

The Effect of Wealth and Income on Educational Attainment

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ABSTRACT

In the United States, there has been great inequality in society when it comes to educational opportunities. Children of parents with higher wealth and income on average have higher educational attainment than children of parents with lower wealth and income. It is important to note that wealth has components that are different from income. Where income is a constant flow of money, wealth is accumulated assets at a given time. Many studies have focused merely on income, when they should also factor in distribution of wealth among families, which differs from income in that it is a resource that gets transferred from older to younger generations. Socially, this poses the question: Is education a right or a privilege? Inequality is produced as those segments of the population that have lower incomes in their families and less wealth have lower educational attainment, which then leads to worse job prospects in the long run. This indicates that children of lower-income and lower-wealth families are disadvantaged in labor market competition as adults. These individuals find it harder to climb up the ladder of schooling and tend to have to overcome more challenges in order to succeed, as certain privileges stemming from family background help boost educational attainment, including college completion. Particularly troubling is the fact that individuals with more wealth and income in their families tend to get higher standardized test scores and are more likely to pursue a college degree than those with less income and wealth. In order to redress the educational consequences of wealth and income inequality, there have to be more scholarships and loans for students, as well as hindering the bias towards the offspring of alumni regarding college acceptance. We must come up with other measures of educational potential that don't focus on standardized test scores, and there must be availability for low-income children to develop assets and attain more cultural capital outside of a classroom setting by providing cultural opportunities and resources in neighborhoods and communities of all backgrounds.

Introduction:

In the United States, people have been convinced of the idea that education is the path to upward mobility, and that the educational system propels individuals to succeed. President Obama said, “There aren’t many things that are more important to the idea of economic mobility—the idea that you can make it if you try—than a good education.” Although the premise is encouraging, the truth is that there are many factors that hinder mobility, and not all individuals get the same educational opportunities in the United States. It is known that concentrations of wealth and poverty are likely to increase the education gap among students, as there is inequality when it comes to school resources, due to the fact that public schools receive most their funding from local property taxes (Nam and Huang 2011). It is common knowledge that education plays a central role in future earnings for individuals (Kalil, Wightman 2011).

At present, there has been emphasis on the inflation of credentials (a form of capital) in the labor market, meaning that the value of an education has increased. This has heightened the impact of economic resources on families, as parents with low resources are now unable to increase investments when it comes to the education of their children (Nam, Huang 2011; Conley 2001). Many employers are only hiring people with college degrees, regardless of the position they are meant to fill. The pursuit of these credentials has increased the unemployment rate for those with a high school education or less, and it has also led to huge debt for students as well as slow economic growth for the country (Rampell 2013).

A very important factor that is often overlooked is the relationship between income and wealth in relation to educational attainment. Students with certain financial backgrounds have an upper hand in the education system, which creates an unequal playing field for everyone involved in the pursuit of “The American Dream.” It has been mentioned that higher levels of income inequality have contributed to gaps in the education system, where high-income

children's educational outcomes have improved while low-income children's have lowered (Mayer 2001).

The Importance of Wealth or Assets in Conjunction with Income

Even if we look at the issue at a global level, we see the echo of inequality in the education system; Filmer found that educational attainment in a myriad of countries differs by household wealth (Filmer 1999). While wealth can include such assets as a refrigerator, television, radio or car, it also includes flow of money coming from previous generations in the form of trust funds, wills, property, etc. In the United States around 80 percent of capital accumulation can be attributed to intergenerational transfers (Conley 2001).

On the other hand, the term income focuses on a constant flow of money mostly originating from one's occupation in the labor market. Income has been linked to educational attainment in previous studies, and although it is an important indicator of the level of educational attainment, it is important to note that distribution of wealth is still far more unequal than the distribution of income and that the role of family transfers in the distribution of said wealth has revealed a higher intergenerational correlation than for income (Conley 2001). Recently, research has shown that wealth, or financial asset holding, affects a child's academic outcomes (Grinstein, et al 2009). If we want to look at solutions, or analyze the problem considering all its facets, it is important to not only rely on traditional measures of socioeconomic status such as income, occupation and education, but also to take assets into account (Grinstein, et al 2009; Filmer 1999; Nam, Huang 2011; Conley 2001).

