

Explaining the black–white gap in returns to education: it’s not a black-and-white issue

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A commonly accepted hypothesis, gleaned from much scientific analysis and supported as well by common sense, is that a college education is a good thing: many people from many cultures encourage their children to pursue it, and it has been linked to better economic outcomes, such as higher lifetime earnings. However, recent research indicates that the idea of college as invariably a good thing may be too broad a generalization: the expectation that a college education will lead to higher net wealth seems to be true for college-educated Whites but not college-educated Blacks. In an article titled [“Family achievements?’: how a college degree accumulates wealth for Whites and not for Blacks,”](#) in the first-quarter 2017 issue of the Federal Reserve Bank of St. Louis *Review*, Tatjana Meschede, Joanna Taylor, Alexis Mann, and Thomas Shapiro not only confirm the recent research but also investigate the matter further, exploring the factors that give rise to the racial wealth gap between college-educated Blacks and Whites. Their findings both are revealing and suggest that, in dispensing financial aid, college administrators might do well to take into account the differing situations of black and white college applicants concerning not just the future wealth they will accumulate by having a college degree but also the different family contingencies that will determine how that wealth will be used.

The authors use two complementary datasets to carry out their analysis. The Panel Study of Income Dynamics (PSID) is a longitudinal dataset that contains quantitative information on a host of demographic characteristics, including information on large gifts and inheritances transferred by parents and grandparents to their children and grandchildren. The authors investigate PSID data spanning the years 1989 through 2013. The Leveraging Mobility (LM) study from the Institute on Assets and Social Policy is a qualitative dataset based on indepth interviews that provide information on numerous aspects of families’ finances. The information includes, among other things, family income and expenditures, wealth and debt, and decisions families made related to their assets. The authors use interviews conducted at two points in time: in 1998 and sometime from 2010 through 2012. They present the content of several LM interviews to qualitatively illustrate and bolster the quantitative information they obtain from the PSID.

The first finding that comes out of the authors’ analysis confirms a conclusion reached by a number of earlier, recent studies: in the years and even decades following their graduation, white college-educated households amass wealth whereas black college-educated households lose wealth. Specifically, from 1989 to 2013, the median net wealth of white college-educated households increased by \$31,343 while that of black college-educated households fell by \$19,816. Furthermore, over the same period, the wealth gap between all white and black households (both college educated and non–college educated) increased by \$51,000. Regarding net wealth, it is interesting to note that, despite the increase in net wealth of white college-educated households over the 1989–2013 period, white college-educated household wealth has exhibited a downward trend since 2007. At the

same time, the net wealth of black college-educated households began falling before 2007 and, for the most part, continued after the Great Recession. The resultant of both trends was a tripling of the ratio of white to black wealth.

The authors' second finding is more consequential: white college graduates are significantly more likely to receive financial support from their parents for education and for the purchase of a home—a positive contributor to net wealth—while black college graduates are significantly more likely to support their parents—a negative contributor to net wealth. The authors cite PSID data to highlight the significant role of large financial gifts and inheritances (\$10,000 or more) as contributors to a household's net wealth: "Among college-educated households, very few black households (9 percent) received such a large financial gift, compared with close to one-third of college-educated white households (32 percent)." And when they did get parental financial support for their education, black students received an average of just over \$16,000, while white students received nearly \$73,500, on average. Compounding the disparity is the authors' finding that, "proportionately, close to three times as many college-educated black households than white college-educated households provided financial support to their parents." These statistics show that it is little wonder that there is a significant gap in net wealth between white and black college-educated households.

The authors conclude their article with three qualitative interviews from the LM study illustrating how the difference in net wealth has a dramatic, disparate impact on black and white families' lives, and a recommendation for future analysis. In their own words,

We suggest that the outflow of resources to needy parents...is an important utilization of wealth for Blacks that differs significantly from the situation of Whites. Our understanding of family wealth needs to move beyond the proverbial bottom line to utilization. What is "better"—money in stocks and bonds and savings accounts, or helping to send nieces to college and supporting older parents with living and health situations? Wealth is a means, not a goal.