Can Education Bridge the Racial and Ethnic Wealth Gaps?

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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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The Demographics of Wealth: Can Education Bridge the Racial and Ethnic Wealth Gaps?

Three demographic factors that predict your wealth
- Your age/When you were born
- How much education you have
- Your race or ethnicity

The “silver-bullet” theory of education: A solution to large racial/ethnic wealth gaps?

Facts vs. theory: Why didn’t higher education protect Hispanic and black wealth?
Your Demographic Endowments

- When you were born
  - Your generation (Greatest, Silent, Baby Boom, Gen X, Gen Y)
  - Your age when we observe you in the data (“life-cycle effect”)

- Your highest level of completed education
  - Less than a high-school diploma
  - A high-school diploma, GED or vocational training
  - A two- or four-year college degree
  - A post-graduate or professional degree

- Your race or ethnicity
  - Non-Hispanic white
  - Non-Hispanic black
  - Hispanic of any race
  - Non-Hispanic Asian (and groups such as Native Americans)

Education is complex:
- Related to key individual characteristics like cognitive and non-cognitive abilities.
- Chosen early; unchanging later in life.
- A proxy for socio-economic status.
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
- Part 1: Race, Ethnicity and Wealth (Feb. 2015).
The Demographics of Wealth: An Essay Series

- Part 1: Race, Ethnicity and Wealth (Feb. 2015).
- Part 3: Age, Birth Year and Wealth (July 2015).
Age Distribution of Median Wealth in 1989

Median Real Net Worth By Age of Family Head

Source: Federal Reserve Board, Survey of Consumer Finances
All Age Groups Gained Through 2007; All Groups Declined Through 2013

Median Real Net Worth By Age of Family Head

Change between 1989 and 2007
Change between 2007 and 2013

Source: Federal Reserve Board, Survey of Consumer Finances

2013 dollars
**Net Result, 1989-2013: All Age Groups 60+ Are Richer; Groups <60 Are Poorer**

![Chart showing change in median net worth from 1989 to 2013 by age group.](image)

Source: Federal Reserve Board, Survey of Consumer Finances
In 1989, College Grads Were 28% of Families But Owned 55% of Wealth

Source: Federal Reserve Board, Survey of Consumer Finances
Education Strongly Predicts Wealth

Median Real Net Worth by Educational Attainment of Family Head

- Graduate or professional degree
- Associate's or Bachelor's degree
- High-school diploma or GED
- Less than high school

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances
Education-Related Wealth Gaps Are Growing Larger

Index levels equal 100 in 1989

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.
In 2013, College Grads Were 39% of Families But Owned 75% of Wealth

No college: 61%
High-school diploma or GED 50%
Associate’s or Bachelor’s degree 26%
Less than high school 11%
Graduate or professional degree 13%

All college graduates: 39%

No college: 25%
High-school diploma or GED 23%
Graduate or professional degree 39%
Associate’s or Bachelor’s degree 36%
Less than high school 2%

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances
Wealth Gaps by Race or Ethnicity Were Huge in 1989

Median Real Net Worth by Race or Ethnicity

- African-American or black: 7,773
- Hispanic of any race: 9,038
- Asian or Other: 65,434
- White non-Hispanic: 130,470

2013 dollars

Source: Federal Reserve Board, Survey of Consumer Finances
Evolution of the Wealth Gap By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

2013 dollars

Source: Federal Reserve Board, Survey of Consumer Finances
### Racial and Ethnic Wealth Gaps Haven’t Changed Much (Except for Asians)

<table>
<thead>
<tr>
<th>Race or ethnicity of family head</th>
<th>Median wealth in 1989 (in 2013 dollars)</th>
<th>1989 percent of white median</th>
<th>Median wealth in 2013 (in 2013 dollars)</th>
<th>2013 percent of white median</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>$130,102</td>
<td>100%</td>
<td>$134,008</td>
<td>100%</td>
</tr>
<tr>
<td>Asian</td>
<td>$64,165</td>
<td>49%</td>
<td>$91,440</td>
<td>68%</td>
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<tr>
<td>Hispanic</td>
<td>$9,229</td>
<td>7%</td>
<td>$13,900</td>
<td>10%</td>
</tr>
<tr>
<td>Black</td>
<td>$7,736</td>
<td>6%</td>
<td>$11,184</td>
<td>8%</td>
</tr>
<tr>
<td>All families</td>
<td>$85,575</td>
<td>--</td>
<td>$81,456</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances
Basic Facts From the Demographics of Wealth

- **When you were born matters.**
  - People born in 1970 have 40 percent less wealth than those born in 1940, holding constant many important factors.