According to Conley, parental income alone significantly predicts the total years of a child's schooling (Conley 2001). In accordance with Conley, Nam and Huang argue that "The greater the parents' income, the more likely the child [is] to attend college" (Nam, Huang 2011). Nevertheless, other findings have also indicated that apart from income, assets and debts should also be considered when looking at the impact of economic resources from parents as different types or forms of parental resources have specific linkages with children's

education (Nam, Huang 2011). Although controversial, some studies have found income not to be a significant predictor of child school outcomes, while assets are shown as a significant predictor (Grinstein, et al 2009; Nam, Huang 2011). Findings specify that children with a high level of liquid assets or net worth are more likely to graduate school and attend college than those without (Nam, Huang 2011).

Some analysis has shown the paramount impact of parental assets specifically on high school graduation. It was explained that income did not have a significant correlation with the student's probability of finishing high school, but that assets did, meaning that it significantly increased the probability of high school graduation (Nam and Huang 2011). Scholars such as Morgan and Kim (2006) and Ellwood and Kane (2000) concluded that the effect of income from a household on college enrollment remained stable. However, other studies by Belley and Lochner (2007) showed an increase in the effect of household income on college attendance. Such controversial studies and discrepancies make it clear that there we must undergo future investigation regarding this topic, and not limit ourselves to income measures. It is important to take into account various types of resources that make up the conception of social class and predict the socioeconomic attainment of children (Conley 2001).

Liquid assets are those that can be easily converted into cash, so for example, a bank account or stocks. These can reduce the need of a household to borrow money for the education of their children, which, in turn, prevents children from dropping out of school as it is there to provide economic resources in times of need (Nam, Huang 2011; Grinstein, et al. 2009). Such assets enhance the well-being of children by creating a cushioning effect, which buffers the negative effects of an income loss that may be unplanned, or a job loss (Grinstein, et al 2009).

Studies have also shown that children living with parents who are homeowners are more likely to graduate from high school and those families that hold assets influence their children's outlook on life, including their plans for the future (Grinstein, et al 2009). In turn,

this affects their behaviors and habits in the classroom. An interesting finding about liquid assets is one where Nam and Huang (2009) showed that children from negative-liquid-asset households (those who had more debts than savings) were more likely to graduate from high school but less likely to graduate from college than their counterparts from zero-liquid-asset households. In sum, assets offer resources that create opportunities for investing in children's economic and social well-being (Grinstein, et al. 2009). Parents use wealth in order to finance their children's educational attainment, in order to secure their credentials for the future (Conley 2001).

Conley's studies have given us a great analysis on the relationship between parental wealth and educational attainment. Through his logistic regression models, he found that parental wealth was a strong predictor of college enrollment, and that it may affect college completion (Conley 2001). More specifically, the doubling of assets in Conley's analysis resulted in an 8.3 percent increase in the probability of going to college after high school graduation (Conley 2001). Wealth in families has such an impact on schooling, that Conley found that asset doubling raised the number of years of schooling by .12 years, and it was also associated with an increase of .11 years in the number concerning post-high school years of education (Conley 2001). As unfair as it sounds, the role of economic conditions within a family really does influence the educational outcomes of their offspring. Those parents that do not have sufficient resources to invest in their children's education from the start create consequences for their children years later in their education. The lack of resources diminishes the child's expectation that he or she will be able to take advantage of an opportunity in the future, such as attending college (Kalil, Wightman 2011).

In a study involving the effects of family wealth on the cognitive ability of preschool children, it was found that wealth affects their development. It did so through its effect on material resources. These resources could be things such as a physical home environment or intellectual stimulations (Yeung and Conley 2004). Wealth in families reduces economic

strain, and this affects a mother or father's well-being and their parenting practices, which consequently correlates with the cognitive ability of young children (Yeung and Conley 2004). Wealth does have a powerful indirect effect on children through certain material deprivations, which deeply affect family processes related to the family's stress perspective" (Yeung and Conley 2004). Clearly, even from a young age, wealth has a critical impact in an individual's life and affects their educational outcomes in the long run.

Racial Disparities and Standardized Testing

Interestingly enough, the influence of wealth or assets is further highlighted when we analyze the impacts on race. If we focus in on parental assets, the wealth gap between whites and blacks among young adults goes away (Conley 1999). This is due to the fact that socioeconomic factors have a much greater impact in explaining educational outcomes than does racial identity or skin color.

Most studies involving assets include the value of a home and other real estate. They also include interest-earning assets, vehicles, stock, and retirement savings (Grinstein, et al. 2009). This point about racial impacts is consistent with research that indicates parental assets are a significant predictor of academic outcomes (Grinstein, et al. 2009; Conley 2001; Nam, Huang 2011). The caveat here lies in regard to circumstances exacerbated by job loss. Wealth within families affects their ability to remain afloat when there is job loss. If one has financial assets, they can help to borrow or mitigate the effects of a job loss as they may alleviate economic pressure and serve as a "psychological buffer" concerning worries about the future (Kalil and Wightman 2011).

