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College Unintentionally Increases Racial and Ethnic Disparity in Income and Wealth

By William R. Emmons and Lowell R. Ricketts

Important new research finds that “colleges successfully ‘level the playing field’ across students with different socioeconomic backgrounds,” which the researchers approximated with family income.¹ However, this research does not consider an individual’s race or ethnicity as a predictor of success.

Despite generations of generally rising college-graduation rates, higher education’s promise of significantly reducing income and wealth disparities across all races and ethnicities remains largely unfulfilled. Notable progress is evident among Asians.

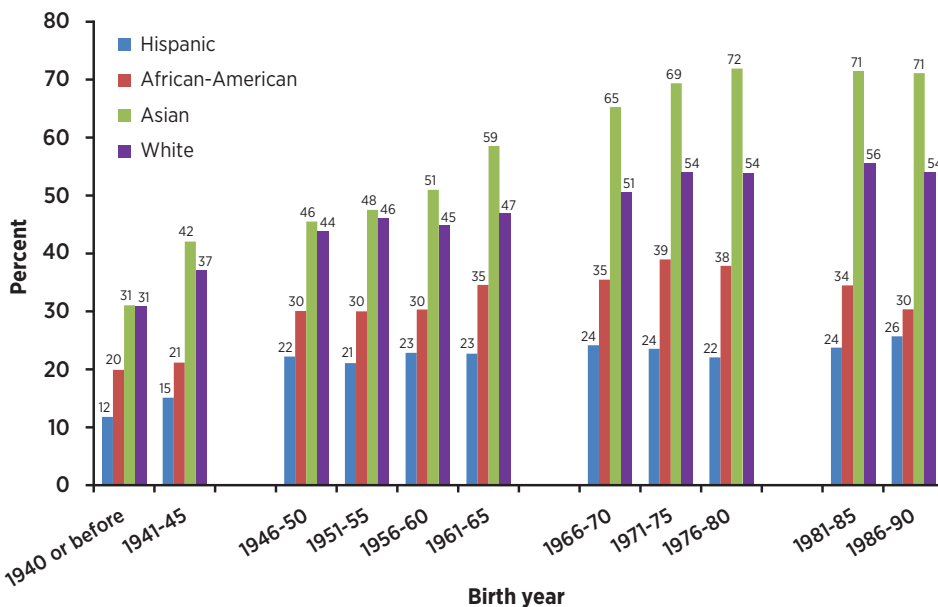
However, shortfalls among Hispanics and blacks in both the *quantity* and the effectiveness, or *quality*, of postsecondary degrees point toward *widening* income and wealth gaps in the future. Thus, rather than promoting economic equality across all races and ethnicities, higher education unintentionally has become an engine for growing disparities.

Quantity gaps: College-degree attainment has increased among all groups but at different rates. Figure 1 displays the share of adults aged 25 or older with at least a four-year college degree in 2015.

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FIGURE 1
Four-Year College-Degree Attainment Rates (2015)



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SOURCE: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement
NOTE: Generations shown in Figures 1 and 2 include:
• “Greatest” and “Silent” generations, born in 1945 or earlier
• Baby-boom generation, born 1946-65
• Generation X, born 1966-80
• Millennials, born 1981 or later

