



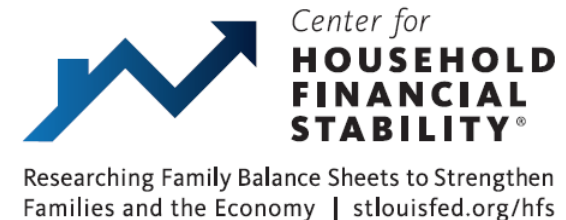
Center on Assets, Education and Inclusion Conference on Children's Savings Accounts

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

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

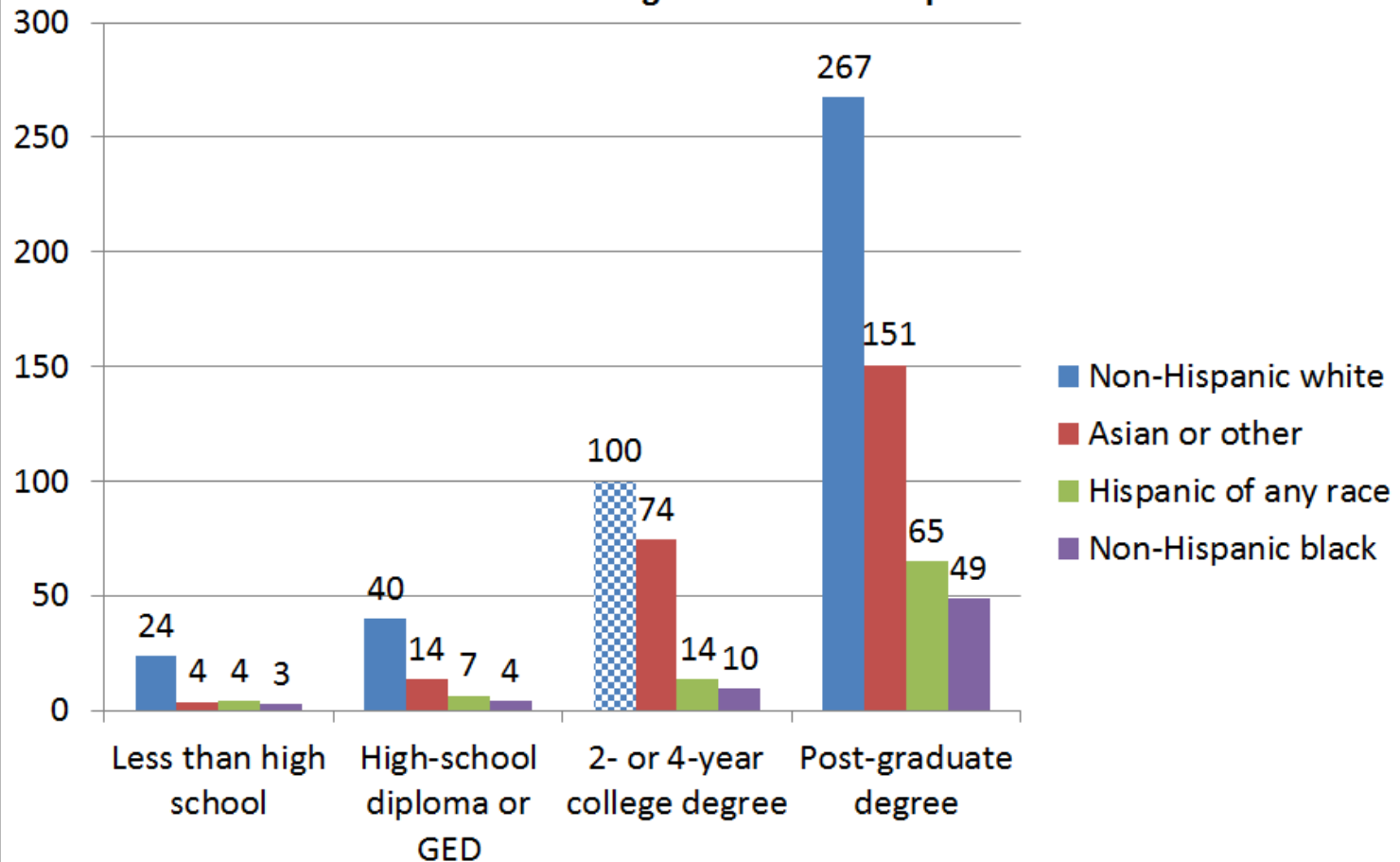
- **More education is related to higher wealth for families of every race or ethnicity.**
- **But college- or post-graduate degree attainment by itself does not eliminate racial and ethnic wealth gaps or differences in wealth sensitivity to recessions.**
- **Our research suggests that structural, systemic 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