Involuntary job loss among middle-class families is associated with less educational attainment for their children, but it is significantly greater among blacks than it is among whites (Kalil and Wightman 2011). Parents who see themselves in financial trouble, experiencing job loss, or having few assets tend to be particularly pessimistic about the future of their children, and this affects the expectations and behaviors of those children when it

comes to school (Kalil and Wightman, 2011). Parents dealing with consumer debt are usually less willing to borrow for the education of their children (Nam and Huang 2011).

Nevertheless, it has been observed that racial wealth differences are substantial even when controlling for income. Research has hinted that the differences in parental wealth may explain the disparities in educational outcomes of blacks and whites (Yeung and Conley 2004). Many middle-class White Americans ensure their status through their wealth holdings, while many middle-class Black families are not as able to hold on to their status, due to less wealth (Merolla and Christie-Mizell 2009). Thus, we see that wealth is a better predictor of inter-racial heterogeneity than occupation or income.

There is a significant association between wealth and race, and when it comes to disparity, whites outpace both Latinos and African Americans in measures of achievement in the education sector, including the years of attainment and results on standardized tests (Merolla and Christie-Mizell 2009). Many of the differences of accumulation of wealth between these two groups have a lot to do with complex historical processes, so background is very important when thinking of these results. Black Americans have been excluded throughout history from accumulating wealth through racial oppression, whereas European Americans have gained many benefits from structural advantages, many of which are in the form of law (Merolla and Christie-Mizell 2009).

As mentioned before, disparities in wealth have been linked to educational achievement and attainment; minorities and Blacks are unintentionally targeted through the differences in wealth accumulation and have fewer opportunities in education. It is important to remember that wealth mainly affects educational attainment through access to quality schools. There has been a history of racial and economic segregation in the United States, such as the 1980s discrimination in home sales that kept races separate, keeping the poor areas poor and the rich areas richer (Massey 2007 77-78; Merolla and Christie-Mizell 2009).

Because of the funding done by taxes of school districts, this affected education in public schools, and today most quality schools are still reserved for the middle-class white children (Massey 2007 77-78; Merolla and Christie-Mizell 2009). As Massey believes, there has been an institutionalization of classism in the United States school system (Massey 196). Many of the inequalities translate themselves into a structure that concentrates those best-prepared students in areas of abundant resources, and places those less-prepared students in areas where resources are scarce (Massey 2007 197). It is no mystery why certain minority groups do worse in testing and schooling, especially when they can be linked to certain areas of resource scarcity. In these areas, poverty and joblessness abound. These areas with low property taxes create a cycle where certain schools cannot keep up with those who have more economic resources in richer neighborhoods. The U.S. invests into students disparately, because although the federal government provides about 14 percent of money for school districts, the rest depends on local taxes specific to that area (Porter 2013).

Gaps have been observed in standardized math scores for African Americans and Latinos, and according to scholars, and differences in socioeconomic status account for 17% of the variation in test scores (Kozol 1992; Merolla and Christie-Mizell 2009). Family income alone influences a variety of results related to school performance (Grinstein, et al 2009; Kozol 1992). When it comes to standardized testing, national and norm-based evaluations blur the social causes of differences in performance (Dunbar 1989). Through Marx's idea of false consciousness, the individual is blamed instead of the system itself. We must remember that both social and economic deprivation influence student performance (Porter 2013). There are various processes that shape students' academic achievements and wealth also has effects on academic achievement via social and cultural capital. We must further analyze the relationship between family background and individual achievement, which both contribute to structural outcomes. There are other factors in the family that must be considered, such as the educational

level of parents in the household. It has been proved that the educational level of a parent affects the socioeconomic outcomes of children (Conley 2001).

Another issue that needs to be addressed is the affirmative action system when it comes to college acceptance. Children who have parents that are alumni of a certain school get special privileges, and these “boosts” reinforce their class position (Massey 2007 198). A staggering piece of information is that of alumni children getting an admissions bonus of around 160 SAT points when their college applications are being evaluated (Massey 2007 198). When examining results from APs, the ACT, and the SAT, Amrein and Berliner found that these testing policies resulted in no measurable improvement in student learning (Amrein and Berliner 2003). There have also been studies that claim standardized testing has no correlation with a student’s college performance in the future.

