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Democracy Dies in Darkness

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For blacks, college is not an equalizer

By RAY BOSHARA

Acclaimed TV shows such as "Atlanta," "Black-ish" and "Insecure" reveal a troubling paradox: Why do many well-educated black Americans feel so economically insecure? Here's a surprising clue: Blacks with college degrees have lost wealth over the past generation.

Lots of wealth, in fact — and in sharp contrast to whites. Research from the Federal Reserve Bank of St. Louis — where I work — has found that, between 1992 and 2013, college-educated whites saw their wealth soar by 86 percent while college-educated blacks saw theirs plummet by 55 percent. Losing wealth means losing a cushion against hard times and a springboard for better times; it also means losing a chance to endow the next generation with the wealth we've accumulated over our lives.

You may wonder: How could college-educated blacks over the past 25 years actually lose wealth despite meaningful progress among blacks overall in educational attainment, political representation, voting rights, anti-discrimination measures and other realms?

Four findings emerged from a research symposium we held to help answer this question. First, racial differences around preparing for and financing college are stark. To begin with, black college grads are more likely than white college grads to have needed more student loans, which have a disproportionately negative effect on wealth because student loans defer or displace wealth-building measures such as marriage, buying a home and saving for retirement. Moreover, the wealth gap increases when comparing blacks and whites with advanced degrees. And in one study of Missouri's four-year public universities, preparation for college and academic environments prior to enrollment entirely explains black-white disparities in college completion rates, STEM degrees and post-college earnings.

Second, homeownership, which is more common among college-educated families, also plays a significant role. Black mortgage borrowers — even before the financial crisis and well before any other racial and ethnic group — are far more likely than their white peers to experience foreclosures and delinquencies. By mid-2013, more than 1 in 4 loans held by blacks had entered foreclosure, devastating black homeownership wealth.

Third, black and white graduates share and receive wealth among their families very differently. College-educated whites are more likely than college-educated blacks to receive any — let alone higher — levels of financial assistance from parents. Yet, despite generally lower incomes and wealth, college-educated blacks are more likely to give financial assistance to struggling parents or extended family in need. It should be noted that wealth-sharing includes transfers at the end of life as well as throughout, such as for private K-12 schooling, college, a first home or averting a cash-flow crisis, to name a few.

Finally, the shared experience of historical and ongoing discrimination remains a significant factor. Here my colleagues William Emmons and Lowell Ricketts challenge the standard but debatable "post-racial" economic model, under which the racial wealth gap exists because millions of white families made good financial choices while millions of similarly situated black families did not. But the black-white wealth gap is too large and persistent for equal opportunity and freedom of choice to be plausible.

We instead propose a "structural" model, which recognizes that blacks and whites have different shared experiences that, in turn, shape their opportunities to accumulate wealth. This model explains more than 80 percent of the racial wealth gap, leaving less than 20 percent due to choices that departed from the shared norm.

So, what can be done? First, efforts to combat discrimination must endure, not abate. Stark wealth gaps suggest that we are far from achieving a post-racial America.

Second, financing higher education with less debt and more grants, scholarships and savings could help, as could homeownership reforms that build economic resilience through more equity financing, savings and insurance.

Third, for families without access to financial assistance from extended family, pools of financial capital (for lending circles and matched savings programs, for example) could be expanded to prevent downward and propel upward economic mobility.

Finally, improving pre-college environments could help. As mentioned, diverging college outcomes could be fully traced to differences in pre-college academic preparation and environments, a finding corroborated by other prominent researchers who call for greater investments in early human-capital development. Another early intervention could be a bold program of "baby bonds," or wealth endowments at birth for lower-wealth households that are earmarked for lifelong asset accumulation.

A college education is increasingly important for middle-class success and beyond, though the journey appears more difficult for some groups than for others. Let's hope our nation is watching, listening and responding so that college leads to financial success for all Americans.

The writer is the director of the St. Louis Fed's Center for Household Financial Stability and a senior fellow in the Aspen Institute's Financial Security Program. The views here are his own.