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.**

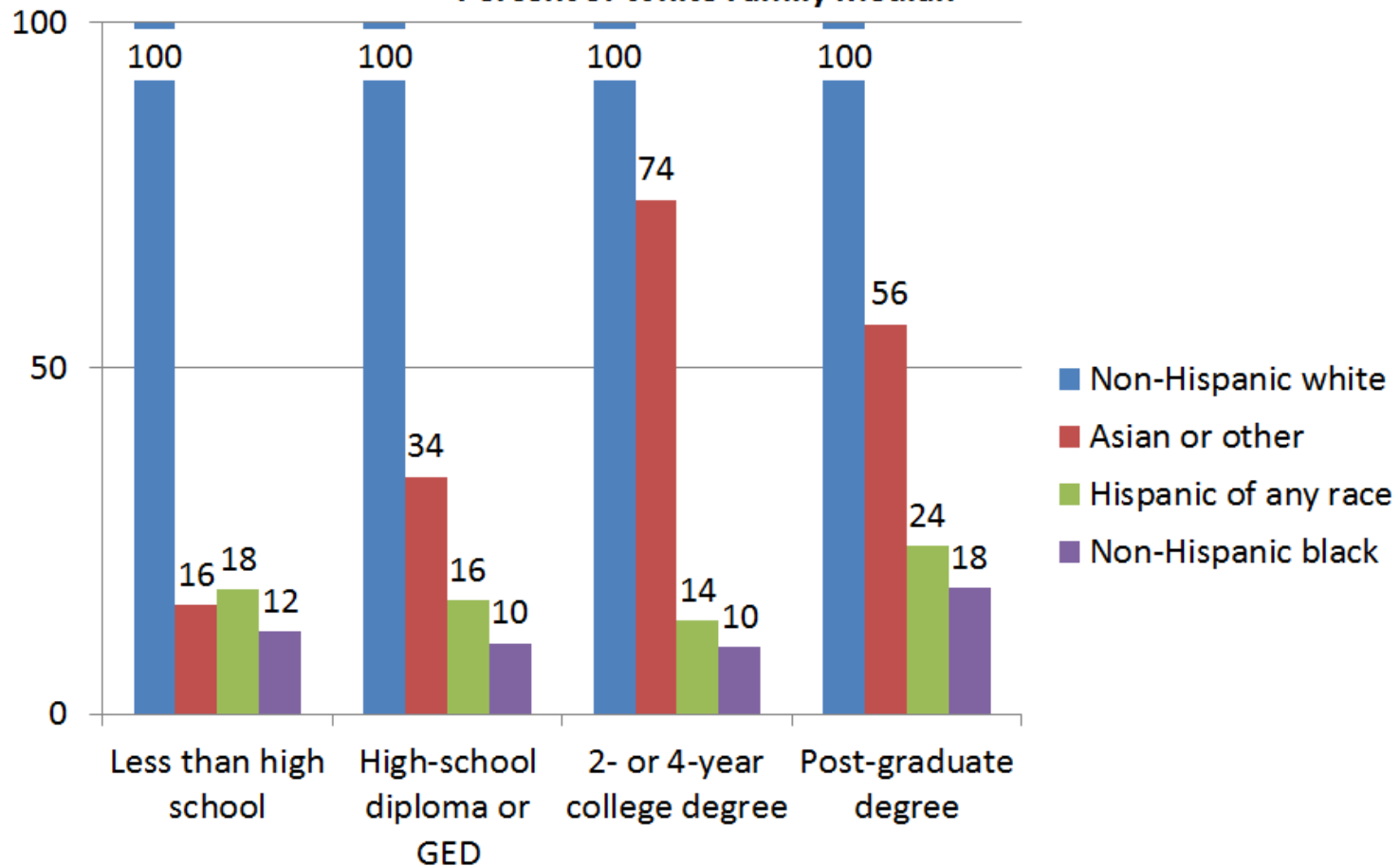


Wealth Gaps Are U-Shaped for Latinos and Blacks, Inverse-U for Asians

Figure 2

2013 Median Family Wealth as Percent of White

Percent of White Family Median



Source: Survey of Consumer Finances



Digging Into the Gaps With An Econometric Model of Wealth Accumulation

- **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.**