- **There is a strong life-cycle of wealth.**
  - Wealth typically rises into your 60s or 70s.
  - Most older people today are doing much better, while most younger people are doing much worse, than 25 years ago.

- **Your education is a strong predictor of your wealth.**
  - Wealth gaps are enormous across education levels.
  - The gaps are increasing.

- **Racial and ethnic wealth gaps loom large.**
  - Hispanic and black wealth typically is a small fraction of white.
  - With the exception of Asians, little change in gaps since 1989.
The “Silver-Bullet“ Theory of Education

- More education—especially college—might overcome other disadvantages, such as the racial/ethnic wealth gap.

- Why? More education is correlated with:
  - Higher income.
  - Greater financial literacy.
  - Better health behaviors.
  - Longer life span.
  - Higher socio-economic status.
  - Better child outcomes.
  - Stronger marriages.
  - Lower criminality.
  - Less chance of poverty.
  - Greater civic involvement.
  - Many more good things....
Follow 8 demographically defined groups over time

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

Key assumptions (subjects of our current research)

- Race/ethnicity-specific determinants of college-degree status are stable over time.
- College-degree status alone is a sufficient statistic for “quality.”

www.stlouisfed.org/~media/Publications/In%20the%20Balance/Images/Issue_12/ITB_August_2015.pdf
Fact 1) Latino/Black College Grads Lost More Wealth Than White/Asian Grads

2013 dollars (log scale)

Source: Federal Reserve Survey of Consumer Finances; some data-smoothing by authors.
Fact 2) Worse Outcomes Than Latino/Black Families Without 4-Year College Degrees

Change in Median Real Net Worth between 2007 and 2013

- Four-Year College Grads
- Non-College Grads

White: -16.0%
Asian: -32.9%
Hispanic: -71.9%
Black: -59.7%

SOURCE: Survey of Consumer Finances.
Fact 3) Significantly Worse Long-Term Outcomes Than White/Asian Grads...

![Chart showing change in median real net worth between 1992 and 2013. The chart compares Four-Year College Grads and Non-College Grads for different racial groups. The chart indicates significantly worse outcomes for non-college graduates compared to college graduates across all racial groups. The source is the Survey of Consumer Finances.](chart_image)
... and Latino/Black Non-Grads

Change in Median Real Net Worth between 1992 and 2013

SOURCE: Survey of Consumer Finances.
High Debt Ratios Could Be Related to Poor Wealth Outcomes Recently

Median Debt-to-Income Ratio in 2007

- Four-Year College Grads
- Non-College Grads

- White: 102.2%
  - Four-Year College Grads: 47.4%
  - Non-College Grads: 56.9%

- Asian: 86.5%
  - Four-Year College Grads: 33.6%
  - Non-College Grads: 33.6%

- Hispanic: 134.3%
  - Four-Year College Grads: 24.9%
  - Non-College Grads: 33.6%

- Black: 164.7%
  - Four-Year College Grads: 24.9%
  - Non-College Grads: 24.9%

SOURCE: Survey of Consumer Finances.
Poor Long-Term Income Trends For Latino and Black College Grads

Change in Median Real Net Income between 1992 and 2013

Four-Year College Grads
Non-College Grads

18.0 4.6
30.9
15.6
17.3

White Asian Hispanic Black

SOURCE: Survey of Consumer Finances.
Poor Long-Term Income Trends For Latino and Black College Grads

Change in Median Real Net Income between 1992 and 2013

- White: 18.0% increase, 4.6% decrease
- Asian: 30.9% increase, 9.2% decrease
- Hispanic: 15.6% decrease, 10.0% decrease
- Black: 17.3% increase, 12.1% decrease

SOURCE: Survey of Consumer Finances.
Education Is More Than the Degree

- Educational attainment represents many other factors that contribute to a person’s success.
Education Alone Is Not A Silver Bullet

- Without all of the background factors associated with college success, a college degree by itself may not be powerful enough to overcome other disadvantages.
In Sum: The Demographics of Balance Sheets and Wealth

- Age/birth year, education and race or ethnicity are strong predictors of wealth and a host of other outcomes.

- Demographic factors—including the background factors associated with college success—are more powerful than commonly thought.

- Education alone is not a silver bullet.
For More Information

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

Community Development
www.stlouisfed.org/community-development

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