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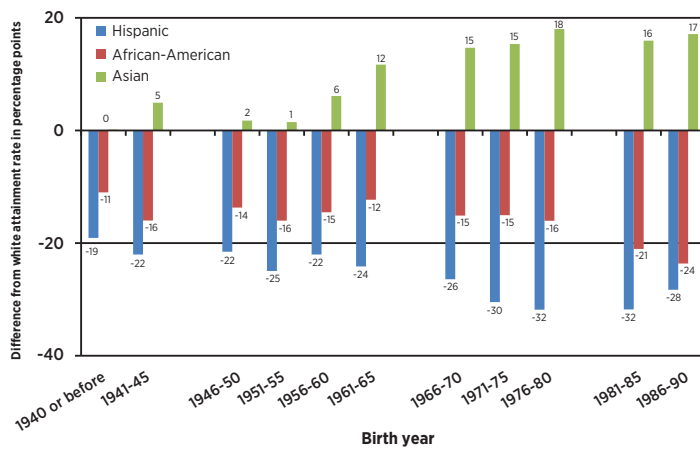
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Members of the four major racial and ethnic groups in the United States are shown separately by birth year. Birth-year cohorts are grouped to indicate successive generations—members of the so-called Greatest and Silent generations, born in 1945 or earlier; baby boomers, born between 1946 and 1965; members of Generation X, born between 1966 and 1980; and millennials, born in 1981 or later. The youngest millennials whose information is available in the Census data were 25 years old in 2015.

Clearly, millennials of all races and ethnicities are more likely to have a college degree than people of their own race or ethnicity born in the first half of the 20th century. It's also clear, however, that the increase in attainment rates has slowed or even reversed recently.

Figure 2 shows the difference in college-degree attainment rates between all nonwhite groups and whites by birth year. Asian men and women born near the end of the baby-boom period and later are much more likely than whites of the same age to have a college degree. Conversely, Hispanic and black men and women born after the baby boom have fallen further behind their white counterparts. Compared with their same-race or -ethnicity counterparts born in 1945 or earlier, Hispanic and black millennials have fallen about 10 percentage points further behind whites.

FIGURE 2
Differences in Four-Year College-Degree Attainment Rates (2015)



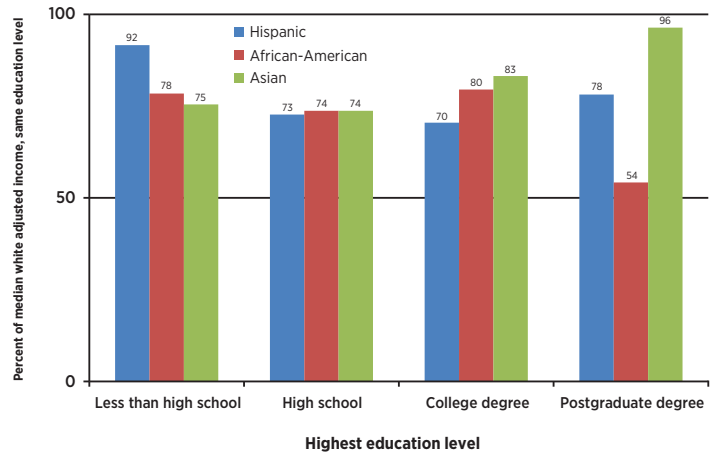
FEDERAL RESERVE BANK OF ST. LOUIS
SOURCE: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement

Quality gaps: The economic and financial returns from college degrees differ by race and ethnicity. A simple way to approximate the economic return from a college degree is to compare the incomes of families with college degrees with those of families without degrees. Likewise, we can estimate the financial return from a college degree by comparing the wealth of families with college degrees with the wealth of those without the degrees.²

To reduce the self-selection biases inherent in educational attainment—i.e., more academically capable people are likely to obtain more education, exaggerating the true value of the educational qualification itself—we compare nonwhite groups

with similarly educated whites. The tendency for more capable people to obtain more education should be true across all races and ethnicities, so this comparison partially eliminates bias and helps to produce better estimates that illustrate the returns of obtaining more education.

