College is Not Enough: Race/Ethnicity, Education and Wealth

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College is Not Enough: Race/Ethnicity, Education and Wealth

- Having more education is related to having higher wealth among families of every race or ethnicity.
- But having a college- or a post-graduate degree does not eliminate racial and ethnic wealth gaps.
- Our research suggests that structural, systemic or other unobservable factors related to race or ethnicity may be important explanations for wide and persistent wealth gaps.
- Effective policy solutions to racial and ethnic wealth gaps therefore should be structural and systemic—incremental policies may not make much difference.
Median Family Wealth in the 2013 SCF by Race/Ethnicity and Education

Figure 1

Actual Median Family Wealth in 2013
Indexes: White College Graduate Set Equal to 100

Source: Survey of Consumer Finances
More education is related to higher wealth for families of every race or ethnicity (Fig. 1).

College and especially post-graduate education are associated with sharpest wealth increases (Fig. 1).

Asian-white raw wealth gap narrows when moving up to high-school and college grads, with some reversal for post-grads (Fig. 2).

Latino-white and black-white raw wealth gaps are the opposite (Fig. 2):
- Widening when moving up to high-school and college grads.
- Narrowing—but still large—for post-grads.
Wealth Gaps Are U-Shaped for Latinos and Blacks, Inverse-U for Asians

Figure 2
2013 Median Family Wealth as Percent of White

Source: Survey of Consumer Finances
Digging Into the Gaps With An Econometric Model of Wealth Accumulation

- A regression model reveals how wealth is related to race/ethnicity and education, holding constant:
  - **Family structure** (age; marital or cohabitation status; number of children; providing family support)
  - **Financial decisions** (assets and liabilities; cash management)
  - **Measures of luck** (income shocks—positive and negative separately; receipts of gifts or bequests; health status)

- We estimate an econometric model predicting family wealth using data from 35,000 families, each observed once during the 1995-2013 period.

- Data source: Federal Reserve Board’s tri-ennial Survey of Consumer Finances.
Recall Figure 1: The Actual Wealth Data

Figure 1

Actual Median Family Wealth in 2013
Indexes: White College Graduate Set Equal to 100

“Raw” data

Source: Survey of Consumer Finances
Regression Results: Predicted Family Wealth Holding Constant Many Explanatory Variables

Figure 3

Predicted Family Wealth During 1995-2013
Indexes: White College Graduate Set Equal to 100

Predicted wealth after controlling for differences in:
- Family structure
- Financial behaviors
- Luck
- Time period
- Age

Source: Survey of Consumer Finances, Emmons and Ricketts (2016)
Model Results: Education Matters for Wealth But So Do Race and Ethnicity

- Education is strongly related to wealth but not as strongly as in the raw data (compare Figs. 2 and 3).
  - Flatter wealth-education gradient everywhere.
  - Less-sharp wealth increases for post-grad families.
  - Individual differences in family structure, financial behavior and luck explain some, but not all, of the raw wealth gaps.

- Unobservable or omitted factors related to race or ethnicity remain very important (Fig. 4).
  - Unobservables related to Asian/other are positive.
  - Unobservables related to Hispanic and black are negative.

- Our interpretation: Structural, systemic or other unobservable factors are responsible for a large part of the Hispanic-white and black-white wealth gaps.
Unobservable Factors Are Most Important For College and Post-Grad Families

Figure 4

Predicted Family Wealth as Percent of White
Percent of White Family Predicted Wealth, 1995-2013

Source: Survey of Consumer Finances; Emmons and Ricketts (2016)
In Sum: Why College is Not Enough to Eliminate Racial and Ethnic Wealth Gaps

- Education and wealth are positively linked for all races and ethnicities.
- But education does not eliminate the role of race and ethnicity in wealth accumulation.
- Unobservable/omitted factors are as important as the individual differences we can see.
- Our interpretation: Structural, systemic or other unobservable factors are of first-order importance.
- Because the sources of racial and ethnic wealth gaps are structural and systemic, incremental policy responses may not be commensurate to the challenge.
For More Information

