

The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap

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This article examines the mismatch between the political discourse around individual agency, education, and financial literacy, and the actual racial wealth gap. The authors argue that the racial wealth gap is rooted in socioeconomic and political structure barriers rather than a disdain for or underachievement in education or financial literacy on the part of Black Americans, as might be suggested by the conventional wisdom. Also, the article presents a stratification economic lens as an alternative to the conventional wisdom to better understand why the racial wealth gap persists. (JEL J15, Z13)

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Much of the framing around wealth disparity, including the use of alternative financial service products, focuses on the poor financial choices and decisionmaking on the part of largely Black, Latino, and poor borrowers, which is often tied to a culture of poverty thesis regarding an undervaluing and low acquisition of education.

This framing is wrong—the *directional emphasis is wrong*. It is more likely that meager economic circumstance—not poor decisionmaking or deficient knowledge—constrains choice itself and leaves borrowers with little to no other option but to use predatory and abusive alternative financial services.

To make this point, what better indicator of economic circumstance is there than wealth? Wealth serves as a primary indicator of economic security. Wealthier families are better positioned to finance elite, independent school and college educations, access capital to start a business, finance expensive medical procedures, reside in neighborhoods with higher amenities, exert political influence through campaign financing, purchase better counsel if confronted with an expensive legal system, leave a bequest, and/or withstand financial hardship resulting from any number of emergencies (Hamilton and Darity, 2009). Wealth provides

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financial agency over one's life. Simply put, wealth gives individuals and families *choice*; it provides economic security to take risks and shield against financial loss. It is analogous to what the Nobel Laureate economist Amartya Sen (2010) has referred to as a *human capability* approach to development.

Finally, wealth is iterative: It provides people with the necessary initial capital to purchase an appreciating asset, which in turn generates more and more wealth, and can be passed from one generation to the next.

The popularity of Thomas Piketty's book *Capital in the 21st Century* (2013) has brought considerable attention to the role of wealth in determining life chances and the growing worldwide problem of structural inequality that is locked in at birth as a result of laws, policies, institutions, and economic arrangement. In the U.S. context, data from the Federal Reserve's Survey of Consumer Finances indicate that in 1989 the top 10 percent of households held about two-thirds of the nation's private wealth, and by 2013 this disparity accelerated with the top 10 percent now holding about three-quarters of the nation's private wealth (Bricker et al., 2014). Moreover, the bottom half of all households owns only about 1 percent—this provides a novel way of thinking about the 1 percent.

What is frequently overlooked in these disparities is that they are even more pronounced when race is considered. In fact, race is a stronger predictor of wealth than class itself. For instance, Blacks and Latinos collectively make up about 30 percent of the U.S. population, but collectively they own about 7 percent of the nation's private wealth (Bruenig, 2013).

Despite these enormous disparities, the public sentiment seems to be that the civil rights period has largely addressed major racial structural barriers. This sentiment is coupled with the notions that Blacks need to “stop making excuses” and, ultimately, “take personal responsibility” for their low socioeconomic position. It is this trope that particularly emphasizes a group-based underappreciation and underinvestment in personal and human capital development on the part of Blacks. If Blacks (and other subaltern communities of color, such as Native Americans, Mexicans, Filipinos, Puerto Ricans, and Vietnamese) simply would reverse their self-sabotaging attitudes and behaviors, full equality could be achieved (Aja et al., 2014).

By defining the central problem facing the Black community as *not* the deep-seated structures that perpetuate racism, but rather *deficiencies* internal to Blacks themselves, the focus of policy would become the *rehabilitation of the Black family* as opposed to addressing ongoing structural barriers such as inadequate capital finance endowment (Aja et al., 2014).

It is as if, after the passage of civil rights legislation, conventional explanations for racial disparity evolved from biological to cultural determinism. For instance, a report released in February 2015, entitled the “Demographics of Wealth,” begins by characterizing middle- and older-aged, educated *Whites* and *Asians* as “thrivers” and young, less educated *Blacks* and *Latinos* as “strugglers” (Boshara et al., 2015). The problem with this language is the implicit notion that the racial wealth gap is a matter of *financial literacy, choice, and agency*, as opposed to *inheritance and structure*. It does not offer sufficient attention to the intergenerational and iterative role of wealth creation.¹

The report by Boshara et al. (2015) attributes the racial wealth gap to Blacks and Latinos investing in what they characterize as “low-return” housing assets as opposed to more “con-

servative” liquid assets. The consumption and tax-preferred status of owning a home should be noted. It is structural that a home is the first major asset in which Americans typically invest regardless of race. More importantly, Whites generally have more resources to invest—not only do they invest more in liquid assets, they also invest more in homeownership. Attributing the racial wealth gap to Whites having a more diverse asset portfolio is ambiguous, given that it is wealth in the first place that is associated with having a more diverse asset portfolio.

The report by Boshara et al. (2015) links the difference in “financial health” to the racial wealth gap, where financial health is measured by constructing an additive index based on self-reports indicating whether a respondent (i) saved last year, (ii) missed a payment last year, (iii) carried over a credit card balance at the end of a payment period, (iv) has more than 10 percent of the value of their assets in liquid form, or (v) has a debt-to-income ratio less than 40 percent. Again, the concern is reverse causality—the constructed index is at least as much a product of financial resource as it is a predictor of financial resource.

