Exploring the Racial Wealth Divide

Black Communities: A Conference for Collaboration

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*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

- Introducing the *Demographics of Wealth*
- The Racial Wealth Divide Now and Over Time
- Racial Wealth Gaps Among College Graduates
- College: An Unwitting Engine of Disparity
- A Structural View of the Racial Wealth Divide
- Conversation One vs. Conversation Two
The Demographics of Wealth

- Three essays written by Center staff in 2015.
- The series explores the connection between wealth and a person’s race/ethnicity, education and age.
- These three factors increasingly predict which families struggle and thrive.
The Demographics of Wealth Redux

- It explores connection between financial outcomes and the education of both a family and their parents.
- The third essay will explore the complex relationship between race and wealth.
The racial wealth gap in the U.S., observed at the aggregate, is wide and most severe for black and Hispanic families.

As of 2016, the median black family had 10 cents per dollar that the median white family owned.

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

Note: "Other Races" includes Asians, Native Alaskans, Pacific Islanders, Native Americans, and families identifying with more than one race or ethnicity.
And It Has Been Persistent

- Per dollar of white wealth, the median black family had between a low of 6 cents in 1989 to a high of 17 cents in 1998.
- Median net worth for Hispanic families has similarly been stagnant over the past 27 years.

### Median Real Net Worth, Relative to Non-Hispanic White Families

<table>
<thead>
<tr>
<th>Survey Year</th>
<th>Black</th>
<th>Hispanic, Any Race</th>
<th>Other Races</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1992</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1995</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>1998</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2001</td>
<td>0</td>
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<td>2004</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>2007</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

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

- 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 1983-92 is at a recent peak.

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**Difference in College Attainment Rates, Relative to Whites, 2017**

**Percentage Points**

<table>
<thead>
<tr>
<th>Birth Year</th>
<th>Black</th>
<th>Hispanic, any Race</th>
<th>Asian</th>
</tr>
</thead>
<tbody>
<tr>
<td>1942 or before</td>
<td>-14</td>
<td>-10</td>
<td>-14</td>
</tr>
<tr>
<td>1943-47</td>
<td>-18</td>
<td>-15</td>
<td>-18</td>
</tr>
<tr>
<td>1948-52</td>
<td>-22</td>
<td>-18</td>
<td>-22</td>
</tr>
<tr>
<td>1953-57</td>
<td>-13</td>
<td>-13</td>
<td>-13</td>
</tr>
<tr>
<td>1958-62</td>
<td>-12</td>
<td>-13</td>
<td>-12</td>
</tr>
<tr>
<td>1963-67</td>
<td>-20</td>
<td>-14</td>
<td>-20</td>
</tr>
<tr>
<td>1968-72</td>
<td>-24</td>
<td>-15</td>
<td>-24</td>
</tr>
<tr>
<td>1973-77</td>
<td>-28</td>
<td>-19</td>
<td>-28</td>
</tr>
<tr>
<td>1978-82</td>
<td>-29</td>
<td>-20</td>
<td>-29</td>
</tr>
<tr>
<td>1983-87</td>
<td>-26</td>
<td>-20</td>
<td>-26</td>
</tr>
<tr>
<td>1988-92</td>
<td>-24</td>
<td>-20</td>
<td>-24</td>
</tr>
</tbody>
</table>

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.

Source: Federal Reserve Board's Survey of Consumer Finances.
College Itself Has Become an 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.
What’s Driving These Divergent Wealth Outcomes Among Graduates?

- Our Center organized a research conference in May 2016 that explored potential causes for this disparity.

- Commissioned papers looked at multiple factors:
  - The college experience
  - Labor market outcomes
  - The homeownership experience
  - Family structure
  - Wealth transfers
Why Are Wealth Outcomes So Unequal?

- Our research suggests that structural, systemic or other unobservable factors related to race and ethnicity may be important drivers of wealth inequality (Emmons & Ricketts 2017).

- Historical discrimination and disadvantage created large wealth gaps in the past, which profoundly affect today’s children and adults.

- Ongoing structural and systemic barriers make it difficult to narrow wealth gaps.
Conversation One vs. Conversation Two

- **Conversation one** outlines feasible, smaller-scale interventions aimed to solve tightly defined problems or improve existing institutions (Jackson 2017).

- **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.
Conclusion

- The racial wealth gap has been wide and persistent.
- The return to a college degree, on average, remains large for all racial and ethnic groups.
- However, the racial wealth gap remains even among college-educated families.
- Closing these wealth gaps is no small task given deep-rooted causes, realistic policy proposals need big ideas along with proven interventions.
References


