



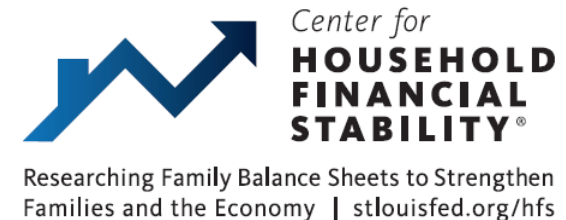
Child Poverty, Inequality and Adult Outcomes

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

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

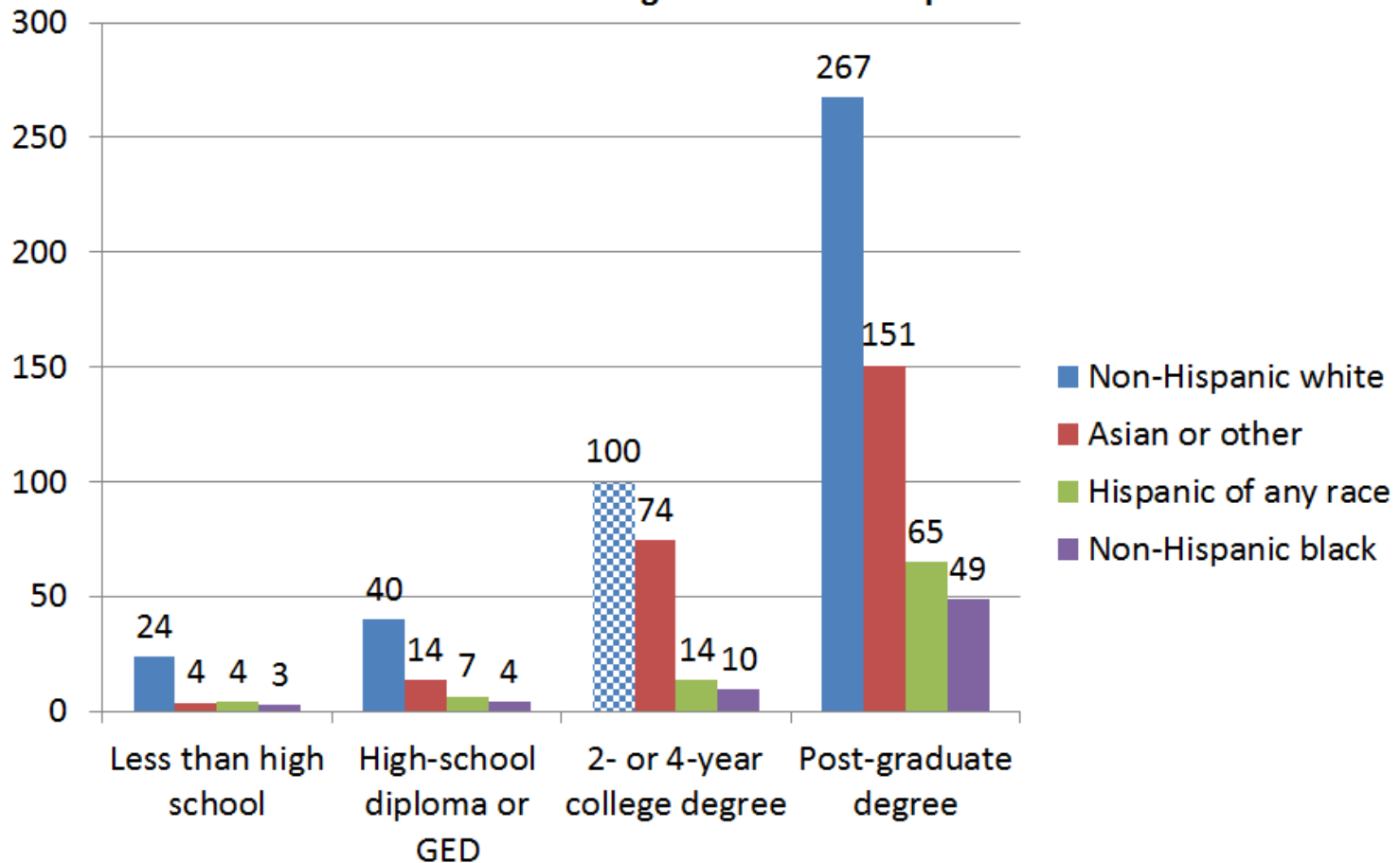
- **Having more education is related to having higher wealth among families of every race or ethnicity.**
- **But having a college- or a post-graduate degree does not eliminate racial and ethnic wealth gaps.**
- **Our research suggests that structural, systemic or other unobservable factors related to 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

