Racial and Ethnic Wealth Gaps

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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

- The Demographics of Wealth: Race and Ethnicity
- Does College Level the Playing Field?
- Why Are Demographics So Powerful?
- Ideas for Moving Forward
THE DEMOGRAPHICS OF WEALTH
Why Do Assets and Wealth Matter?

- Household well-being is derived not solely from income and consumption, but also from building savings and assets. (Sherraden 1991)

- Wealth buffers against misfortune and helps build your future: retirement, children’s education, a bequest.

- Lack of income means you don’t get by; lack of assets means you don’t get ahead. (Boshara 2002)
The Demographics of Wealth Series

2018 Series

- 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.
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 has surpassed the typical white family’s income.

Source: Federal Reserve Board’s Survey of Consumer Finances.
Racial/Ethnic Wealth Gaps are Wide and Persistent

Despite other progress, the large racial and ethnic wealth gaps remain essentially unchanged.

- Typical white families had about 10 times wealth of typical black families.
- Even wealthier black families (75th percentile) fall short of white medians (50th percentile).

Source: Kent, Ricketts, Boshara (2019)
Racial/Ethnic Wealth Gaps are Wide and Persistent

- Over a nearly three-decade period, the U.S. has seen very little progress in narrowing racial and ethnic wealth gaps.

- In terms of the total wealth pie, white families in 2016 owned 89% of it, while black and Hispanic families owned 3% each.

Source: Kent, Ricketts, Boshara (2019)
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.
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.

**Median Household Net Worth, by Race/Ethnicity and Education, 2016**

*Thousands of 2016 $*

- Non-College Grads
  - Black: 11
  - Hispanic, Any Race: 18
  - Other Races: 41
  - White, Non-Hispanic: 96

- Four-Year College Grads
  - Black: 68
  - Hispanic, Any Race: 74
  - Other Races: 364
  - White, Non-Hispanic: 390

*Note: College grads include any family headed by someone with a four-year degree or higher. Source: Federal Reserve Board's Survey of Consumer Finances.*
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 1989-93 is at a recent peak.
Similar Education, Different Returns Over Time

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.

College Itself Has Become an Unwitting 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.
WHY ARE DEMOGRAPHICS SO POWERFUL?
Why Are Demographics So Powerful?

- Historical discrimination and disadvantage created large wealth gaps in the past, which profoundly affect today’s children and adults (Aaronson et al. 2019).

- Continuing discrimination and disadvantage hamper full participation and achievement (Howell and Korver-Glenn 2018).

- Ongoing structural and systemic barriers make it difficult to narrow wealth gaps (Emmons and Ricketts 2017).
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 ideas 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

- Racial and ethnic wealth gaps are very large and persistent.
- Higher education, instead of being the great equalizer, in some ways exacerbates inequality.
- Closing wealth gaps is no small task given deep-rooted causes and systemic factors.
- Realistic proposal needs big ideas along with proven interventions.
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IN THE Balance
Perspectives on Household Balance Sheets

The Demographics of Wealth
2018 Series

The Demographics of Wealth
2020 Series

The Demographics of Wealth
2022 Series
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