

Education Can Help Narrow the Racial Wealth Gap, but Structural Solutions Are Needed to Close It

In the United States, the typical white family has nearly eight times the wealth of the typical Black family. Wealth serves as an enabler of opportunity, such that racial disparities in education, income, housing, retirement and other outcomes can be traced in part to the persistence of the racial wealth gap.

Education has often been touted as the key to closing the racial wealth gap, but recent analysis shows that education alone is insufficient. Even as Black college graduation rates have increased, the net worth of Black college graduates in their 30s has dropped by \$42,000 or 84 percent over the last three decades. A college education may help narrow the racial wealth gap, but the depth and persistence of the racial wealth divide in the United States means that addressing long-standing structural inequities in the economy will require a broad basket of policy solutions.

Federal policy has contributed to the chasm, via the absence of reparative justice for descendants of slaves, the exclusion of Black Americans from programs that promote asset accumulation, destructive infrastructure policies and practices that disadvantaged predominantly Black and brown neighborhoods and a tax code that favors white and wealthy Americans.

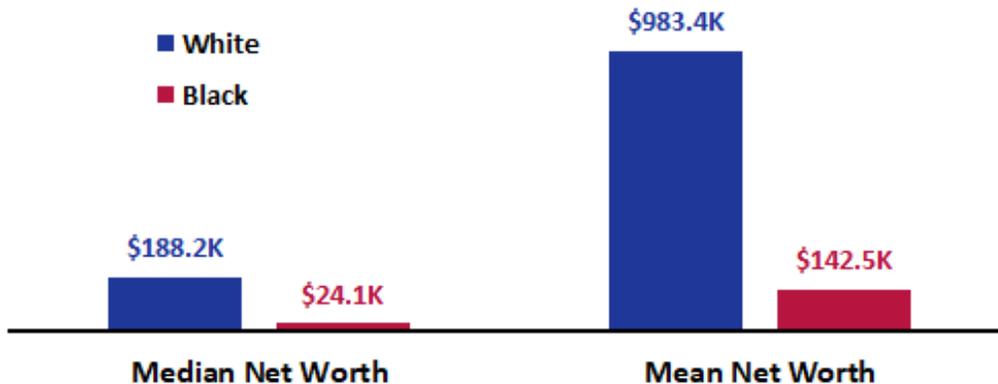
The magnitude of the racial wealth gap

The typical white family has nearly eight times the wealth of the median Black family. Wealth is measured as the difference between the gross assets and liabilities of families.¹ White families have the highest median and mean family wealth: \$188,200 and \$983,400, respectively. Black families' median and mean wealth is less than 15 percent that of white families, at \$24,100 and \$142,500, respectively.

¹ For treatment of assets and liabilities in the 2019 SCF, see page 33-35:
<https://www.federalreserve.gov/publications/files/scf20.pdf>

The Racial Wealth Gap Persists Across Mean and Median Differences in Family Net Worth

In 2019 USD



Source: 2019 Survey of Consumer Finances

As can be seen above, the Black-white wealth gap is visible whether comparing mean or median wealth. The difference in the extent of the gap depends on how you measure it, and there are reasons to examine both: The mean, or average, is more sensitive to the concentration of white families at the top of the wealth distribution, so it reflects a wider disparity between Black and white wealth. By contrast, the median, or the "typical" household, is less sensitive to this concentration, and therefore differences reflect a narrower gap. Another way to understand the gap is to look at the share of households with a specific net worth. For example, recent [estimates](#) show that 16 percent of white households have a net worth above \$1 million, in contrast with a mere 2 percent of Black households.

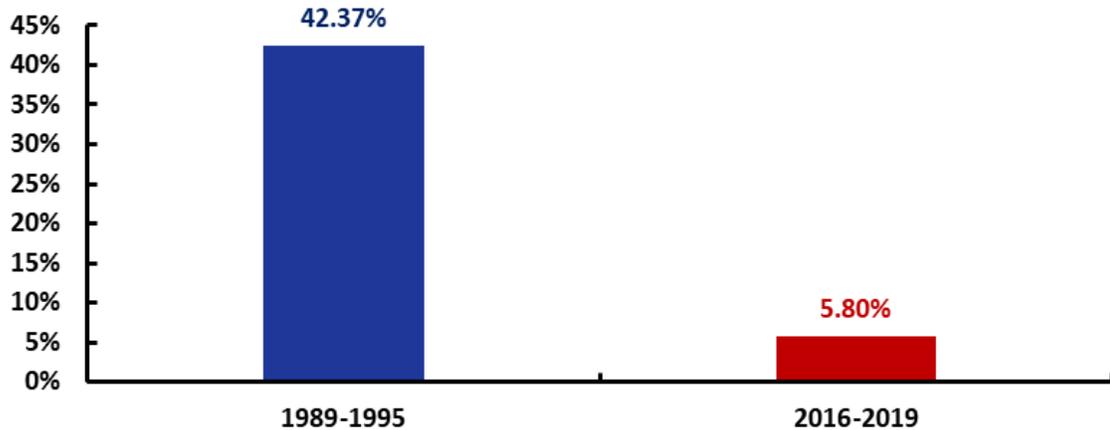
Recent analysis shows the median wealth of Black college graduates has plunged

