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Assets and liabilities, race/ethnicity, and children's college education

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ABSTRACT

This study examines the extent to which household assets and liabilities are related to disparities in children's college attendance and college graduation among White, Black, and Hispanic families. Results indicate that, after household assets are considered, a substantial portion of the Black–White gap in college attendance and college graduation disappears, and a small portion of the Hispanic–White gap in college graduation also disappears. Separate analyses of children from each racial/ethnic group further indicate that family income and financial assets are related to White children's college attendance and graduation, but nonfinancial assets and unsecured debt are associated with college attendance and graduation among Black and Hispanic children. Policy implications are considered.

1. Introduction

College education has become progressively more important for long-term economic success (College Board, 2007; Hertz, 2006; Kane, 2004; U.S. Census Bureau, 2009a). Despite the growing number of Blacks and Hispanics who enroll in college, there are still marked racial disparities in college education (U.S. Census Bureau, 2009b). For example, in 2007, among people 25 years old and over, about 32% non-Hispanic Whites had graduated from high school, 55% had at least some college education, and 29% had a Bachelor's degree or above. In comparison, 36% of Blacks were high school graduates, 46% had at least some type of postsecondary schooling, and 19% had a Bachelor's degree or above. Hispanics were at still greater disadvantage —their comparable numbers were 28%, 32%, and 13%, respectively. Thus, these educational attainment rates document that the racial/ethnic gap in college graduation exceeds the high school graduation gap. In fact, 29% of Whites had completed a Bachelor's degree, in comparison to 19% of Blacks, and 13% of Hispanics.

This disparity in college completion among those from different racial/ethnic backgrounds has important individual consequences (e.g., economic success, health) and societal consequences (e.g., racial inequality, skills of the workforce) (College Board, 2007). For this reason, many studies have examined mechanisms that may explain racial differences in children's educational achievement. In addition to parental education, occupations, and family income, household assets are receiving increasing attention (e.g., Kane, 1994; Orr, 2003; Yeung & Conley, 2008).

There are wide racial disparities in asset holdings. In 2000, although Hispanic households comprised more than 9% of all households, and Black households comprised more than 12%, their combined wealth represented only 3% of total household wealth (Leigh, 2006). Data from the Survey of Consumer Finances also reveal large racial/ethnic gaps in median household assets. In 2007, the median Hispanic and Black household had a net worth of $21,000 and $17,100 respectively, compared to $170,400 for White households (Federal Reserve Board, 2009). Thus, Hispanics and Blacks hold median net worth that is, respectively, 12% and 10% that of whites. Gaps are evident for all types of assets, and in both asset ownership and asset values. Given these striking racial/ethnic gaps in assets, along with emerging theories and empirical evidence that show the importance of household assets in children's education (e.g., Conley, 2001; Oliver & Shapiro, 2006; Sherraden, 1991; Zhan & Sherraden, 2003), examining racial/ethnic disparities in college education in relation to assets is worthwhile.

In this study, we aim to examine the associations between assets and children's college education from White, Black, and Hispanic families. Specifically, we investigate the following two research questions. First, are household assets (financial and nonfinancial assets) and liabilities (secured and unsecured debt) associated with disparities in college attendance and college graduation among White, Black, and Hispanic children? Financial assets refer to savings accounts and other savings such as CDs, stocks, and retirement savings, and nonfinancial assets include such assets as vehicles, properties, and businesses. Secured debt refers to a debt that is associated with the purchase of an asset such as a loan on a home or vehicle, while unsecured debt refers to consumer debt such as a credit card balance. Second, do assets and liabilities have differential links to college education for children from White, Black, and Hispanic families?

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This research contributes to research knowledge in several ways. Existing studies in this area have examined associations between household assets and the Black–White gaps in test scores (e.g., Orr, 2003; Phillips, Brooks-Gunn, Duncan, Klebanov, & Crane, 1998; Williams Shanks, 2007; Yeung & Conley, 2008), but few studies examine college education. In particular, no prior studies examine how Hispanic–White disparities in children's education are associated with household assets. Addressing this issue is fundamental because Hispanics have emerged as the largest minority in the United States (U.S. Census Bureau, 2010), and among all racial/ethnic groups, Hispanic children on average have the lowest educational attainment (Fry, 2004; Grogger & Trejo, 2002; Schneider, Martinez, & Ownes, 2006).

Second, we extend previous analyses by asking how two types of assets (financial vs. nonfinancial assets) as well as two types of liabilities (secured vs. unsecured debt) correlate to racial disparities in children's college education. Different types of assets and liabilities may have distinct relationships with children's education (Gruber, 2001; Nam & Huang, 2009; Sherraden, 1991; Yeung & Conley, 2008). Thus, it is worthwhile to investigate differential links of various forms of assets and liabilities to racial/ethnic gaps in college education.

Third, we investigate whether associations of assets and liabilities with children's education vary among different racial/ethnic groups. Such variations could be due in part to different patterns of asset and liability holdings, and/or different returns to assets among various racial/ethnic families (Carasso & McKernan, 2008; Keister, 2000). Differential relationships of assets and liabilities with children's education could also result from different life circumstances of these families.