FIGURE 3
Median Adjusted Family Income (2013)

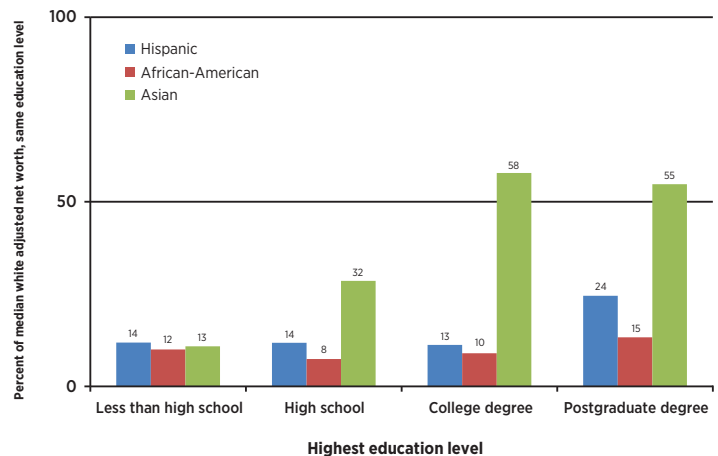


FEDERAL RESERVE BANK OF ST. LOUIS
SOURCE: Board of Governors of the Federal Reserve System, Survey of Consumer Finances
NOTE: Adjusted family income is total family income divided by two if the family includes two married adults or two unmarried adults living as partners; otherwise, it is simply total family income.

Figure 3 displays the ratios of nonwhite median family incomes in 2013 to their white counterparts' incomes by four different education levels. The median family incomes of all nonwhite groups trailed their equally educated white counterparts'. Moreover, the generally declining relative incomes across increasing education levels among Hispanics and blacks suggest that the income gains associated with successive levels of education are lower for many Hispanic and black families than for their white counterparts.

Figure 4 shows analogous comparisons of median net worth. Median Hispanic and black wealth levels decline relative to similarly educated whites as education increases until the very top.

FIGURE 4
Median Adjusted Family Net Worth (2013)



FEDERAL RESERVE BANK OF ST. LOUIS
SOURCE: Board of Governors of the Federal Reserve System, Survey of Consumer Finances
NOTE: Adjusted family net worth is total family net worth divided by the square root of the number of family members. The family does not include people who do not usually live in the household and are financially independent.

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Unfortunately, only about 7 percent of black families and 5 percent of Hispanic families have postgraduate degrees, and wealth disparities remain large even there. The wealth gap between Asians and whites declines with more education but remains significant at every level.

Together, Figures 3 and 4 suggest that both income and wealth gains from higher levels of education generally are lower for non-white families than for whites. These discrepancies generally grow at successively higher levels of education for Hispanics and blacks. Only at the very top is there some evidence of a reversal in this trend for wealth, although substantial gaps remain.

Education is not the great equalizer it once was—if it ever was. Growing gaps in college-attainment rates, together with large differences in the economic and financial returns associated with any given level of education, suggest that racial and ethnic income and wealth gaps are likely to grow larger in the future. We emphasize that this does not imply that Hispanic and black families should reject higher education as a tool for upward mobility. More education generally pays off for all racial and ethnic groups, even if the relative payoffs differ.

However, it does require us to face up to two uncomfortable facts. First, successive generations of Hispanics and blacks are falling further behind their white and Asian counterparts in obtaining four-year college degrees. Second, the payoffs for

increasing levels of education obtained by Hispanics and blacks generally are lower than those for whites and Asians. As a consequence of these quantity and quality gaps, higher education unintentionally has become an engine for widening disparities rather than for accelerating the convergence of economic and financial opportunities across races and ethnicities. ■

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ENDNOTES

- ¹ Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner and Danny Yagan, “Mobility Report Cards: The Role of Colleges in Intergenerational Mobility,” Working paper, January 2017, http://www.equality-of-opportunity.org/papers/coll_mrc_paper.pdf.
- ² For a more comprehensive examination of the issues raised in this section, see William R. Emmons and Lowell R. Ricketts, “College Is Not Enough: Higher Education Does Not Eliminate Racial and Ethnic Wealth Gaps,” Federal Reserve Bank of St. Louis Review, February 2017, at <https://research.stlouisfed.org/publications/review/2017/02/15/college-is-not-enough-higher-education-does-not-eliminate-racial-and-ethnic-wealth-gaps/>.