Ultimately, the conclusion that Boshara et al. (2015) have “...document[ed] profound and persistent differences in financial behaviors and financial outcomes across racial and ethnic groups in the United States” lacks an accounting for the fact that Whites have greater financial resource endowment in the first place, which is associated with both greater wealth and more diversified asset portfolios.

Financial behavior and financial literacy are practically limited for households and race groups with little to no finances to manage. Even still, Gittleman and Wolff (2004), using panel data that predate the predatory subprime and mortgage market crisis that led up to the Great Recession, find no significant racial advantage in asset appreciation rates for households with positive assets once household income is controlled. This finding is inconsistent with the notion that Blacks possess a lower financial acumen as an explanation for the racial wealth gap—and this is despite the well-documented evidence of historical and ongoing housing and lending discrimination (Bocian, Li, and Ernst, 2010; Institute on Race and Poverty, 2009; Oliver and Shapiro, 2006; Katznelson, 2005).

Also, the Gittleman and Wolff (2004) study is at odds with the belief that, in search of immediate gratification, Blacks are profligate when it comes to saving. They confirm that the savings component of wealth reveals a slight savings edge for Black households, again after adjusting for household income. This is consistent with the historical evidence generated by economists ranging from Milton Friedman (1957) to Marjorie Galenson (1972) to Marcus Alexis (1971), who all find that, after accounting for household income, Blacks have a slightly higher savings rate than Whites.

LIQUID ASSETS

When it comes to liquid assets—financial assets that can be readily converted into cash—Blacks and Latinos are nearly penniless. Based on the 2011 Survey of Income and Program Participation (SIPP), Black families have about \$200 in median liquid assets, which is over 100 times less than White families with \$23,000 in median liquid assets (Tippet et al., 2014). For Latino families, the median is only \$340, while the Asian median estimate is \$19,400.²

Moreover, if retirement savings are removed from our estimates of liquid assets, then the typical White or Asian family has only \$3,000 in liquid assets. That is dramatically larger than the \$100 and \$25 respective “financial cushions” for Latino and Black families to deal with any expected or unexpected expenses or budgetary shortfalls. To put this in context, \$25 would not be enough to feed a Black family of four for a single day (Tippet et al., 2014).

COLLEGE DEBT, INCOME VOLATILITY, AND DISCOURSE

The conventional wisdom often presumes a wide racial variance in debt as indicative of Black and Latino financial irresponsibility—however, such a presumption is not empirically valid. Tippet et al. (2014) find that 47 percent of White families reported some unsecured debt, which is slightly more than the estimates of 45, 44, and 42 percent for Blacks, Latinos, and Asian families. Moreover, after controlling for basic socioeconomic and demographic characteristics, we find no significant difference between Black and White unsecured debt holdings, while both Asian and Latino families had significantly less unsecured debt than their White family counterparts.

The SIPP data identify three categories of unsecured debt: (i) store bills and credit card debt, (ii) loans from a bank or credit union, and (iii) “other” types of debts, including student loans and medical bills. It is the “other” category where we find significant differences by race—21.5 percent for Blacks, 19 percent for Whites, 15 percent for Latinos, and 14 percent for Asians. It is important to note that this debt category represents borrowing for school and other critical needs including medical attention (Tippet et al., 2014).

Among the relatively well-off students who are able to attend college, Black students are 25 percent more likely to accumulate student debt and are, on average, borrowing over 10 percent more than their White student counterparts (Paul et al., 2016). To compound the liability of debt, Black students are one-third less likely to complete their degrees, often because of the greater financial burden that precipitated student loan borrowing in the first place; 29 percent of Black students and 35 percent of Latino students who leave college after their first year do so for financial reasons (Paul et al., 2014).

We know that not all debt is the same. In fact, some debt is indicative of good financial health. For instance, housing debt and student loan debt traditionally have provided Americans with access to financing to purchase the economic security of an appreciating asset of a house or a job in the professional or managerial sector, whereas credit card debt and other unsecured debt have traditionally been associated with the liability of an exhaustible consumption good or some other depreciating asset.

However, what we traditionally perceive as good and bad debt has different implications once we consider the following factors: race, the prevailing framework of targeting unprivileged racial groups with inferior housing and educational products, predatory finance, and ongoing housing and labor market discrimination. These factors limit the choice set and rates of returns to homeownership and a college degree, all based on race and ethnicity.³

For instance, a 2014 report from the Wisconsin HOPE lab, which studies higher education and student loan trends, finds that “[n]ot only have black students always borrowed more

Table 1**Four-Year College/University Graduation Rates within Six Years from Enrollment in 2007**

| College/university type | Student race/ethnicity (%) | | | |
|-------------------------|----------------------------|-------|--------|-------|
| | White | Black | Latino | Asian |
| Public | 60.7 | 40.3 | 50.7 | 68.0 |
| Nonprofit (private) | 68.3 | 44.7 | 60.9 | 77.0 |
| For-profit (private) | 39.9 | 22.4 | 35.0 | 43.1 |

SOURCE: Figures are based on National Center for Education Statistics (NCES); https://nces.ed.gov/programs/digest/d14/tables/dt14_326.10.asp.

than white students, for as long as the federal government has tracked these things, but the growth in take-up rates of federal student loans between 1995-96 and 2011-12 was also greater for black students than white students” (Goldrick-Rab et al., 2014). The differences are especially acute for the riskiest student loans, such as parent loans and other unsubsidized loans. These loans come with higher interest rates, fewer safeguards for managing long-term repayment, and higher rates of default (Hamilton et al., 2015).

