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**Racial Inequality: Returns to Educational Investments**

The past four decades have witnessed considerable changes in both the supply of college-educated adults and the demand for skilled labor. Investing in human capital through education has historically produced high returns. However, those most underrepresented in education (racial minorities in particular) have historically received the lowest returns for their investments. This trend indicates both socioeconomic and racial inequality in returns to education. However, this pattern appears to be disappearing. Recent cohort studies of trends in returns to education indicate that individuals least likely to complete more education appear to earn higher rewards in earnings.

**Historical Variation in Returns to Education**

Research has shown that each additional year of education and each additional educational credential are associated with higher earnings, higher status careers, and greater life satisfaction. In the 1970s, Jacob Mincer devised a model for examining differences in such returns to education, with a focus on the relationship between schooling and earnings. The magnitude of these returns tends to vary by individual's racial-ethnic background. This pattern is particularly notable among males. Numerous studies have shown that African American and Latino young adults continue to earn less than their white peers who have achieved the same level of education. While the racial-ethnic earnings differences have generally decreased over the past several decades, they remain significant, especially when accounting for whites' higher likelihood of full employment.

**Recent Changes in the Returns to Education**

Historically, research has suggested that those most likely to earn a college education would be the most likely to earn the highest returns. However, recent research in a major study by Brand and Xie using the National Longitudinal Survey of Youth 1979 cohort and the Wisconsin Longitudinal Study indicates that the reverse is true. Those least advantaged and thereby least likely to attend college seem to be those who experience the greatest economic return, across genders and stages of the life course.

Studies of more recent cohorts have found similar patterns. Long has studied the effects of education and college quality on returns to education. In a recent study, Long examines trends in the returns to education among three consecutive cohorts from the U.S. Department of Education: the National Longitudinal Study of the High School Class of 1972 (NLS), High School and Beyond (HS&B), and the National Education Longitudinal Study of 1988 (NELS; high school seniors in 1992). For African American and Latino youth, the effects of additional years of education are positive and increase in magnitude for each later cohort, and these increases are higher than those experienced by white youth.

**Racial-Ethnic Differences in Earnings**

These puzzling disparities can be partially explained by theoretical and empirical developments in other areas of sociology of education. