

The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap
by
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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 decision-making on the part of, largely, black, Latino and poor borrowers, which is often tied to a culture of poverty thesis regarding an undervalue for and low acquisition of education.

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

To make this point, what better indicator of economic circumstance 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 higher amenity neighborhoods, 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 financial agency over ones 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 problem around the world 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 Finance* indicates that in 1989 the top ten percent of households held about two-thirds of the nation's private wealth, and by 2013 this disparity accelerated with the top ten 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 one percent – this provides a novel way of thinking about the one percent.

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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 own about seven 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 underappreciating and underinvestment in personal and human capital development on the part of blacks. If blacks (and other subaltern communities of color, like 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 on-going structural barriers such as in adequate 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.

The report attributes the racial wealth gap to blacks and Latinos investing in what they characterize as “low-return” housing assets as opposed to more “conservative” 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 links difference in “financial health” to the racial wealth gap; where financial health is measured by constructing an additive index based on self-reports indicating if a respondent (1) saved last year, (2) missed a payment last year, (3) carried over a credit card balance at the end of a payment period, (4) has more than

ten percent of the value of their assets in liquid form, or (5) 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 the authors 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 predates 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; and 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 1000 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 \$19,400.¹ Moreover, if retirement savings are

¹ SIPP is one of the few national data sets 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 indicates that the median liquid wealth for

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, twenty-five dollars 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) finds that 47 percent of white families reported having 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 identifies three categories of unsecured debt: (1) store bills and credit card debt; (2) loans from a bank or credit union; and, (3) “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 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 on average borrowing over 10 percent more than their white students counterpart (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 finance to purchase the economic security of an

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 Washington, DC 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., *forthcoming*).

appreciating asset of a house or a job in the professional or managerial sector; whereas credit card debt and other unsecuritized debt have traditionally been associated with the liability of an exhaustible consumption good or some other depreciating asset.

However, what we traditionally conceive of as good and bad debt has different implications once we consider race, and the prevailing framework of targeting unprivileged racial groups with inferior housing and educational products, predatory finance, as well as ongoing housing and labor market discrimination that limits the choice set and rate of returns to home ownership and a college degree based on race and ethnicity.²

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 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 most risky 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).³ Huelsman (2015) describes

² 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.”

³ 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

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, and over \$6,000 more than 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. The table below 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 school enrollment for all groups. Nearly 80 percent of black students who enroll in a for-profit four-year college will dropout within six years. Students enrolled at public colleges typically are faced with tens of thousands of dollars less in debt in comparison to for-profit schools. When queried if they had to do it over again, would they, black and Latino borrowers indicated substantially more regret for taking out student loans than their white counterparts (Pew Charitable Trusts, 2015).

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
Non-Profit (Private)	68.3	44.7	60.9	77.0
For-Profit (Private)	39.9	22.4	35.0	43.1

* Based on National Center for Education Statistics (NCES)

https://nces.ed.gov/programs/digest/d14/tables/dt14_326.10.asp

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; and 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 shortfall.

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.”

This is despite an attitudinal disdain for credit card debt based on surveys measuring consumer attitudes towards various financial products (Pew Charitable Trust, 2015). Worse than credit card debt, given their greater vulnerability to income volatility and having little to no liquid assets, to a greater extent, black and Latino families have greater need for unconventional predatory lending products like 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 borrowers 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 principle (Wolff, 2015). Evidence from the U.S. Financial Diaries (USFD) project indicates that these predatory products are often truly utilized as a last resort finance option (Morduch and Schneider, 2013).

Yet in 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 as benefiting 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 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...”⁴

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

⁴ <http://www.washingtonpost.com/wp-dyn/articles/A19751-2004jul27.html>

“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]^{5,6}

The above exemplifies a dominant political discourse on race, and racial disparity that emphasizes; (1) in the aftermath of the civil rights movement, America has largely transcended its racial divide; (2) that whatever racial disparities remain are overwhelmingly the result of actions or inaction on the part of blacks themselves, and (3) 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

⁵ <http://www.washingtonpost.com/wp-dyn/articles/A19751-2004jul27.html>

⁶ 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>); 2009 NAACP Centennial Convention address (<https://www.whitehouse.gov/the-press-office/remarks-president-naacp-centennial-convention-07162009>); 2013 Morehouse College commencement speech (<http://blogs.wsj.com/washwire/2013/05/20/transcript-obamas-commencement-speech-at-morehouse-college/>); and most recently his April 2016 remarks in town hall with young leaders in the UK, 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...(<https://www.whitehouse.gov/the-press-office/2016/04/23/remarks-president-obama-town-hall-young-leaders-uk>).” [emphasis added]

Take affirmative action for example. Although it is designed as a positive anti-discrimination policy aimed at desegregating elite institutions, including university admission. A common perspective amongst whites and growing perspective amongst 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 via 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, like 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 over-run 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 “more fair” 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.⁷

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 video that was exposed in March 2015 of members from the Sigma Alpha Epsilon chapter at the University of Oklahoma signing, “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

⁷ 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.