There is also evidence that for-profit colleges and universities, which often issue misleading claims about graduation and job placement rates, disproportionately enroll and target Black students (see Huelsman, 2015).⁴ Huelsman (2015) describes for-profit college experiences as often resulting in a “low-value debt bomb,” where the average student debt is close to \$40,000, about \$15,000 more than comparable graduates at public four-year colleges accumulate and over \$6,000 more than the student debt for graduates at historically Black colleges and universities (HBCUs).

An even larger problem—particularly relevant for Black and Latino students—is accruing college debt without ultimately attaining a degree. Table 1 illustrates the college completion rates within six years of enrollment beginning in 2007 by college and university type and by race and ethnicity. Asians have the highest completion rates across all school types, while Blacks have the lowest. For-profit colleges and universities have the lowest graduation rates across all racial and ethnic groups with completion rates more than 20 percentage points less than public college enrollment for all groups. Nearly 80 percent of Black students who enroll in a for-profit four-year college will drop out within six years. Students enrolled at public colleges typically are faced with tens of thousands of dollars less in debt compared with those at for-profit schools. When queried if they would do it over again, Black and Latino borrowers indicated substantially more regret for taking out student loans than their White counterparts (Pew Charitable Trusts, 2015).

Further, the growing context of income volatility in U.S. labor markets, where Americans increasingly have less control of when and for how long they work, is even more pronounced based on race and class (Lambert et al., 2013; Hardy and Ziliak, 2014; Hardy, 2016). This makes access to short-term credit even more essential. Thus, there is greater pressure for more Americans to turn to credit cards to meet short- and long-term budgetary shortfalls.

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This pressure to resort to use of credit cards occurs despite an attitudinal disdain for credit card debt based on surveys measuring consumer attitudes toward various financial products (Pew Charitable Trusts, 2015). Worse than credit card debt, given their greater vulnerability to income volatility and little to no liquid assets, Black and Latino families have a greater need for unconventional predatory lending products such as payday loans *as a last resort* to deal with any number of financial exigencies or budgetary shortfalls.

Payday loans are marketed as short-term holdover loans until the borrower's next payday, but the big problem with these exorbitantly high interest rate products is that they often lead to debt traps that absorb more and more of the borrower's income in interest and fees until, ultimately, the borrower defaults on the original principal (Wolff, 2015). Evidence from the U.S. Financial Diaries (USFD) project indicates that these predatory products are often truly used as last-resort finance options (Morduch and Schneider, 2013).

Still, the Pew Charitable Trusts (2015) report on American debt concludes that the racial wealth gap has more to do with a lack of assets for Black and Latino families than racial variation in debt or an abundance of debt on the part of Blacks and Latinos. Instead, the report cites other research as suggesting that inheritance and other intergenerational wealth transfers benefit Whites to a much larger extent.

Nonetheless, conventional discourse upheld by Democrats, Republicans, Blacks, and Whites alike still emphasizes education and personal responsibility on the part of Blacks themselves as the mechanism to bridge the racial divide. It is a narrative that the nation's first Black president has been advancing. Take, for instance, the 2004 Democratic National Convention, when then-candidate for Illinois U.S. Senate seat Barack Obama delivered a keynote address. His speech called for American harmony, making the case that we are not red and blue states, liberals and conservatives, but rather we are the United States. Within his theme of unity, one section of the speech made mention of race:

Go into any inner-city neighborhood, and folks will tell you that government alone can't teach kids to learn.

They know that parents have to teach, that children can't achieve unless we raise their expectations and turn off the television sets and eradicate the slander that says a black youth with a book is acting white. They know those things.⁵

Obama uses the occasion of his first national platform to single out and chastise Black youths and their families as the cause of their own underachievement *with an emphasis on education*. Obama reiterated the themes of his 2004 keynote in his "More Perfect Union" speech as a presidential candidate in 2008, adding that Blacks should cease making particularistic claims on America (Hamilton and Darity, 2010).

For the African-American community, that path [to a more perfect union] means embracing the burdens of our past without becoming *victims* of our past. It means continuing to insist on a full measure of justice in every aspect of American life. But it also means *binding our particular grievances*—for better health care, and better schools, and better jobs—to the larger aspirations of all Americans—the white woman struggling to break the glass ceiling, the white man who's been laid off, the immigrant trying to feed his family. *And it means taking full responsibility for our own lives.* [Emphasis added]^{6,7}

These comments exemplify a dominant political discourse on race and racial disparity that emphasizes (i) that in the aftermath of the civil rights movement, America has largely transcended its racial divide; (ii) that whatever racial disparities remain are overwhelmingly the result of actions or inaction on the part of Blacks themselves; and (iii) that there is nothing particular about the oppression experienced by Blacks, as such Blacks should cease making particularistic claims on America (Hamilton, 2015). The implication of this discourse is a shift in public sentiment away from a public responsibility for the condition of Black America (Hamilton and Darity, 2009).

