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# COLLEGE AND THE BOTTOM LINE

Racial Differences in Education's  
Impact on Net Worth

by Grace Kao

Illustration by Jing Jing Tsong

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On August 17, 2015, I appeared on a segment titled “Why College Fails to Close the Racial Wealth Gap” on *Huffington Post Live*. This panel was organized as a response to a report released by the Federal Reserve Bank of St. Louis that week that showed that while college education is associated with higher family income and net worth for all racial and ethnic groups (whites, blacks, Hispanics, and Asians) relative to their same-race counterparts who were not college-educated, the wealth of Hispanics and blacks was more susceptible to decline from 2007 to 2013. Overall, the median net worth of all families with a four-year college degree is \$273,586 compared to \$43,625 for those without a college degree. Specifically, the net worth of whites with four-year degrees declined by 16 percent, while the net worth for blacks with college degrees declined by 60 percent and the net worth for Hispanics with college degrees declined by 72 percent. In fact, the median net worth of black families with a college degree is actually *lower* (\$32,780) compared to the median net worth of white families without a college degree (\$80,692).

There are a few possible explanations for these differences. The first, and most obvious, is that blacks and Hispanics continue to experience lower income returns to college than their white counterparts, which in turn manifests in their lower levels of net worth. The median family income of blacks with a four-year college degree is \$52,147 compared to about \$68,379 for Hispanics and \$94,351 for whites with a college degree. Simply having everyone go to college will not solve the problem of income inequality. I have often offered the following thought experiment to my graduate class in the Sociology of Education: If we suddenly granted every adult in the U.S. a college degree, what would

happen to income inequality or racial and ethnic disparities in income or wealth? The short answer is probably nothing. While the U.S. and other nations should aspire to increase educational attainment for its citizenry, it is not a solution for the problem of income inequality.

Second, Asian Americans are somewhat protected from recessions because they are more likely to earn graduate degrees and choose fields that are likely to be more recession-resistant. The report showed that Asian households with a four-year college graduate have a median family income of \$93,000 compared to \$94,000 for whites. In terms of median family net worth, the figure for Asian four-year college graduates is about \$251,000 compared to about \$359,000 for whites. However, Asians are more likely to earn Ph.D.s and M.D.s than any other group. For example, 20 percent of recipients of M.D.s in 2014 in the U.S. were Asian American, but Asians only represent 6 percent of the U.S. population. In fact, given their educational levels, they ought to have much higher earnings and net worth than whites. The report, however, finds the earnings and net worth of Asians to be lower than those of whites. This suggests that Asians also may receive lower returns to college than whites and have to earn higher levels of education to earn income and maintain wealth at comparable levels to whites.

Third, the report found substantial differences by group in the median debt-to-income ratio in 2007. Among those with four-year college degrees, whites had a median debt-to-income ratio of 102.2, compared to 86.5 for Asians, 134.3 for Hispanics, and 164.7 for blacks. Among non-college graduates, a very different picture of racial disparities emerges. Specifically, for those without a college degree,

the median debt-to-income ratio was 47.4 for whites, 56.9 for Asians, 33.6 for Hispanics, and 24.9 for blacks. Blacks who choose to finish college also have by far the most debt of any group. This may be due to their parents' lower ability to assist with college expenses. Other researchers have also found that blacks are less likely to inherit money from their parents than whites. Racial and ethnic differences in income and net

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worth stem from processes far beyond differences in their educational backgrounds.

*Figures come from Emmons, William R. and Bryan J. Noeth. 2015. “Why Didn’t Higher Education Protect Hispanic and Black Wealth?” Federal Reserve Bank of St. Louis:*

<https://www.stlouisfed.org/publications/in-the-balance/issue12-2015/why-didnt-higher-education-protect-hispanic-and-black-wealth>

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