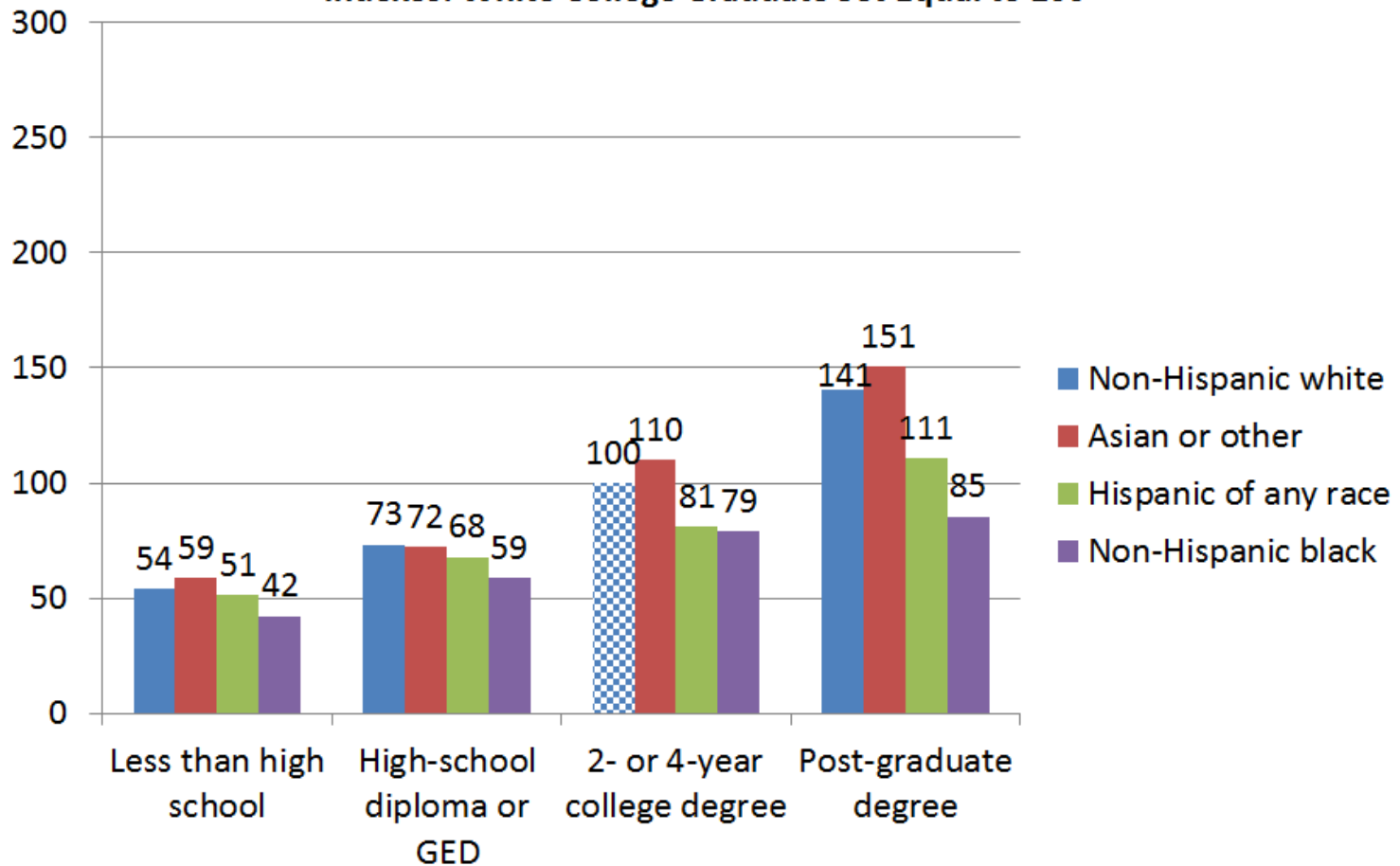


Predicted Family Wealth Allowing Only Race/Ethnicity and Education to Vary

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

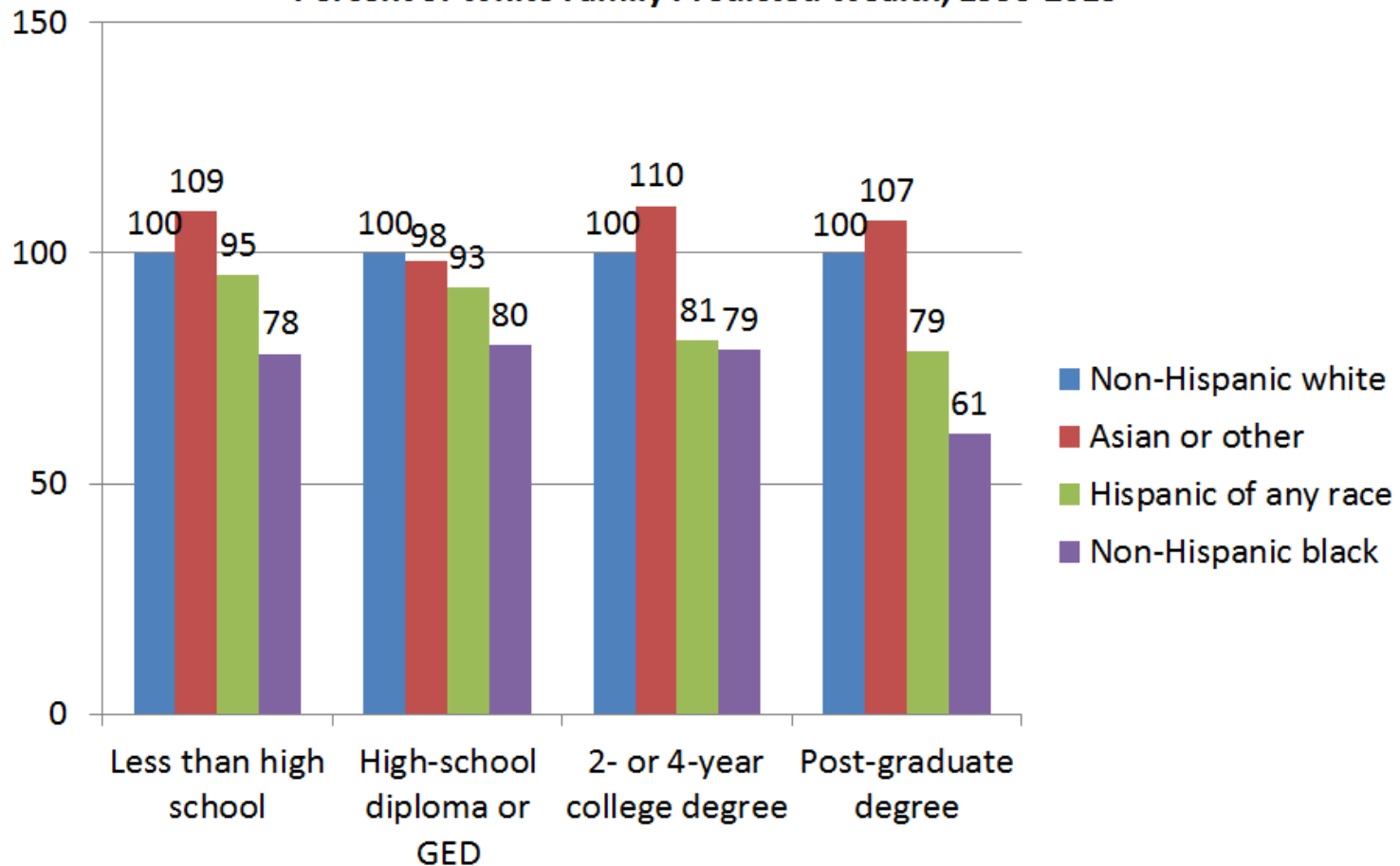
- **Stripping away other “confounding” behavioral and environmental factors, education still is related to wealth but not as strongly as in the raw data (Fig. 3).**
 - **Flatter wealth-education gradient everywhere.**
 - **Less-sharp wealth increases for post-grad families.**
 - **Consistent with “clusters” 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 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
- **William R. Emmons and Bryan J. Noeth, “Why Didn’t Higher Education Protect Hispanic and Black Wealth?”** *In the Balance*, No. 12, Aug. 2015,
www.stlouisfed.org/publications/in-the-balance/issue12-2015