THE POLITICAL DISCOURSE OF RACE AND AFFIRMATIVE ACTION IN HIGHER EDUCATION

Take affirmative action for example. Although it is designed as a positive antidiscrimination policy aimed at desegregating elite institutions, including university admission, a common perspective among Whites and growing perspective among Blacks is that it amounts to “reverse discrimination,” where “unqualified Blacks” take the admissions slots from “qualified Whites.” Not only does this argument underscore a White entitlement to preferred positions, but it also assumes that Whites generally are “qualified,” and by default, Blacks generally are not. It ignores the historical advantage and protected access Whites continue to hold through admissions preferences for university legacies, children of donors, and other channels, which serve as examples of hidden affirmative action for the privileged group (Darity et al., 2014).

There is also the well-documented evidence from experimental psychology, developed by Claude Steele and Joshua Aronson (1995), involving the phenomena of stereotype threat, stereotype boost, and stereotype lift. Collectively, these effects demonstrate that outcomes on high-stakes standardized tests such as the SAT underestimate the achievement and college readiness for test takers from groups whom society stigmatizes as cognitively inferior and, correspondingly, it exaggerates the scores for individuals from groups whom society deems cognitively superior. The concern that elite universities are going to be overrun by “under-qualified” and “unmeritorious” Blacks should be replaced with the more alarming concern that the absence of affirmative action would likely strengthen the historical advantage and protected access for the more privileged White group.

Another popular belief is that a “fairer” form of affirmative action is to substitute family income for race as a criterion for selective college admissions. Undoubtedly, class- and race-based affirmative action policies are not *mutually exclusive* and both could contribute to desegregating elite institutions, but race-based affirmative action is specifically designed to combat persistent racial discrimination, while class-based policies are not. Indeed, Blacks from more affluent families are not insulated from racial discrimination.⁸

Despite the promise of integration, the college experience remains markedly different based on race. For instance, Black students frequently report feelings of isolation and the burden of representing their race in alien spaces on predominantly white campuses. In fact, some spaces are explicitly hostile. Recall the March 15, 2015, video of members from the Sigma Alpha Epsilon chapter at the University of Oklahoma singing, “There will never be a nigger at SAE. You can hang him from a tree, but he’ll never sign with me. There will never be a nigger

at SAE.”⁹ The SAE Oklahoma chapter was immediately closed, but the damage from this egregious case, which just happened to be caught on video, was clear (Hamilton et al., 2015).

The concerns of racial hostility on majority White campuses are not always in response to student actions. For instance, a study eventually published in the *Journal of Labor Economics* conducted by two Duke University faculty members and a graduate student (Peter Arcidiacono, Esteban Aucejo, and Kenneth Spenner, 2012) claiming that Black students at highly selective institutions tend to switch from what they deem as “harder” majors (natural sciences, engineering, and economics) to “softer” majors (humanities and social sciences) as a result of enrolled Black students possessing weaker academic backgrounds. In response to the study, the Black students at Duke protested and claimed that the study was both “hurtful and alienating.”¹⁰

Arcidiacono, Aucejo, and Spenner (2012) used SAT scores as the indicator of weaker academic preparation. The mean SAT scores for the math and verbal sections for the cohort of students examined were 1416 for White students and 1275 for Black students, a difference of only about 140 points. As pointed out earlier, the irony with the use of SAT scores is that it is the presence of the stereotype itself that severely lowers performance of Black students on the SAT. Moreover, Talia Bar and Asaf Zussman (2012) found that faculty in the natural sciences tend to assign lower grades to Black and Latino students, even after controlling for their actual SAT scores. This suggests that the ongoing stereotype of cognitive inferiority, albeit implicit or explicit, is often ascribed to Black students by faculty at predominantly White institutions (PWIs). Thus, in this context of discouragement, there are disincentives for Black students to major in science and math, irrespective of academic preparation (Darity et al., 2014).

Over 80 years ago, in his 1935 essay entitled “Does the Negro Need Separate Schools?” W.E.B. Du Bois accentuated the need for a stereotype-safe environment with a “sympathetic touch between teacher and pupil.” In Du Bois’s own words:

It is simply calling a spade a spade. It is saying in plain English: that a separate Negro school, where children are treated like human beings, trained by teachers of their own race, who know what it means to be black in the year of salvation 1935, is infinitely better than making our boys and girls doormats to be spit and trampled upon and lied to by ignorant social climbers, whose sole claim to superiority is ability to kick “niggers” when they are down. I say, too, that certain studies and discipline necessary to Negroes can seldom be found in white schools.

For Du Bois (1935) it was not a question of segregation versus integration per se; “a mixed school with poor and unsympathetic teachers with hostile public opinion...is bad,” and a segregated school with “inadequate equipment, poor salaries, and wretched housing is equally bad.” Du Bois recognized that learning environments are shaped by peer cooperation and that administrators, teachers, and students shape the culture and curriculum of the educational process by influencing students’ norms, motivations, aspirations, and educational content (Hamilton, 2014).

