

SECTION I

THE NEW BASELINE: THE STATE OF
FAMILY WEALTH AND WEALTH INEQUALITY TODAY

How Should We Finance Postsecondary Education: Debt, Private Wealth or Public Wealth?

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¹ The views expressed in this essay are those of the authors and are not necessarily those of the Federal Reserve Bank of St. Louis and the Federal Reserve System.

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Higher education has been revered as an important pathway to upward mobility since the earliest days of the Republic. Many U.S. states founded their own public university systems early on, some before being granted official statehood. Initially, these public universities helped educate a relatively small share of Americans. They, of course, also entailed sharp inequalities in access by race, ethnicity and gender. But the typical price tag for those who could attend was affordable across a long swath of U.S. history. By the mid-20th century, continued public spending to expand access to affordable college made the U.S. the [world's leading producer of college graduates](#). Families could pay for college through a mix of grant-based aid and income earned by students' families or through students' jobs.

Over the last half century, the U.S. has abandoned both its leadership role in educational expansion as well as its promise of affordable college education. College costs have more than [doubled](#) over the past three decades, and a [student loan system was conceived](#) to make up for the funding shortfall. For many students today, going to college siphons off their families' wealth—more than [half of all college costs](#) are paid directly by parents—and increasingly pushes them into debt. Total student debt today stands at \$1.55 trillion, over four times what it was in 2003 after adjusting for inflation.

Debt-Financed College: An Engine of Inequality

Higher education has thus transformed from a largely public investment provided by well-funded public universities into a debt-financed proposition, reflecting a broader shift away from public infrastructures to the privatization of “services” and risks. Families are required to dedicate a greater share of their financial resources to higher education, and students are asked to carry the risks of these investments. The resulting student loan burden has put the economic prospects of today’s students at risk, including the prospect of [purchasing a home](#), [marriage](#), [childbirth](#), [wealth accumulation](#) and their own [financial stability](#) as well as that of [their parents](#).

The impact of this public-private shift has not been borne equally by all students. In particular, for Black families, the rapid expansion of student debt has less effectively opened pathways for upward mobility than it has introduced new forms of [predatory inclusion](#). [For-profit colleges](#) and under-

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funded institutions have more aggressively expanded access among disadvantaged students. As Black families often lack wealth to draw on due to a history of exclusion from broad-based government-subsidized wealth accumulation (e.g., slavery, [redlining](#), inequities in the GI Bill and other continuing forms of institutional racism), they [dis-](#)

[proportionally](#) rely on student loans to finance higher education. Black families are both more likely to borrow (among the [class of 2016](#), 87% of Black students borrowed compared to 70% of white students), and when they do, they also borrow more (through 2017, the average student loan balance was \$42,746 among Black students compared to \$34,622 among white students). Even wealthier Black families rely more on student debt than their white counterparts, potentially because they own less fungible assets (e.g., stocks, home equity, 529 accounts). These elevated levels of indebtedness raise the risks for Black students and stand to sap the financial security of these borrowers for years to come.

Wealth-Financed College: The Private Solution

Of course, there is one easy solution for participating in higher education and avoiding the risks of high indebtedness: being raised in a wealthy family. Unsurprisingly, children from families with high net worth are substantially more likely to go to college and, even more importantly, to graduate compared to those from family backgrounds with lower wealth. This [wealth gap in education has increased](#) substantially within just a decade: While the college graduation rates of children from the bottom half of the wealth distribution has remained relatively stable, children who grew up in the top 20% of the wealth distribution have increased their graduation rates by 14 percentage points, quickly pulling away from the rest of the population.

These growing wealth gaps in education are likely to further calcify the wealth distribution. As parental wealth becomes more important for college graduation, it will also become a better predictor of whether children can maintain their family's wealth position: Education is one of the main channels through which [wealth inequality is maintained across generations](#), as children from wealthier families are more likely to graduate from college and their college degree allows them to more easily accumulate wealth themselves. This process also suffers from deep racial inequality: The wealth-enhancing potential of a college degree is [lower for Black college graduates](#) as they enter [housing markets](#) and [labor markets](#) that continue to be marked by structural racism, putting them at an [increased risk for downward wealth mobility](#).

Wealth-Financed College: The Public Solution

Before the onset of the COVID-19 crisis, median Black wealth was [12% of median white wealth](#). [Overall wealth inequality has increased substantially](#) over the last decades, especially during times of crisis, such as the Great Recession and—as [early indicators of its disparate impacts](#) suggest—the ongoing COVID-19 crisis. These powerful structural inequalities cannot be fully resolved via educational policy. But there is one way in which questions of educational opportunity and broad patterns of wealth inequality can be put into direct relationship. While ever larger amounts of student debt have accumulated, ever larger amounts of wealth have been accumulated at the very top of the distribution: The \$1.55 trillion in total outstanding student debt is

about as much money as the wealthiest 400 individuals have added to their total wealth since 2010.

Today's total outstanding student debt is the result of decades of [public divestment](#) from higher education. A return to a strong public education system that reduces the dependence of college success on parental wealth will therefore require a substantial increase in public investment—two years of free community college, as proposed in the American Families Plan, is one such step in this direction that merits consideration. The revenue required for such recommitment to higher education as a form of public wealth may come from a variety of sources, including the taxation of private wealth and its intergenerational transfer. Besides raising substantial revenue, new schemes of wealth and inheritance taxation also provide an opportunity to address the active role that today's existing tax structure plays in [increasing wealth inequality](#), [solidifying dynastic wealth](#) and [increasing racial wealth gaps](#).

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