SAE.”⁸ 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 that was 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.”⁹

The authors 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 that they examined was 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, a study by 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. There is an ongoing stereotype of cognitive inferiority, albeit implicit or explicit, that is often ascribed to black students by faculty at predominantly white institutions. 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' 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

⁸ <https://www.washingtonpost.com/news/morning-mix/wp/2015/03/09/university-of-oklahoma-fraternity-suspended-after-racist-chant/>

⁹ <http://blogs.wsj.com/ideas-market/2012/01/17/duke-affirmative-action-study-angers-some-students/>

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 student's norms, motivations, aspirations and educational content (Hamilton, 2014).

Historically Black Colleges and Universities (HBCUs) 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, LA, 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.¹⁰ 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 have 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 mid-semester – the changes may end up exacerbating the already large endowment differentials between HBCUs and predominantly white

¹⁰ 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 capacity to accommodate black veterans (Hamilton et al., 2015).

institutions (PWIs). The top 10 HBCU endowments range from \$586 to \$38 million in comparison to \$32 to \$6 billion for PWIs, while in the last 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. 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 head of households that earned a graduate or professional degree the disparities, and hence resources to give, are even larger. The typical white family with a head that has a graduate or professional degree has greater than \$200,000 more wealth than the typical similarly educated black families – \$293,100 versus \$84,000 in median wealth (Hamilton et al., 2014). Also, the vast majority of their limited wealth 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 less 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 rendered 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 regards 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 like the president's "My Brother's Keeper" initiative – which, ignores the plight of black women altogether, and attempt 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 forty 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 only been 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).

In spite of 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 reveals that white high school dropouts have lower unemployment rates than blacks that have completed some college or earned an associate's degree.

Education is far from a cure-all. A report by Janelle Jones and John Schmit (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 ten 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 amongst wealthier individuals does not necessarily mean that educational attainment leads to wealth. In fact, it seems quite reasonable that having high levels of wealth predisposes individuals and families to have greater access to higher levels of education.

The report 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 v. \$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 v. \$13,800). And 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 versus \$12,000. While the typical black family whose head is unemployed has zero wealth to tell 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 with 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 one of our recent reports entitled “Bootstraps are for Black Kids” with Yunju Nam as the lead author address the trope that the black communities devalues education (Nam et al., 2015). We document using the Panel Study of Income Dynamics (PSID) 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 implication with regards 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 eight percent a graduate degree. This is significantly higher than the eleven percent of black college graduates and two 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 school degree. Receipt of parental financial support for higher education 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 leads to deficiency narratives for low achievement more broadly, 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 group identification and identity formation from sociology; self-interested behavior and substantive rationality from economics; and, from social psychology, an emphasis of social beliefs widely held about ones group and how affinity towards ones group may impact individual productivity and performance – particularly via 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 pre-determined 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-

ables stratification economics to explain persistent group inequality, and understand how markets themselves may be exploited to actually reinforce inequality. Race prejudice constitutes a defensive reaction, it is a protective mechanism, and it serves the *function* of preserving or enhancing the relative position of the dominant group.

Ultimately, the over-emphasis on *individual optimization* and the under-emphasis on *group formation and collective action* leads orthodox economists to accentuate differences in individual attributes like 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 *via intergenerational resource transfers* and *exclusionary practices* to explain intergroup disparity (Darity et al., 2015).

Inheritance, bequests and in-vivo transfer account for more of the racial wealth gap than any other behavioral, demographic or socioeconomic indicator (see for examples, 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 – intra-family transfers provide some young adults with capital to purchase a wealth-generating asset like 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 in 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 decision making of the families in 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 upwards 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 1.5–2 percent. The accounts could be accessed when the child becomes an adult and used for asset-enhancing endeavors, such as purchasing a home or 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 are 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 (CFED, 2004; Woo et al., 2010).

The bulk of this allocation comes from items like 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.

In conclusion, wealth is a major determinant of ones 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. In order 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 account that provides seed capital to purchase the economic security of an appreciating asset for all American.

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