HISTORICALLY BLACK COLLEGES AND UNIVERSITIES AND ALUMNI DONOR CAPACITY

Rather than living up to a self-fulfilling prophecy of anticipated academic failure by Black students, HBCUs offer Black students the potential of a “stereotype-safe” environment

with a faculty and curriculum “sympathetic” to their achievement and relevant to their life experience. Given the continuance of racial hostility as vividly exemplified by the leaked video of the University of Oklahoma SAE chapter and the ongoing societal presumption of Black cognitive inferiority maintained on many college campuses, HBCUs have clearly not outlived their purpose. For many Black students, they are safer and more nurturing places. This may explain why modestly resourced Xavier University, a historically Black college in New Orleans, with only about 3,000 students, leads the nation in producing Black graduates who eventually graduate from medical school (Hamilton et al., 2015).

Many HBCUs began educating Blacks during the insidious Jim Crow era when most institutions of higher education were reserved for Whites only.¹¹ HBCUs continued to serve many low-income and first-generation college students well past the civil rights era. The schools remain a vital source of Black professionals, including physicians and scholars. Unfortunately, the era of state and federal austerity politics has left many HBCUs particularly vulnerable to financial exigency or extinction. For instance, in 2011 the U.S. Department of Education made changes to the length of time Pell grants can be used by college students, followed by more stringent parameters attached to the Parent PLUS Loan program in 2012. These changes corresponded with large drops in enrollment at many HBCUs with some students forced to drop out at mid-semester. The changes may end up exacerbating the already large endowment differentials between HBCUs and PWIs. The top 10 HBCU endowments range from \$586 million to \$38 million compared with \$32 billion to \$6 billion for PWIs, while in the past 20 years the endowment gap between PWIs and HBCUs has doubled (Ash et al., 2015).

As punitive and austerity reforms continue to permeate U.S. higher education policy, a general attitude concerning HBCUs is that if they cannot support themselves independently, then they should be eliminated. If they are to survive, an underlying sentiment is that alumni giving must rise.¹² The question is not willingness but “Does the alumni base of HBCUs have the wealth capacity to ‘save’ HBCUs?” (Hamilton et al., 2015).

According to the 2013 SIPP data, the typical Black family holds about \$7,113 in net worth—a mere 6 cents for every dollar of wealth held by the typical White family, whose median net worth exceeds \$100,000 (Tippet et al., 2014). Even for families whose head earned a college degree (the alumni donor base for colleges), the typical Black family has only about \$23,400 in wealth, while the typical White family has close to 8 times that amount with a White median wealth of \$180,500. This amounts to a difference of about \$160,000 between these similarly educated households.

Finally, when we compare family wealth for heads of household who earned a graduate or professional degree, the disparities, and hence resources to give, are even larger. The typical White family with a head who has a graduate or professional degree has greater than \$200,000 more wealth than the typical similarly educated Black family—\$293,100 versus \$84,000 in median wealth (Hamilton et al., 2014). Also, the vast majority of the limited wealth of similarly educated (graduate degree) Black families is held in home equity, money that cannot be tapped for alumni donation: The typical Black family only has \$200 in liquid wealth inclusive of their retirement savings.

As described earlier, the relatively low Black net worth is not due to a Black propensity for profligacy. After accounting for income, the best available evidence indicates that there is

little difference in Black and White savings rates—and in some income categories, the Black savings rate is slightly higher. Moreover, research by Steinberg and Wilhelm (2005) finds that “If anything, Black families are slightly more generous [than white families] (\$1,363 per family versus \$1,325).” Also, the work by Ngina Chiteji and Darrick Hamilton (2002) demonstrates that if we expand our notion of charitable giving to include relatives and friends in need, Black families have even fewer resources to give as a result of having substantially more kin in need than their White middle-income counterparts. Basically, Black alumni are not *failing* Black colleges; rather, the legacy of the racial wealth gap has left the Black community with markedly lower financial resources and higher financial need.

THE POLITICS OF PERSONAL RESPONSIBILITY, EDUCATION, AND AUSTERITY

Ultimately, by defining the central problem facing the Black community, as not the deep-seated structures that perpetuate racism and inequality, but, rather, deficiencies internal to Blacks themselves, the focus of policy becomes the *rehabilitation* of the Black family. Herein lies much of the rationale for *austerity* policies: If behavioral modification, particularly with regard to personal and human capital investment, is the central issue, why fund government agencies and programs, which, at best, *misallocate* resources to *irresponsible* individuals and, at worst, create dependencies that further fuel irresponsible behavior? As a result, *laissez-faire*, austerity, and intervention policies such as President Obama’s “My Brother’s Keeper” initiative—which ignores the plight of Black women altogether and attempts to incentivize so-called defective Black males to be more “employable” rather than addressing the labor market conditions that they face—are all consistent with the economic orthodoxy of market primacy and a focus on the individual in allocations and distributions (Aja et al., 2014).