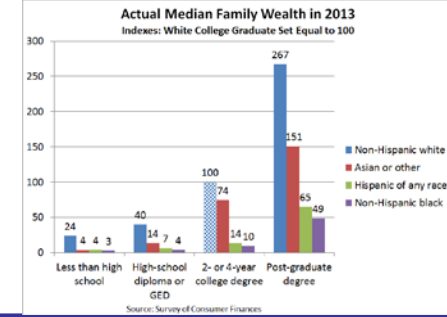
Actual Median Family Wealth in 2013 Indexes: White College Graduate Set Equal to 100



Source: Survey of Consumer Finances



Race/Ethnicity, Education and Wealth: Basic Facts



- 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.

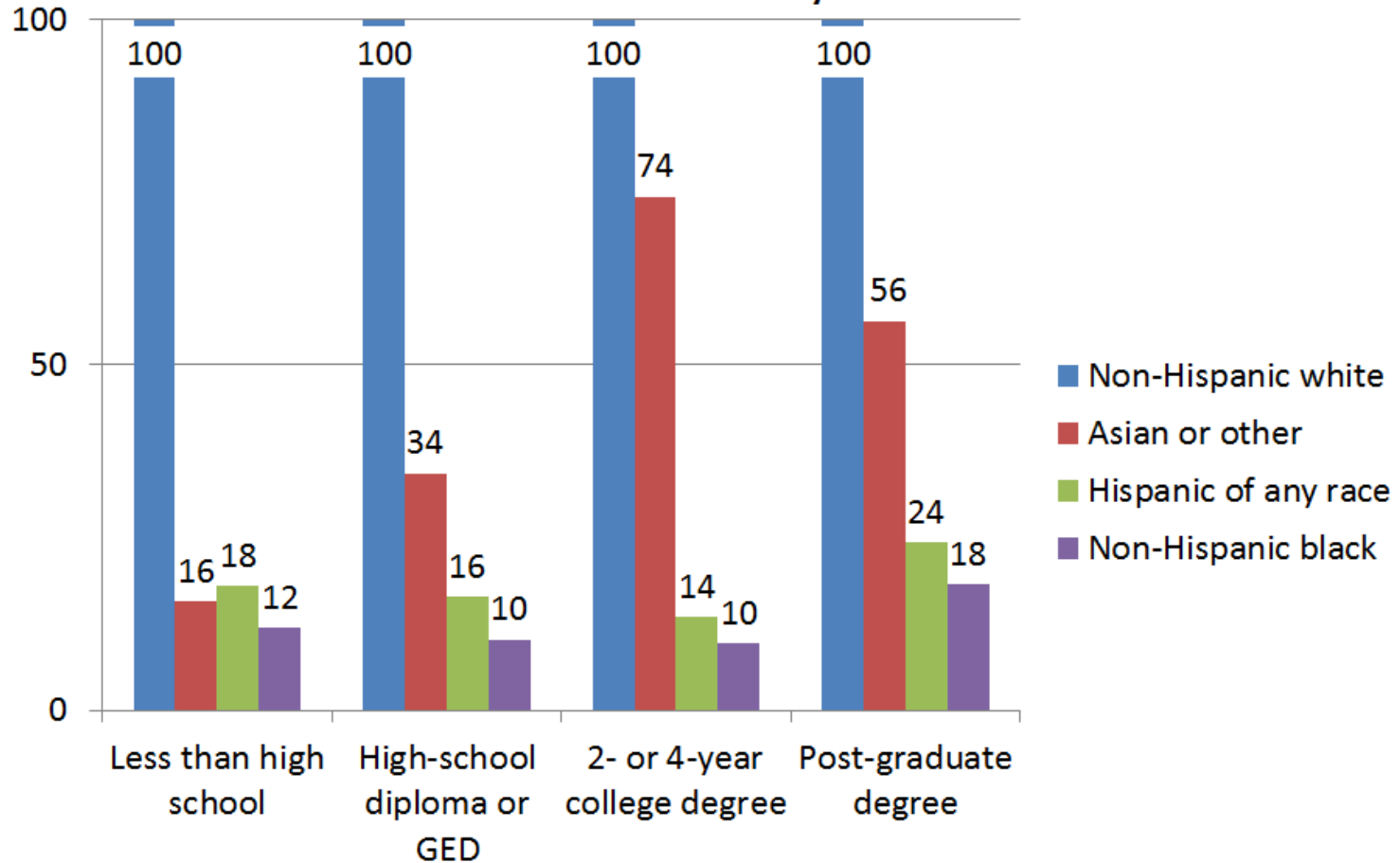


Wealth Gaps Are U-Shaped for Latinos and Blacks, Inverse-U for Asians

Figure 2

2013 Median Family Wealth as Percent of White

Percent of White Family Median



Source: Survey of Consumer Finances

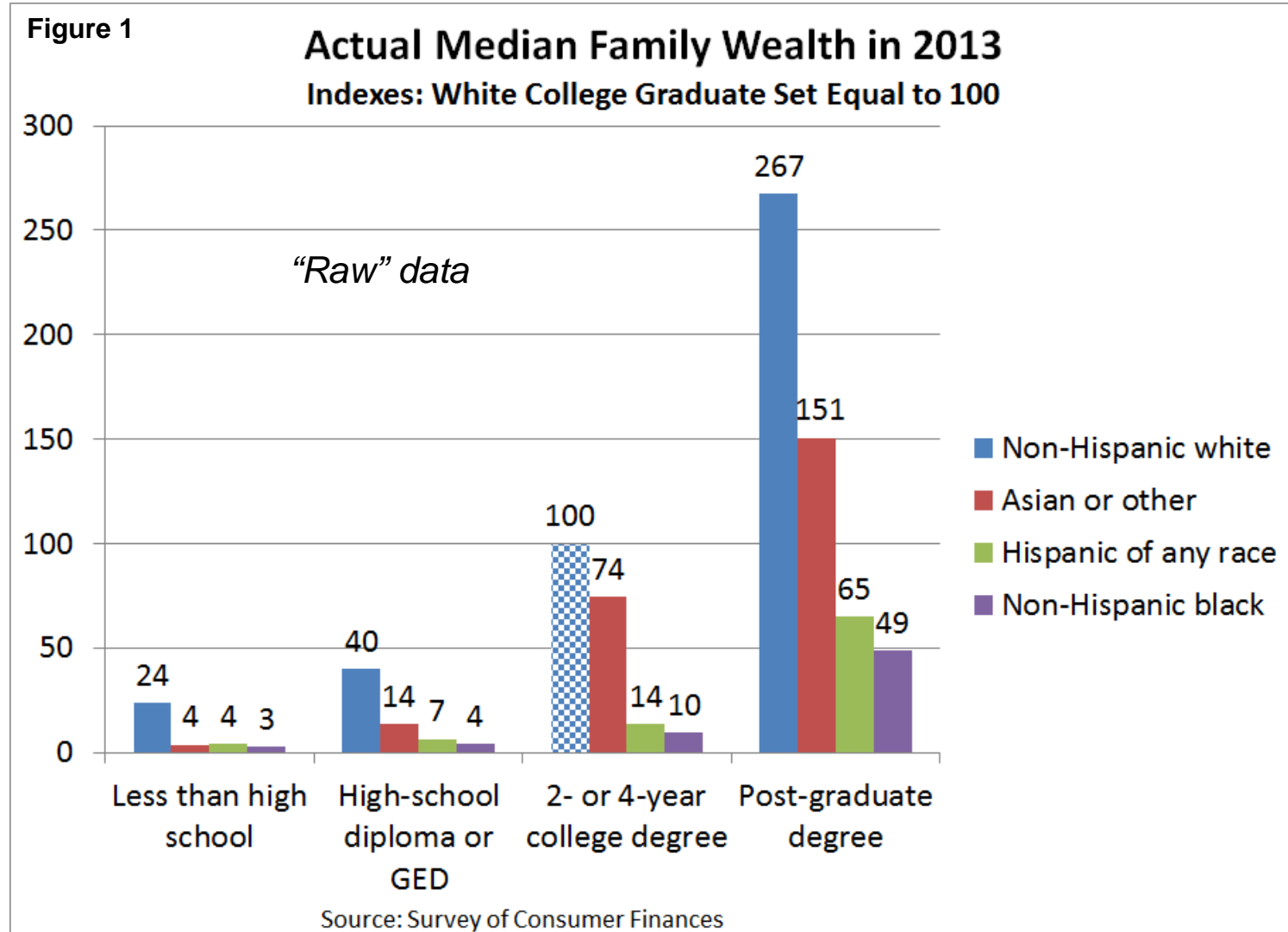


