Unequal Degrees of Affluence: Race/Ethnicity, Education and Wealth

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These comments do not necessarily represent the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
More education is related to higher wealth for families of every race or ethnicity.

But college- or post-graduate degree attainment by itself does not eliminate racial and ethnic wealth gaps or differences in wealth sensitivity to recessions.

Our research suggests that structural, systemic or other unobservable factors related to race or ethnicity rival education (and exceed all other observable factors) as a predictor of wealth.

CSAs might help if they can address the underlying structural/systemic/unobservable sources of adult racial and ethnic wealth gaps.
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

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Non-Hispanic white</th>
<th>Asian or other</th>
<th>Hispanic of any race</th>
<th>Non-Hispanic black</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than high school</td>
<td>24</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>High-school diploma or GED</td>
<td>40</td>
<td>14</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>2- or 4-year college degree</td>
<td>100</td>
<td>74</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Post-graduate degree</td>
<td>267</td>
<td>151</td>
<td>65</td>
<td>49</td>
</tr>
</tbody>
</table>

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 gaps narrow 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

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Non-Hispanic white</th>
<th>Asian or other</th>
<th>Hispanic of any race</th>
<th>Non-Hispanic black</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than high school</td>
<td>100</td>
<td>16</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>High-school diploma or GED</td>
<td>100</td>
<td>34</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>2- or 4-year college degree</td>
<td>74</td>
<td></td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Post-graduate degree</td>
<td>100</td>
<td>56</td>
<td>24</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Survey of Consumer Finances
We seek to isolate the wealth effects of race or ethnicity and of education, holding constant the ff:

- Family structure (age, marital or cohabitation status, number of children, give or receive 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 of 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.
Predicted Family Wealth Allowing Only Race/Ethnicity and Education to Vary

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

- Stripping away other “confounding” behavioral and environmental factors, education still is related to wealth but not as strongly as in the raw data (Fig. 3).
  - Flatter wealth-education gradient everywhere.
  - Less-sharp wealth increases for post-grad families.
  - Consistent with “clusters” of self-reinforcing behavioral and environmental factors accentuating the education-wealth relationship—this shows up as spurious correlations between wealth and family structure, balance sheets and luck, resp.

- Structural/systemic/unobservable factors related to race or ethnicity remain important and somewhat independent of educational attainment (Fig. 4).
  - Unobservables related to Asian/other are positive.
  - Unobservables related to Latino/Af.-American are negative.
Race/Ethnicity Matters for Wealth; Positive for Asians, Negative for Latinos and Blacks

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)
Can CSAs Reduce Racial and Ethnic Wealth Gaps?

- CSAs may raise college and post-grad degree attainment for students of all races and ethnicities.
  - Relax students’ financial constraints.
  - Bolster the “college-bound identity.”

- Can CSAs counteract some of the structural/systemic/unobservable factors related to race and ethnicity that seem to interfere with wealth accumulation?
  - Race/ethnicity-based CSAs?
  - How strongly adverse are the unobservable factors?
In Sum: 
Race/Ethnicity, Education and Wealth

- Education and wealth are positively linked for all races and ethnicities.
- Race and ethnicity matter independently for wealth accumulation, too.
- Structural/systemic/unobservable factors probably more important than behavioral/environmental factors.
- CSAs can help, especially if designed to address the underlying structural/systemic/unobservable race/ethnicity-related sources of adult wealth gaps.
For More Information

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


- William R. Emmons and Bryan J. Noeth, “Why Didn’t Higher Education Protect Hispanic and Black Wealth?” *In the Balance*, No. 12, Aug. 2015,