Yet, over the past 40 years, regardless of education, the Black unemployment rate has remained roughly twice as high as the White rate. There has been only one year, 1999, in which the Black unemployment rate has been below 8.0 percent. In contrast, there have been only four years in which the White rate has reached 8.0 percent. If 8.0 percent is the demarcation of calamity—as Republican pundits declared during the 2012 election cycle—then Black Americans are in a *perpetual* state of employment crisis (Hamilton, 2016).

Despite these enormous disparities in employment, discourse has focused primarily on education as the driver of upward mobility. The presumption is that if Blacks were more responsible, made better financial decisions, and were more focused on education, they could get a good job and pursue a pathway of economic security. Yet, at every level of education, the Black unemployment rate is about twice as high as the White rate. Furthermore, Census data reveal that White high school dropouts have lower unemployment rates than Blacks who have completed some college or earned an associate’s degree.

Education is far from a cure-all. A report by Janelle Jones and John Schmitt (2014), entitled “A College Degree Is No Guarantee,” indicates that the unemployment rate for Black recent college graduates exceeds 12 percent and is as high as 10 percent for Black recent grads with science-, technology-, engineering-, or math-related (STEM) majors.

Our recent research brief, entitled “Umbrellas Don’t Make It Rain: Why Studying and Working Hard Isn’t Enough for Black Americans,” critiques the preponderance of research and public policy that asserts that education and hard work are the *drivers* of upward mobility, especially as it relates to racial and ethnic disparity (Hamilton et al., 2014). The title is meant to highlight that simply observing higher levels of education among wealthier individuals does not necessarily mean that educational attainment leads to wealth. In fact, it seems quite reasonable that high levels of wealth predispose individuals and families to have greater access to higher levels of education.

Our report (Hamilton et al., 2014) highlights that the median wealth for Black families whose head earned a college degree is only about two-thirds of the median wealth of White families whose head dropped out of high school—it amounts to a difference of more than \$10,000 (\$34,700 vs. \$23,400). A college degree is positively associated with wealth within race, but it does little to address the massive wealth gap across race. It is noteworthy that a “good” job is not the great equalizer either. Income-poor White families have more wealth than middle-income Black families (\$15,000 vs. \$13,800). The typical White family whose head is unemployed has nearly twice the wealth as the typical Black family whose head is employed full-time (about \$23,000 vs. \$12,000). The typical Black family whose head is unemployed has zero wealth to deal with their financial calamity (Hamilton et al., 2014).

In essence, education is not the *antidote* for the enormous racial gaps in wealth and employment. None of this is intended to diminish the *value* of education. There is a clear *intrinsic* value to education, along with a public responsibility to expose everyone to a high-quality education that teaches them to synthesize and fuse information into big ideas, with encouraging teachers trained to deliver curriculum from grade school through college (Hamilton, 2014).

Another of our recent reports, entitled “Bootstraps Are for Black Kids,” with Yunju Nam as the lead author, addresses the trope that Black communities devalue education (Nam et al., 2015). We use the Panel Study of Income Dynamics (PSID) to document that Black parents with more limited resources display a greater inclination to provide financial support for their adult children’s education than their White counterparts—the PSID queried respondents as to whether they received financial support from their parents for their education as an adult. We find that the median wealth of Black parents who *did* provide financial support for their child’s adult education is \$25,000, and substantially less than the \$74,000 value for White parents who *did not* provide financial support. And, it is only about 15 percent of the \$168,000 median value of the wealth of White parents who did provide financial support for their adult children’s higher education.

Receipt of financial support has important implications with regard to educational attainment and racial disparities in educational attainment. For the White respondents who *did not* receive parental support, about 25 percent attained a college degree and 8 percent a graduate degree. This is significantly higher than the 11 percent of Black college graduates and 2 percent of Black graduate school graduates who *did not* receive parental support. In contrast, irrespective of the transfer amount, there is no significant difference in educational attainment between Black and White respondents who both received parental financial for higher education—about two-thirds of each group attained a college degree and a little more than a quarter attained a graduate degree. Receipt of parental financial support for higher edu-

cation is essentially associated with closing the racial higher education attainment gap.

Evidence from social science research confirms that Black students and their families are doing more with less when it comes to educational attainment. Research by economist Patrick Mason (1997) and sociologists Dalton Conley (1999) and William Mangino (2010) demonstrates that Blacks attain more years of schooling and credentials than Whites from families with comparable resources.

Clearly, it has been a myth that Black families do not value education, but also problematic is the societal overemphasis on the *economic returns to education* as the panacea to address socially established structural barriers of racial economic inclusion.

AN ALTERNATIVE APPROACH FROM THE LENS OF STRATIFICATION ECONOMICS

This directly follows from a neoliberal perspective, where the free market, as long as individual agents are properly incentivized, is supposed to be the solution to all our problems, economic or otherwise. The transcendence of Barack Obama becomes the ideal symbolism and spokesperson of this political perspective. His ascendancy becomes an allegory of *hard work, merit, efficiency, social mobility, freedom and fairness, individual agency, and personal responsibility*. The neoliberal ideology is not limited to race. It more generally places the onus on individual actions, and more broadly leads to deficiency narratives for low achievement, but this is especially the case when considering race and other stigmatized workers. Perhaps the greatest rhetorical victory of this paradigm is convincing the masses that implicit in unfettered markets is the “American Dream”—the *hope* that, even if your lot in life is subpar, with patience and individual hard work, you can turn your proverbial “rags into riches.”