Digging Into the Gaps With An Econometric Model of Wealth Accumulation

- **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



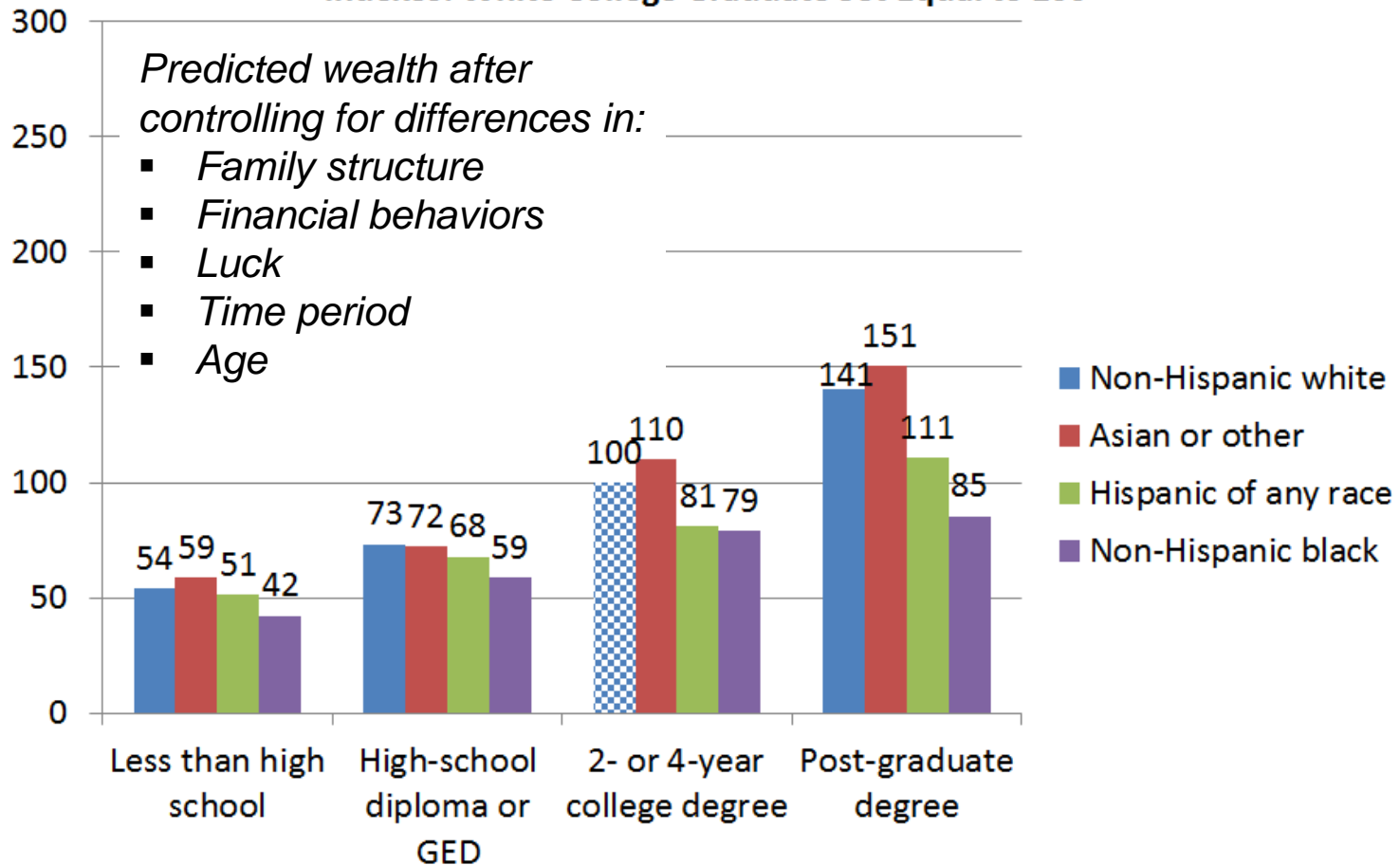


Regression Results: Predicted Family Wealth Holding Constant Many Explanatory Variables