2. Previous scholarship

2.1. Rationale

Household assets may influence children's educational attainment by enabling short-term and long-term investments in children's college education. Household assets may also affect children's education via influence on child development and the learning environment (Aaronson, 2000; Shapiro & Johnson, 2005), and/or via parenting expectations and practices, as well as the children's own educational aspirations and expectations (Elliott, 2008; Yeung & Hofferth, 1998; Zhan, 2006).

Household assets from various sources and in various functional forms may affect children's education in different ways (Sherraden, 1991; Yeung & Conley, 2008). Financial assets, which are more easily converted to cash, are likely to be important financial resources for children's education (Nam & Huang, 2009; Yeung & Conley, 2008). Nonfinancial assets, on the other hand, may facilitate borrowing by providing collateral to lenders (Cha, Weagley, & Reynolds, 2005; Nam & Huang, 2009), and may signal a better developmental environment for children, e.g., the quality of homes, neighborhoods, and schools. Because of the limited assets in most minority families, resources and opportunities for children's education are also limited (Oliver & Shapiro, 2006; Shapiro, 2004). For example, Shapiro (2004) indicates that Black children are less likely to have "transformative opportunities" in education, particularly through enrollment in better-quality schools, because their parents hold fewer assets.

Liabilities, including both secured and unsecured debt, may have more complicated relationships with children's education. The impact of secured debt, which is linked to certain types of asset purchases (such as a home or a vehicle), is dependent on the value of an asset (e.g., house value) in relation to its associated debt (in this case, a mortgage) and dependent on whether families have the economic resources to meet the required debt service payments (Carasso & McKernan, 2008). Unsecured debt is important in smoothing consumption and providing resources for children's education during economic difficulties (Mayer & Jencks, 1989; Sullivan, 2005). However, families with debt, especially large debt, could be constrained in their ability to obtain a loan in the future (Gruber, 2001; Nam & Huang, 2009). Since the debt-to-assets ratio among Black and Hispanic families is higher than that of White families (Garcia, 2008; Wheary & Draut, 2007), debt may affect children's college education more negatively among minority families.

In addition to the importance of assets and liabilities in explaining children's educational opportunities and outcomes, some portion of the educational achievement gap may be attributed to differences in returns of household assets to children's education. In other words, children from minority families may benefit differently from household assets and liabilities compared to White children. This could be due in part to different compositions of assets among various racial/ethnic groups (Brown, 2007; Carasso & McKernan, 2008; Choudhury, 2002; Keister, 2000; Martin, 2009). For example, whites are more likely to own risky but higher-return assets (such as equities) compared to Blacks and Hispanics. Furthermore, residential segregation and discrimination in the housing and lending markets may result in lower returns on housing assets among minority families (Oliver & Shapiro, 2006). Finally, the impact of assets on economic well-being could be different among families with various life and cultural circumstances (Edin, 2001; Zhan, 2006), and this may affect the relationship between assets and children's college education.

2.2. Assets and racial/ethnic gaps in education

Existing studies on race/ethnicity and educational gaps have focused on associations between household assets and Black–White gaps in test scores. Findings are not entirely consistent. A study by Phillips et al. (1998), using child data from the National Longitudinal Survey of Youth (NLSY79), finds that categories in net worth are not related to Black–White differences in performance on the Peabody Picture Vocabulary Test (revised) among five and six year olds. Similarly, Yeung and Conley (2008) and Williams Shanks (2007), in analysis of children aged 3 to 12 from the Panel Study of Income Dynamics, find little evidence that wealth mediates the Black–White test score gap. Initial relationships are eliminated after controlling for family and child characteristics.

Other studies, however, report that household assets are a significant predictor of White-Black educational gaps. Orr (2003) analyzes household wealth and children's (aged 5–14) PIAT math scores in 1996 from NLSY, and finds that income-producing assets such as CDs, stocks, bonds, and savings accounts explain a portion of the differences in the Black–White disparity in math scores. This study further suggests that the effect of assets on children's math scores operates in part through the level of cultural capital to which a child was exposed (measured by reports of whether a child was taken to museums or theaters, had a musical instrument at home, or received special lessons).

Conley (1999) analyzes PSID data to measure teenage and young adult outcomes of children born since 1962. He finds Black–White differences in educational attainment (including high school graduation, college graduation, and repeating a grade), labor force participation, wages, welfare receipt, and teenage premarital childbearing. But all of the initial racial/ethnic differences are dramatically reduced, no longer statistically significant, or reverse direction after household assets are taken into account.

Two recent studies include Hispanic children. Kaushal and Nepomnyaschy (2009) find that Black–White and Hispanic–White differences in children's participation in gifted programs, extracurricular activities, and grade retention operate largely through the influence of family assets (homeownership, net worth, and bank account ownership). Jez (2008) reports that disparities in four-year college attendance between White and minority children (Black, Hispanic, and Asian) are statistically non-significant after net worth is controlled.