The emerging subfield of *stratification economics* offers a different interpretation. It expands the boundaries of how economists analyze intergroup differences and provides a different approach to understanding its persistency (Darity et al., 2015; Darity, 2005). It is an approach that goes beyond individual optimizations and fuses insights from multiple social sciences to examine collective group actions and processes.

Stratification economics incorporates (i) group identification and identity formation from sociology, (ii) self-interested behavior and substantive rationality from economics, and (iii) from social psychology, an emphasis of widely held social beliefs about one’s group and how affinity toward one’s group may impact individual productivity and performance—particularly through the effects of *cognitive dissonance, implicit bias, and stereotype threat* (Darity et al., 2015). Stratification economics differs from orthodox economics in the presumption of an *irrationality* of discrimination stemming largely from the view that group-based identity is a predetermined exogenous trait. In contrast, stratification economics presumes a *rationality* of discrimination—that discrimination serves a *functional* role in maintaining social hierarchy and promoting the privileged group’s relative class status (Darity, 2005). Ironically, it is this presumption of *rationality* that better allows stratification economics to explain persistent group inequality and to understand how markets themselves may be exploited to actually reinforce inequality. Race prejudice constitutes a defensive reaction, it is a protective mecha-

nism, and it serves the *function* of preserving or enhancing the relative position of the dominant group.

Ultimately, the overemphasis on *individual optimization* and the underemphasis on *group formation and collective action* lead orthodox economists to accentuate differences in individual attributes such as human capital endowment, motivation, and attitudes as explanations for intergroup differences. Stratification economists look beyond individual factors and investigate structural and contextual factors that preserve the relative status of dominant groups *through intergenerational resource transfers* and *exclusionary practices* to explain intergroup disparity (Darity et al., 2015).

Inheritance, bequest, and in vivo transfer account for more of the racial wealth gap than any other behavioral, demographic, or socioeconomic indicator (see, for example, Blau and Graham, 1990; Menchik and Jianakoplos, 1997; Gittleman and Wolff, 2004). The intergenerational racial wealth gap was structurally created and has virtually nothing to do with individual or racialized *choices*. The source of inequality is structural, not behavioral—intrafamily transfers provide some young adults with the capital to purchase a wealth-generating asset such as a home, a new business, or a debt-free college education that will appreciate over a lifetime. Access to this non-merit-based seed money is not based on some action or inaction on the part of the individual, but rather the familial position into which they are born (Aja et al., 2014).

We have advocated for “baby bonds” (i.e., a substantial Child Trust Account Program that is set at birth) to address the enormous racial wealth gap. Baby bonds are designed to provide an opportunity to purchase an appreciating asset for all newborns. The program is analogous to a social security program that would provide capital finance for young adults to begin a lifetime of building assets and economic security independent of the financial positioning and decisionmaking of the families into which they are born (Hamilton and Darity, 2010).

The program would be universal, but the amount of the account would be graduated on the basis of the child’s parental wealth. We envision endowing American newborns with an average account of \$20,000 that gradationally rises to \$60,000 for babies born into the most wealth-poor families. The accounts would be federally managed and grow at a guaranteed annual interest rate of 1.5 to 2 percent. The accounts could be accessed when the child becomes an adult and used for asset-enhancing endeavors, such as purchasing a home, starting a new business, or financing a debt-free college education. Baby bonds could be fully funded by a more equitable allocation of what the federal government already spends on asset development. About \$500 billion of the U.S. federal budget in the form of tax subsidies and savings is used to promote asset-development policies, with more than half of the benefits going to the top 5 percent of earners and the bottom 60 percent of earners receiving only about 5 percent (Corporation for Enterprise Development, 2004; Woo et al., 2010).

The bulk of this allocation comes from items such as mortgage interest deductions, exclusion of investment income on life insurance and annuity contracts, reduced rates of tax on dividends and long-term capital gains, and exclusion of capital gains at death. If the existing federal asset-promotion budget were allocated in a more progressive manner, federal policies would go a long way toward eliminating racial disparities and building an inclusive economy for all Americans.

CONCLUSION

Wealth is a major determinant of one's life changes—improving access to higher education has intrinsic value, but alone will do little to address the massive racial wealth gap. Despite the conventional wisdom, the intergenerational racial wealth gap was structurally created and has little to nothing to do with individual or racialized behavior. To live up to the American promise of economic opportunity and upward mobility for all, we need a bold solution, such as substantial child trust accounts that provide seed capital to purchase the economic security of an appreciating asset for all Americans. ■