Figure 3

Predicted Family Wealth During 1995-2013

Indexes: White College Graduate Set Equal to 100



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.**

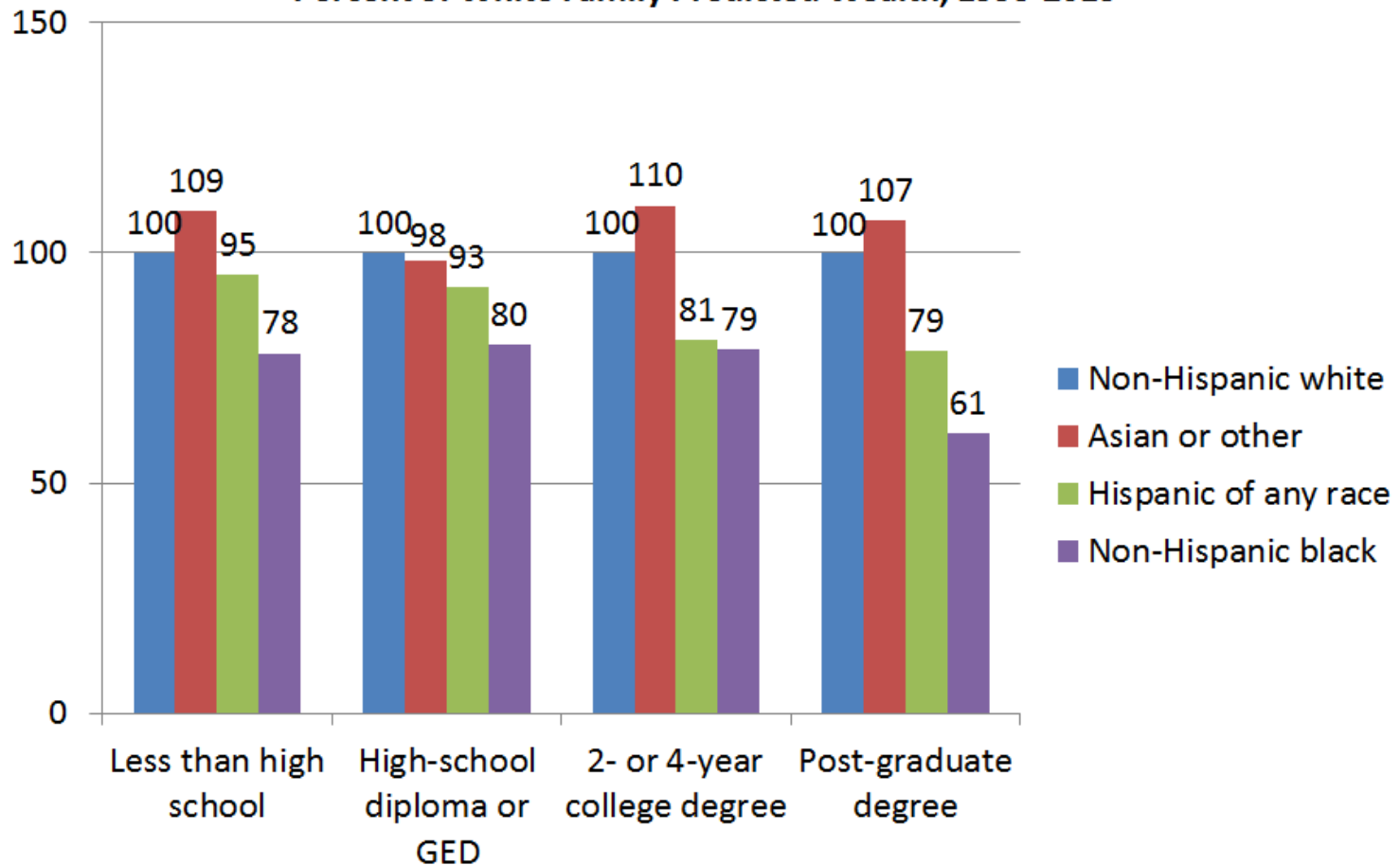


Unobservable Factors Are Most Important For College and Post-Grad Families

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

- **William R. Emmons and Lowell R. Ricketts, “College is Not Enough: Education Does Not Eliminate Racial and Ethnic Wealth Gaps,”** *Review*, First Quarter 2017, <https://research.stlouisfed.org/publications/review/2017/02/15/college-is-not-enough-higher-education-does-not-eliminate-racial-and-ethnic-wealth-gaps/>.
- **William R. Emmons and Lowell R. Ricketts, “College Inadvertently Increases Racial and Ethnic Disparity in Income and Wealth,”** *In the Balance*, Mar. 2017, <https://www.stlouisfed.org/publications/in-the-balance/issue-16-2017>.
- **William R. Emmons and Lowell R. Ricketts, “Unequal Degrees of Affluence: Racial and Ethnic Wealth Differences Across Education Levels,”** *Regional Economist*, Oct. 2016, www.stlouisfed.org/publications/regional-economist/october-2016/unequal-degrees-of-affluence-racial-and-ethnic-wealth-differences-across-education-levels.