Is College the Great Equalizer?

Lowell Ricketts, Lead Analyst
Center for Household Financial Stability
June 29th, 2017
Overview

• Higher education is associated with greater expected wealth for all racial/ethnic groups.

• However, the size and form of expected returns are starkly different between racial/ethnic groups.

• These wealth gaps appear to be structural and systemic, at least in part.

• Rather than a Great Equalizer, college has become an unwitting engine of inequality.
An Important Clarification and the Returns to Education

• We are **NOT** saying that college isn’t worth it.

• The returns to higher education in terms of expected income and wealth are at an all-time high.

• The extent of the expected gains differs significantly across racial/ethnic groups.

• A college education is associated with greater financial resiliency for some groups and not others.
College Linked to Wealth Gains for All Groups

Median Household Net Worth, by Race/Ethnicity and Educational Attainment of Household Head, 2013

Thousands of 2013 $

Source: Federal Reserve Board of Governors, Survey of Consumer Finances.
Black, Hispanic Grads Fared Worst in Recession

Change in Median Real Net Worth between 2007 and 2013

Percent

White, Non-Hispanic: -16.0%
Asian or Other: 5.1%
Hispanic, any Race: -71.9%
Black: -59.7%

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Recession Erased Over a Decade of Gains

Change in Median Real Net Worth between 1992 and 2013

Percent

<table>
<thead>
<tr>
<th>Race or Race Group</th>
<th>Change in Median Real Net Worth (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>White, Non-Hispanic</td>
<td>86.4</td>
</tr>
<tr>
<td>Asian or Other</td>
<td>89.6</td>
</tr>
<tr>
<td>Hispanic, any Race</td>
<td>30.8</td>
</tr>
<tr>
<td>Black</td>
<td>-55.6</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
What’s Driving Diverging Wealth Outcomes Among College Graduates?

• Organized a research conference in May 2016 that attempted to explain the disparity.

• Papers looked at the role of:
  - College experience
  - Labor market outcomes
  - Homeownership experience
  - Family structure
  - Wealth transfers
The Homeownership Experience

• While not a definitive answer, the homeownership experience of graduates likely played a role.

• Evidence of substantial leverage in the form of mortgage debt on the eve of the Great Recession.

• Foreclosure rates among the most affluent black and Hispanic borrowers were worse than the poorest whites and Asians. (Garriga, Ricketts, and Schlagenhauf 2017)
Minority Grad’s Were in a Precariously Position

**Median Debt-to-Income Ratio in 2007**

<table>
<thead>
<tr>
<th></th>
<th>White, Non-Hispanic</th>
<th>Asian or Other</th>
<th>Hispanic, any Race</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>102.6</td>
<td>86.5</td>
<td>134.3</td>
<td>164.7</td>
</tr>
<tr>
<td>Source</td>
<td>Federal Reserve Survey of Consumer Finances and authors' calculations.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Stunning Number of Mortgages Entered Foreclosure

Foreclosure Stock, Black Borrowers, by Income Rank Within Racial/Ethnic Group

Percentage Share of Cumulative Loans Entering Foreclosure

Source: McDash data from Black Knight Financial Services, HMDA data from Board of Governors

NOTE: We use the last date that the loan started a foreclosure process. Therefore, loans which go in and out of foreclosure show up later.
Stunning Number of Mortgages Entered Foreclosure

Foreclosure Stock, Hispanic Borrowers, by Income Rank Within Racial/Ethnic Group
Percentage Share of Cumulative Loans Entering Foreclosure

Source: McDash data from Black Knight Financial Services, HMDA data from Board of Governors

NOTE: We use the last date that the loan started a foreclosure process. Therefore, loans which go in and out of foreclosure show up later.
Foreclosure Incidence Far Lower for Whites, Even the Lowest Earning

Foreclosure Stock, White Borrowers, by Income Rank Within Racial/Ethnic Group
Percentage Share of Cumulative Loans Entering Foreclosure

Source: McDash data from Black Knight Financial Services, HMDA data from Board of Governors
NOTE: We use the last date that the loan started a foreclosure process. Therefore, loans which go in and out of foreclosure show up later.
What’s Driving Diverging Wealth Outcomes Among College Graduates?

• A simple comparison of family wealth is not “apples-to-apples”—many group characteristics differ.

• Hypothetically, what if we could compare families with the same:
  - Age and birth year
  - Education level
  - Family structure
  - Balance sheets and financial habits
  - Luck
Large Wealth Gaps Across Education Levels

Predicted Wealth by Education Level and Race, Baseline Post-Racial Model

Index = Per $100 of College-Educated White Family's Wealth

Source: Federal Reserve Survey of Consumer Finances and author's calculations.
Observable Factors Explain Away Much (Not All)

Predicted Wealth by Education Level and Race, Full Model

*Index = Per $100 of College-Educated White Family's Wealth*

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

• In this model, peer groups (social capital) and context shape opportunities and choices.

• Variables are demeaned to reflect idiosyncratic differences of families from their peer groups.

• Means are estimated by:
  - Race/ethnicity
  - Age group
  - Survey year group.
Peer Groups and Context Dominate Outcomes

Predicted Wealth by Education Level and Race, Full Structural Model

Index = Per $100 of College-Educated White Family's Wealth

Source: Federal Reserve Survey of Consumer Finances and author's calculations.
Two Ways to Understand Large Racial and Ethnic Wealth Gaps

• “Post-racial” model: Every family faces the same opportunities and choices
  – Poor wealth outcomes reflect poor choices.

• Structural model: Peer groups and context are more important than individual choices.
  – Poor wealth outcomes reflect poor opportunities.

• These models are not mutually exclusive.
College Itself Has Become an Engine for Widening Disparities

• White and Asian college graduates are getting wealthier over time.

• Black and Hispanic college graduates are getting poorer over time.

• College-attainment gaps are growing.

• These facts and trends point toward *increasing* racial and ethnic wealth gaps in the future.
Hispanic and Black College Grads Losing Wealth

Change in Median Real Net Worth between 1992 and 2013

Percent

-60 -40 -20 0 20 40 60 80 100

White, Non-Hispanic
Asian or Other
Hispanic, any Race
Black

86.4 89.6 -44.7 30.8 -55.6
-10.9 -27.4 -3.8 -3.8

Source: Federal Reserve Survey of Consumer Finances and authors’ calculations.
College Attainment Rising for All Groups…

Four-Year College Degree Attainment Rates, by Race/Ethnicity, 2015

Percent

Hispanic
African-American
Asian
White

But Gaps Are Growing

Differences in Four-Year College Degree Attainment Rates, by Race/Ethnicity, 2015

Is College the Great Equalizer?

• The value of a college degree has never been higher.
• However, a college education is associated with very different wealth outcomes across racial/ethnic groups.
• Wealth gaps have complex foundations, there likely are structural and systemic factors at play.
• Wealth outcomes and attainment rates suggest that not only has higher education not lived up to the moniker of the Great Equalizer, but it may exacerbate inequality.