NOTES

- ¹ It is noteworthy that more recent work by researchers at the Federal Reserve Bank of St. Louis has been probing the issue of individual choice versus circumstance with regard to finance (see, for instance, Emmons et al., 2016).
- ² The SIPP is one of the few national datasets in which asset and debt information can be robustly measured for Asian-Americans. Led by William Darity, Jr. and Darrick Hamilton, the National Asset Scorecard for Communities of Color (NASCC) project reveals that the asset and debt position of broadly defined ethnic/racial groups varies considerably based on ancestral origin and metropolitan area. For instance, the “Color of Wealth in Los Angeles” report (http://www.aasc.ucla.edu/besol/Color_of_Wealth_Report.pdf) indicates that the median liquid wealth for Asian subcategories ranges from as high as \$245,000 for Asian Indian descendants to \$3,000 and \$500, respectively, for Korean and Vietnamese descendants (De La Cruz-Viesca et al., 2016). In contrast, the “Color of Wealth in the Nation’s Capital” report estimates a median liquid wealth of \$22,000, \$75,000, and \$35,000, respectively, for Asian Indian, Korean, and Vietnamese descendant families (Kijakazi et al., 2016).
- ³ A report by the Pew Charitable Trusts (2015) entitled “The Complex Story of American Debt: Liabilities in Family Balance Sheets” cites research as suggesting: “...that white families have better access to mortgages, and credit generally, than black and Hispanic families. Even if mortgages are secured, black and Hispanic homeowners experience higher rates of foreclosure and housing distress than white families, in part because they receive riskier loans. Further, home equity for black homeowners has not increased at the same rate as it has for white homeowners largely because home values in minority neighborhoods have been slow to recover since the housing crisis, and so have generated lower returns on mortgage debt. Other research suggests that inheritance and other intergenerational wealth transfers often benefit white families more than black families.”
As a result of the higher finance costs and lower appreciation, Dorothy Brown (2012), a professor of tax law at Emory University, urges caution for those promoting homeownership as a mechanism to bridge the racial wealth gap. Brown asserts that “[p]ut simply, the market penalizes integration: The higher the percentage of blacks in the neighborhood, the less the home is worth, even when researchers control for age, social class, household structure, and geography.”
- ⁴ Huelsman (2015) states that “[t]he University of Phoenix, for example, was spending as much as \$400,000 a day on advertising. Ads for these colleges were ubiquitous in communities of color, on commercials for daytime television programs, at bus stops and subways, and in other places where black and brown people congregated. They enlisted leaders in the black community to advertise on their behalf, as comedian and television host Steve Harvey has for Strayer University, or as Al Sharpton did when devoting glowing television coverage to the University of Phoenix in a special that was sponsored by the for-profit behemoth.”
- ⁵ “Transcript: Illinois Senate Candidate Barack Obama.” *Washington Post*, July 27, 2004; <http://www.washingtonpost.com/wp-dyn/articles/A19751-2004Jul27.html>.
- ⁶ See the transcript above.
- ⁷ This discourse is not unique to Obama, nor is he the first to initiate it. He is singled out here, in part, to demonstrate that it is not a rhetoric unique to White or politically right individuals, but rather, that it cuts across race and the political spectrum; and further because he commands the “bully pulpit” from the prestigious office of the president. The theme of “personal responsibility” on the part of Black people appears to be a common theme in President Obama’s speeches regarding racial disparity. Examples include his 2008 Father’s Day speech as U.S. Senator (<http://www.politico.com/story/2008/06/text-of-obamas-fatherhood-speech-011094>); his 2009 NAACP Centennial

Convention address; his 2013 Morehouse College commencement speech; and most recently his April 2016 remarks in a town hall meeting with young leaders in the United Kingdom, where, when queried about the US #BlackLivesMatter social movement, he opined that representatives of the movement "...can't just keep on yelling... The value of social movements and activism is to get you at the table... You, then, have a responsibility to prepare an agenda that is achievable." (Emphasis added; speeches can be found at <https://obamawhitehouse.archives.gov/>)

- ⁸ See Aja et al. (2013) for an opinion piece that advocates wealth as opposed to income for those genuinely interested in class-based affirmative action.
- ⁹ Moyer, Justin W. "University of Oklahoma Fraternity Closed After Racist Chant." *Washington Post*, March 9, 2015; <https://www.washingtonpost.com/news/morning-mix/wp/2015/03/09/university-of-oklahoma-fraternity-suspended-after-racist-chant/>.
- ¹⁰ Shea, Christopher. "Duke Affirmative-Action Study Angers Some Students." *Ideas Market* (blog), *Wall Street Journal*, January 17, 2012; <http://blogs.wsj.com/ideas-market/2012/01/17/duke-affirmative-action-study-angers-some-students/>.
- ¹¹ Ira Katznelson's *When Affirmative Action Was White* (2005) documents that, by 1950, the GI Bill generated more spending on education than the Marshall Plan that rebuilt Europe. While this financial stimulus led to exponential growth of historically White colleges and universities, racially unequal distribution of GI benefits along with insufficient Jim-Crow-segregated housing constrained the ability of HBCUs to grow and the capacity to accommodate black veterans (Hamilton et al., 2015).
- ¹² For instance, in 2012, the U.S. Department of Education made changes to the length of time Pell grants can be used and issued more stringent parameters attached to the Parent Plus Loan program. This had a harsh effect on HBCU enrollment and endowment. See Downey, Maureen. "As Morehouse and Spelman Graduate, Consider Fate and Funding of HBCUs." *Get Schooled* (blog), *Atlanta Journal Constitution*, May 17, 2015; <http://getschooled.blog.myajc.com/2015/05/17/as-morehouse-and-selman-graduate-consider-fate-and-funding-of-hbcus/>.

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