Resource and Community Forum
Delta State University

Academic Success and Financial Skills: Keys to Building Wealth

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William R. Emmons
Center for Household Financial Stability
Federal Reserve Bank of St. Louis
William.R.Emmons@stls.frb.org

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Challenges of the 20th and 21st Centuries

“The problem of the 20th century is the problem of the color line.”

--W.E.B. DuBois, 1908
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“The problem of the 21st century is the problem of the [racial] skill gap.”
--Roland G. Fryer, Jr., 2011
Much of What Follows is Based on the Research of Roland G. Fryer, Jr.

- The Henry Lee Professor of Economics, Harvard University, http://scholar.harvard.edu/fryer/home.
- Youngest African-American to receive tenure at Harvard (age 30).
- Research focuses on education reform, social interactions and police use of force.
- Director of the Education Innovation Laboratory at Harvard.
- Winner of the 2015 John Bates Clark Medal as the outstanding economist under 40 years of age.
- Recipient of a MacArthur “genius” fellowship.
Relative to the 20th century, the significance today of discrimination as an explanation for racial inequality across economic and social indicators has declined.

Racial differences in social and economic outcomes are greatly reduced when one accounts for educational achievement (= traditional skills).

Therefore, the new challenge is to understand the obstacles undermining the achievement of black and Hispanic children in primary and secondary school (K-12).

Why The Racial Skill/Educational-Achievement Gap Matters So Much

- Eliminating the racial skill gap would greatly reduce or eliminate these disparities:
  - Income inequality
  - Unemployment gap
  - Incarceration gap
  - Health gap

- We at HFS believe a related racial and ethnic financial-skills gap also undermines wealth-building.
  - Too little long-term saving (for education, retirement, etc.).
  - Inadequate liquid assets (emergency savings).
  - Inadequate asset diversification.
  - Excessive debt.

Sources: Roland Fryer, Jr., *Handbook of Labor Economics*, 2011, p. 925; various HFS publications.
No Differences in Mental Function Before Age 1; Large Gaps by Kindergarten

SAT-Style Scores of Mental Function by Race:
White Mean = 500; Standard Deviation = 100

Implication:
High-quality early-childhood enrichment is critical.

Source: Roland Fryer, Jr., *Handbook of Labor Economics*, 2011; Table 5.
College-Readiness Varies Substantially Across Race and Ethnicity

Implications:
1) Primary and secondary schools (K-12) make initial skill gaps worse;
2) College success by black and Latino students requires special strategies.

Source: Roland Fryer, Jr., *Handbook of Labor Economics*, 2011; Table 16.
The Current Trend Is Widely Different
Rates of College Graduation

Projected Paths of Family Shares With Post-Secondary Degrees by Race or Ethnicity

Source: Federal Reserve Board, Survey of Consumer Finances
Research on K-12 Education Reform: What Has Been Tried?

- Smaller schools and classrooms
- Mandatory summer school
- Merit pay for principals, teachers, and students
- After-school programs
- Budget, curricular, and assessment re-organization
- Policies to lower the barrier to teaching via alternative paths to accreditation
- Single-sex education
- Data-driven instruction
- Ending social promotion
- Mayoral/state control of schools
- Instructional coaching
- Local school councils
- Reallocating per-pupil spending
- Providing more culturally sensitive curricula
- Renovated and more technologically savvy classrooms
- Professional development for teachers and other key staff
- Getting parents to be more involved

What Works, According to Fryer’s Review of Research Findings?

- Smaller schools and classrooms
- Instructional coaching
- “The bulk of the evidence finds little to no effect of these interventions… designed to increase achievement in public schools.” (p. 911).
- “Despite trillions spent, there is not one urban school district that has ever closed the racial achievement gap.” (p. 917).
- “Schools alone can dramatically increase the achievement of the poorest minority students.” (p. 924).
- Ending social promotion
- Mayoral/state control of schools

1. Frequent teacher feedback

2. Data-driven instruction

3. High-dosage tutoring

4. Increased instructional time

5. Relentless focus on academic achievement
Where Do We Stand In Attacking Skill Gaps?

- Roland Fryer is 100% correct that racial and ethnic skill gaps in traditional K-12 educational achievement must be reduced for social and economic advancement to occur.

- Building wealth also requires stronger financial skills, on which we are not focusing enough attention.
Black and Latino Families Invest Much More of Their Wealth in Houses

Average Share of Assets Invested in Housing

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<tr>
<td>White</td>
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<td>37</td>
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Source: Federal Reserve Survey of Consumer Finances
Black and Latino Families Borrow More to Finance Their Assets

Average Debt-to-Assets Ratios

Source: Federal Reserve Survey of Consumer Finances
Result: Black and Latino Families Lost 40% of Their Wealth in Housing Crash
Large Racial and Ethnic Wealth Gaps Remain Virtually Unchanged Since 1989

2013 dollars

Hispanic wealth = 7% of white wealth
Black wealth = 6% of white wealth

Hispanic wealth = 10% of white wealth
Black wealth = 8% of white wealth

Source: Federal Reserve Board, Survey of Consumer Finances
Major Hurdles To Overcoming Racial Skill Gaps

- We do not yet know how to close the traditional educational-achievement gap for everyone.
  - We know what works on a small scale but we don’t know how to take it to large scale.

- The political will to close the traditional achievement gap may be lacking.
  - It will take time, money and good will—perhaps lots of it.

- The financial-skills gap isn’t widely appreciated.
  - Liquidity, diversification and prudent leverage are important for building wealth regardless of race/ethnicity.
  - Perhaps less attention is paid to the financial-skills gap because there is so much work to be done addressing the traditional educational-skills gap.
For More Information

Center for Household Financial Stability
www.stlouisfed.org/household-financial-stability

*In the Balance* articles
www.stlouisfed.org/publications/in-the-balance

*Demographics of Wealth* series
www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth
The Demographics of Wealth: An Essay Series


- **Part 1: Race, Ethnicity and Wealth (Feb. 2015).**
The Demographics of Wealth: An Essay Series

- www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth

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- Part 1: Race, Ethnicity and Wealth (Feb. 2015).
- Part 3: Age, Birth Year and Wealth (July 2015).
Hispanic and Black College Grads Have Lost More Wealth Than Other Groups

Follow 8 demographically defined groups over time

- 4 racial/ethnic identities.
- 2 education levels: 4-year college or no college degree.

Key assumptions (potential explanations for results)

- Race/ethnicity-specific determinants of college-degree status are stable over time.
- College graduates are all alike (or don’t differ by race/ethnicity) and are treated the same in job, housing and financial markets.