According to a recent analysis of Federal Reserve data by the [Wall Street Journal](#), the median net worth for Black households with college graduates in their 30s has fallen from about \$50,000 three decades ago to just \$8,000 today, a real difference of \$42,000. Over the same period, their white peers saw their median net worth grow 17%, from \$118,000 to \$138,000. These Black households have experienced an 86% drop in their wealth position relative to their white peers.

In relative terms, this decline means that the median net worth of households with Black college graduates in their 30s has plunged from nearly half to less than one-tenth the net worth of their white counterparts over the last 30 years (see chart below).

The Plunge in Median Wealth of Young Black College Graduates Relative to their White Peers

Black to white ratio of median wealth of households with college graduates in their 30s, 1989-1995 and 2016-2019



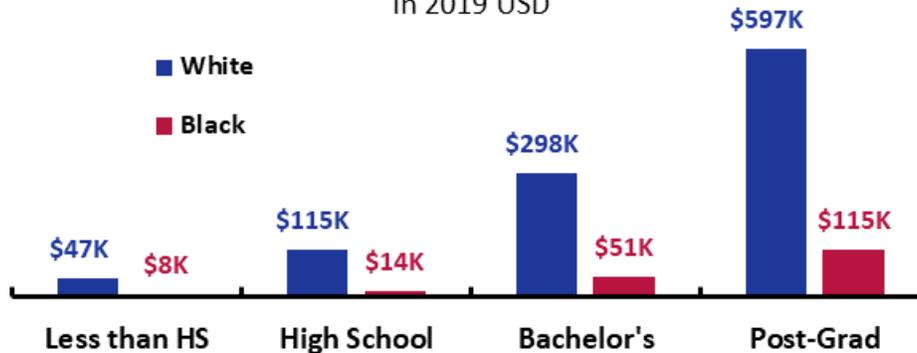
Source: JEC Democratic staff calculations, *Wall Street Journal* analysis of Federal Reserve data

Education may help narrow the gap, but it is insufficient to close it

Evidence shows that education improves [lifetime earnings](#), and indeed, Black families with a bachelor's degree have greater median wealth than Black families without one. But a college education alone cannot close the racial wealth gap, despite the perception that higher education is a great equalizer. While higher educational attainment is generally associated with more accumulated wealth, Black and Hispanic families have less median family wealth than white families with the same education. In fact, in 2019, the typical Black family whose highest level of education was a bachelor's degree had less median wealth than the typical white family whose highest level of education was a high school degree.

The Gap in Median Household Wealth Between Black and White Families Does Not Close With Increasing Levels of Education

In 2019 USD



Source: Ana Hernandez Kent and Lowell R. Ricketts, "Wealth Gaps between White, Black and Hispanic Families in 2019," Federal Reserve Bank of St. Louis

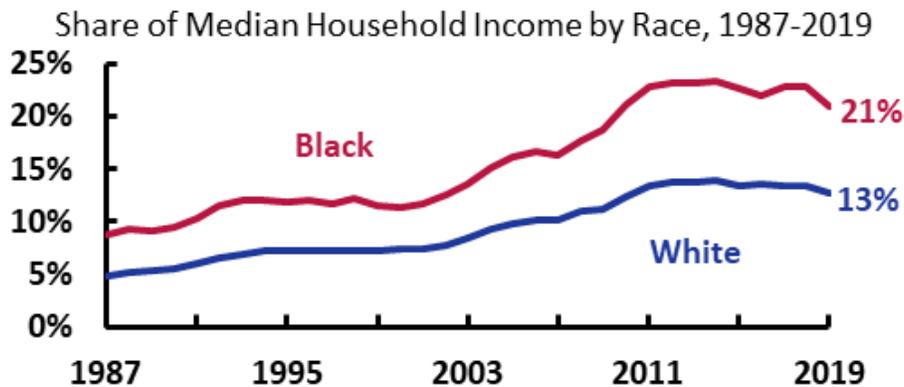
This is partly due to the way in which wealth serves as an enabler of opportunity. Because Black students have less family wealth, they are more likely to take on student loans and accumulate student loan debt. They are also more likely than white students to drop out of college because of [financial concerns](#). Upon entering the labor market, Black graduates also earn less than their white counterparts due to structural barriers in the labor market, like occupational segregation and discrimination, which further [limit their ability to pay off their debt and build wealth](#).