The problem with standardized testing is that it hinders the school curriculum, and the students in the classroom are being “taught the test” instead of focusing on more diverse course material. Teachers and students alike focus so much on testing that many do not actually retain important information, but instead learn standardized information without much deep analysis into the teaching or variety of other areas of study. Many of these tests are intricately targeted to the upper middle-class white individual, and there is no variety or diversity when it comes to certain questions asked in the test. The fact that the questions are standardized, targeting specific individuals with certain cultural capital, makes the test an unequal predictor of success and educational attainment.

Wealth and Occupational Attainment

Inequality is produced as those segments of the population that have lower incomes in their families and less wealth have lower educational attainment, which then leads to unequal job prospects in the long run. It is important to reiterate that intergenerational family wealth, in addition to the other traditional measures of socioeconomic status, are what make up a complete measure of resources within a family (Shwed 2007). Studies have included data from

children, parents and grandparents, which help explain the importance of the status attainment tradition (Pfeiffer 2007). Recent studies have also found that parental wealth is associated with children's occupational attainment, and that this association has specifically been precipitated through education (Shwed 2007).

Assets are known to be reproducers of inequality (Pfeiffer 2007). Parental wealth has a direct net effect on the probabilities of attaining specific, covetable occupations and it enhances education (Shwed 2007). It has also been noted, that the odds of holding financial or managerial positions in the job world are deeply affected by parental assets (Shwed 2007). Parental wealth affects children's educational attainment because it provides specific cultural tastes and values that are rewarded in the labor market. It also provides opportunities thanks to social networks provided through parents. According to scholar Uri Shwed from Columbia University, "Occupational Prestige, socio-economic score of occupation, and class analysis all yielded statistically significant associations with liquid wealth, explained by education" (Shwed 2007, 22). The "status attainment tradition" mentioned before has settled the importance of education in negotiating the transference of socioeconomic status from one generation to another (Pfeiffer 2007).

Conclusion

Those in power use institutions of property and academic or professional qualifications to stay at the top. These advantages create a system of inequality because the journey one has to go through in order to attain these qualifications is not equal, and although education is said to increase one's mobility it is also a great tool that hinders it. First and foremost, current research on race and ethnic differentials in wealth must be expanded. The causes of wealth differences between minority groups and other races have a lot to do in explaining educational gaps. Significant research findings have shed light on the importance of savings, and households should be more aware of this if they want to ensure certain educational outcomes

for their children. We must encourage those low-income students to make a financial plan, and also help them find financial support for education (Nam and Huang 2011).

The findings in present studies also show us the importance of developing and including wealth and asset-based interventions when it comes to dealing with the problem of child and family poverty. There should be more programs that induce asset building and encourage families to develop savings plans or investment plans, so they don't have to rely solely on a fixed income. Emergencies such as job loss may arise, and families must be prepared to develop a "cushion" or "buffer" when it comes to their finances, so that this does not affect the educational outcomes of their children.

Because the funding of public schools is not fair, I believe it should be controlled by the federal government instead of local property taxes. Inequality due to local property taxes will continue to threaten the balance and equal opportunities for all students to succeed and receive a fair education.

Standardized testing should not be such a predicting factor when it comes to college admittance. Studies have shown the ineffectiveness of this test in regard to student performance and educational outcomes outside of high school. The advantages that children of alumni have in admissions should be taken away; because this just perpetuates the cycle of inequality that in essence is rooted in the wealth and income benefits of the rich.

In order to redress the educational consequences of wealth and income inequality, there have to be more scholarships and loans for students. We must come up with other measures of educational potential that don't focus on standardized test scores. We must come up with other measures of assessing a student's potential especially if they come from lower-income families or from certain districts known to offer poor education to their inhabitants. Standardized testing does not fully assess an individual, and does not take more complex background issues into account. This leads to the blame of individual, making them seem incompetent, while the others who do well are seen as more worthy.

Because family wealth and income greatly influence educational attainment, there must be opportunities for cognitive development outside of the school system, and activities to help individuals attain more cultural capital, which in turn will help them in their schooling. Low-income children must be able to develop assets in other ways that may not necessarily happen in a school setting. In order to make this a reality, the government should provide cultural opportunities and resources in neighborhoods and communities of all backgrounds. Thus, individuals will benefit regardless of wealth and income backgrounds. In order for debt to subside, the public must be educated when it comes to loan renegotiations and there must be lower interest rates on student loans. Many of the financial problems we are seeing today have to do with debt, and many individuals are still paying off school loans well into the 40s. Unequal educational attainment is a complex issue and many different factors must be analyzed and addressed. Further research is needed to analyze the relationship between the variety of assets and specific lifestyles of the family and their relation to educational attainment.

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