Interpreting Racial and Ethnic Income and Wealth Gaps: Framing Matters

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Interpreting Racial and Ethnic Income and Wealth Gaps: Framing Matters

- Income and wealth data from the Federal Reserve’s *Survey of Consumer Finances*

- The importance of framing
  - The “post-racial” model of income and wealth
  - A model that allows structural, systemic and other unobservable factors to matter

- Application: Does higher ed level the playing field?
The Demographics of Wealth Series

- HFS essay series links income, wealth and other socio-economic outcomes to a family’s:
  - Race/ethnicity
  - Education (own and parents’)
  - Age and birth year.

- Your race/ethnicity, education and birth year are strong predictors of your adult outcomes.

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Black & Hispanic Income Gaps Closing Slowly

- Data from the Federal Reserve’s Survey of Consumer Finances.
- Typical (median) income of black and Hispanic families has moved closer to that of white families but remains 40% lower.
- The typical “other-race” family (mostly Asian) has surpassed the typical white family’s income.

Source: Federal Reserve Board's Survey of Consumer Finances.
Racial/Ethnic Wealth Gaps Larger than Income

Racial/ethnic wealth gaps in 2016 vis-à-vis the median/typical white family are much wider than income gaps:

- Black families (-90%)
- Hispanic families (-87%)
- Other families (-39%)

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.
Racial/Ethnic Wealth Gaps Very Persistent

- Relative wealth of typical black and Hispanic families has improved a bit since 1989, but the gaps remain close to 90 percent.
- Other nonwhite families’ wealth remains below typical white family’s, despite higher income.

Source: Federal Reserve Board’s Survey of Consumer Finances.
Two Ways to Interpret Large, Persistent Racial and Ethnic Income and Wealth Gaps

- The standard “post-racial” model: Assume that every family faces the same opportunities and choices.
  - Poor wealth outcomes therefore reflect poor choices.

- A model that allows “structural, systemic or other unobservable factors”: Assume that peer groups and context may be just as important as individual choices.
  - Poor wealth outcomes may reflect poor opportunities.
Application: Does Higher Ed Close Wealth Gaps?

- Analyze racial and ethnic wealth groups using Model 1.
  - Reference group is families of white 2- or 4-year college grads.
  - Control for differences in age, education, family structure, financial/balance-sheet characteristics, health, inheritances.
  - How much of the racial/ethnic wealth gap remains “unexplained”? 
1) If Everyone “Copied” White College Grads, What Would the Racial Wealth Gaps Be?

- The “post-racial” model is standard in economics.
- Assumes everyone can/should mimic the financial, familial, health and inheritance patterns of the reference group.
- If race doesn’t matter, predicted wealth is same for all groups within an education level; RWG=0.

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

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

Source: Federal Reserve Board’s Survey of Consumer Finances and author’s calculations.
1) If Everyone “Copied” White College Grads, What Would the Racial Wealth Gaps Be?

- Yes, gaps are lower after “controlling” for different choices (financial, familial).
- But racial and ethnic wealth gaps are not zero.
- The “residual” race effects are largest among blacks.
- The residual race/ethnicity effects are largest among post-graduate degree holders.

Predicted Wealth by Education Level and Race, Full Post-Racial Model
Index = Per $100 of College-Educated White Family’s Wealth

Average black-white wealth gaps in all survey years, by education

- No High School Diploma: White 54, Other 59, Hispanic 51, Black 42
- High School Diploma/GED Diploma: White 73, Other 72, Hispanic 68, Black 59
- Two- or Four-year College Degree: White 100, Other 110, Hispanic 81, Black 79
- Post Graduate Degree: White 141, Other 151, Hispanic 111, Black 85

Source: Federal Reserve Board’s Survey of Consumer Finances and author’s calculations.
Application: Does Higher Ed Close Wealth Gaps?

- Analyze racial and ethnic wealth groups using Model 2.
  - Reference groups are white families of a given education level.
  - Calculate age/race-specific means for all “control variables.”
  - Define individual choices as difference between actual level and own peer group’s average level in each year.
  - How much of the racial/ethnic wealth gap remains “unexplained”?
  - These numbers are estimates of the structural/systemic/unobservable wealth gaps due to race or ethnicity.
2) What If Your Agency Is Defined as Differences from Group Averages or Norms?

- This is a model in which structural, systemic and other unobservable factors related to race or ethnicity are assumed to define where individual agency begins.
- Compare within ed levels.
- Model isolates maximum gap that could be due to race-related factors.

**Predicted Wealth by Education Level and Race, Full Structural Model**

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

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Source: Federal Reserve Board's Survey of Consumer Finances and author's calculations.
2) What If Your Agency Is Defined as Differences from Group Averages or Norms?

- Average black-white wealth gaps in all survey years are very similar across education levels.
- Black-white gaps generally are the largest.
- Conclusion: Vast majority of the “raw” (-90%) wealth gap is due to “between-group” rather than “within-group” differences.

- Racial and ethnic income and especially wealth gaps are very large and very persistent.

- How we interpret the gaps depends on framing.
  - The standard “post-racial” model of income and wealth blames “poor choices.”
  - A model that includes structural, systemic and other unobservable factors points to “poor opportunities.”

- Higher ed cannot overcome vastly different starting points.
References


- Emmons, William R.; and Noeth, Bryan J. “Race, Ethnicity and Wealth.” The Demographics of Wealth, February 2015, Essay 1, [Link](#).


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