four-Year College-Degree Attainment Rates (2015)

See Emmons and Ricketts (2017b).
… But Attainment Gaps Are Growing

Differences in Four-Year College-Degree Attainment Rates (2015)

See Emmons and Ricketts (2017b).
In Sum: Diverging Wealth Outcomes Among College Graduates Reflect Structural Factors

• Large and increasing racial and ethnic wealth gaps reflect structural and systemic factors.
• College itself has become an engine of widening disparities.
• Significantly reducing or eliminating racial and ethnic wealth gaps will require structural change, for example:
  – Permanent desegregation of housing and schools.
  – Affirmative action in education and employment.
  – Rigorous and targeted financial education and consumer protection.
HFS Articles Referenced


AUDIENCE Q & A
Thank you for attending.