Black student debt is higher than white student debt at graduation, and the gap grows over time

College tuition and fees represent an increasing share of the typical household's income. High tuition costs disproportionately affect Black students, who graduate with more debt on average than their white peers, and the burden grows over time. The average Black college graduate owes about \$23,400 compared to \$16,000 for white graduates. Four years later, the gap triples. According to Emory University Law Professor [Dorothy Brown](#), student debt represents about 10% of the racial wealth gap when a college graduate is 25 years old, and then widens to 25% by the age of 30-35.

Even at the top end of the income distribution, Black students have higher student loans (\$4,643, on average) than white students (\$3,835, on average), and Black parents take out larger loans than white parents to help pay for their children's college (\$3,303 and \$1,903, respectively).

Tuition and Fees Account for an Increasing Share of Median Household Income



Sources: College Board, Annual Survey of Colleges; U.S. Census Bureau, "Income and Poverty in the United States: 2019," Table A-2

Note: Comparisons in 2019 USD.

These disparities are driven by the rising cost of college and the persistence of the racial wealth gap across generations. Black parents' wealth is tied more [heavily](#) to homeownership than to the stock market, which makes them less liquid and less able to finance the costs of higher education for their children. Research that compared Black and white parents in the [highest wealth quintile](#) showed that white parents had \$81,827 in financial assets, such as stock, while Black parents had just \$46,579. White parents had \$154,627 in home equity, while Black parents had just \$92,555. As a result, even Black students whose families are well-off on paper may not have the same access to resources, which contributes to higher student debt on average among Black students than their white peers.

Addressing the student debt crisis would help narrow the racial wealth gap

The burden of student debt contributes to diminishing returns on higher education for Black students and exacerbates the racial wealth gap. Addressing the student debt crisis would help to narrow the racial wealth divide.

Recent estimates show that fully erasing all student debt would result in an average Black gain in wealth of \$8,424 and a white gain of \$6,560. This translates into an initial reduction in the racial wealth gap of \$1,864. In the long run, freeing Black graduates from the burden of their student debt also frees up the share of their income that would have gone to servicing debt, creating new opportunities for investment and entrepreneurship. The Roosevelt Institute [finds](#) that the more generous debt forgiveness programs have more progressive impacts, especially for racial and ethnic minorities. This is due to a number of factors, including the fact that wealthy families rely less on student loans to pay for college.

Alternatives to debt forgiveness, like income eligibility cutoffs or income-driven repayment, are less effective at narrowing the racial wealth divide. They can add administrative barriers to lower-income borrowers and do not adequately address the differing roles of wealth and income

in non-white households. For example, high-income, low-wealth Black borrowers may not receive the same level of financial assistance if their incomes are taken into account by loan forgiveness programs.

In addition to debt forgiveness, increasing Pell Grants can help increase the number of Black college students who graduate debt-free. [Research](#) also points to several community college and public university systems that increase economic mobility for low-income students. The City University of New York system and the California State University system serve as [examples](#) of [relatively affordable](#) higher education options that help students from low-income families move up the income ladder. Although this research does not include data on race or ethnicity, these programs nevertheless serve as models for how colleges can [support](#) marginalized and asset-poor students. Given the recent push for tuition-free community college in the Senate's [budget resolution](#), policymakers should build on these successful models to better ensure that higher education helps close wealth gaps.

Structural solutions are needed to close the racial wealth divide

Policies that address the United States' legacy of structural racism are necessary to close the racial wealth gap. The sheer magnitude and persistence of the racial wealth divide means that the focus on individual achievement via education and financial literacy is insufficient to fully address entrenched racial disparities.

To start, creating a commission to study reparations with [H.R. 40](#) marks a vital step toward reckoning with the United States' legacy of slavery. Baby bonds or trusts should also be part of the solution. Opening a publicly funded, interest-bearing account for every child in America would ensure that all children have an asset to finance their education, start a business or buy a home when they turn 18—regardless of parental wealth.

Tax reform can also serve as a tool to narrow the racial wealth gap. Eliminating tax subsidies for marriage, higher education and gifts and inheritances would help address the ways the current tax code perpetuates racial inequality. For example, Black college graduates are more likely to send money to their parents, depleting their own wealth, while white college graduates are more likely to receive money from their parents, enabling them to build wealth. While the gifts and inheritances are received tax-free, the financial transfers by Black graduates to help support family members are not tax deductible.

Closing the racial wealth gap will also require increasing financial integration and means to acquire capital. Nearly two-fifths (40%) of Black Americans are unbanked or underbanked, compared to just 12% of white Americans. Housing must also part of the solution. Closing the racial wealth gap will require reversing the damage of redlining via housing and mortgage programs including down payment assistance, mortgage insurance, public housing development and [vouchers](#).