Closing Racial and Ethnic Wealth Gaps: College is Not Enough

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*These are our own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors
Overview

- The Demographics of Wealth
- Does College Level the Playing Field?
- College is Not Enough
- Why Are Demographics So Powerful?
- Ideas for Moving Forward
THE DEMOGRAPHICS OF WEALTH
The Demographics of Wealth Series

2018 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.

2015 Series

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

stlouisfed.org/hfs
Race, Ethnicity and Wealth

- Four groups based on race or ethnicity of the survey respondent:
  - Non-Hispanic white
  - Non-Hispanic black or African-American
  - Hispanic of any race
  - Other or multiple races (Asian, American Indian, Alaskan Native, Native Hawaiian, Pacific Islander, other race, identifies with more than one race)
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.
DOES COLLEGE LEVEL THE PLAYING FIELD?
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.
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.

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
COLLEGE IS NOT ENOUGH
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

<table>
<thead>
<tr>
<th>Education Level</th>
<th>White</th>
<th>Other</th>
<th>Hispanic</th>
<th>Black</th>
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<td>No High School Diploma</td>
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<td>59</td>
<td>51</td>
<td>42</td>
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<tr>
<td>High School Diploma/GED Diploma</td>
<td>73</td>
<td>72</td>
<td>68</td>
<td>59</td>
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<tr>
<td>Two- or Four-year College Degree</td>
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<td>110</td>
<td>81</td>
<td>79</td>
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<tr>
<td>Post Graduate Degree</td>
<td>141</td>
<td>151</td>
<td>111</td>
<td>85</td>
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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

Reference group

Source: Federal Reserve Board’s 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.
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*

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.

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

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

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Race</th>
<th>Wealth Index</th>
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<td>No High School Diploma</td>
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<td>Other</td>
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<td>Black</td>
<td>-76%</td>
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</tbody>
</table>

Source: Federal Reserve Board's Survey of Consumer Finances and author's calculations.
Summary of College is Not Enough

- 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.
Why Are Demographics So Powerful?
Why Are Demographics So Powerful?

- Basic demographic characteristics are strongly related to typical income and wealth outcomes.
- This framework helps us predict but it doesn’t explain everything.
- Our research suggests that structural, systemic or other unobservable factors related to race and ethnicity may be important drivers of wealth inequality.
Why Are Demographics So Powerful?

- 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.

- Peer groups matter, individual choices are made in context of systemic and structural factors.
Why Are Demographics So Powerful?

- Individual effort: Work ethic, non-cognitive skills.
- Unobservable factors: Native & emotional intelligence, “grit”, personality traits, social network.
- Luck: Winning the lottery, suffering an accident.
- Systemic forces: Prejudice, voluntary self-segregation, self-defeating cultural norms.
- Structural barriers: Legally sanctioned or permitted discrimination.
Why Are Demographics So Powerful?

- **Individual effort**: Only set of factors that are fully in our control, required to achieve full potential given previous factors.
- **Unobservable factors**: Job market and financial success requires these.
- **Luck**: May help or hinder to some degree.
- **Systemic forces**: Limit chances to gain wealth; may have historical links to structural factors.
- **Structural barriers**: Historical discrimination, wealth cumulates across generations.
IDEAS FOR MOVING FORWARD
Conversation One vs. Conversation Two

(Jackson 2017)

- **Conversation one** outlines expedient, small-scale interventions aimed to solve tightly defined problems or improve existing institutions.

- **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.
Conversation One

Child Development Accounts / College Savings Accounts

- Established at birth or when child enters kindergarten.
- Universal (for all kids) and progressive (more for the poor)
- Over 40 programs/policies in the U.S., some state- and city-wide.
- Research shows positive impacts on child development, maternal health, and college outcomes.
Conversation Two

- **Not** endorsing any specific policy but conversation two involves bold proposals such as:
  - Renewed pursuit of desegregation of primary and secondary schools.
  - Disassociate school funding from neighborhood wealth.
  - End residential segregation (by race and income).
  - Universal higher education.
  - Wealth redistribution.
Conclusion

- The racial wealth gap has been wide and persistent.

- Higher education cannot close these gaps, at least not on its own.

- Wealth gaps have complex foundations, there likely are structural and systemic factors at play.

- Closing these wealth gaps is no small task given deep-rooted causes, realistic policy proposals need big ideas along with proven interventions.
References


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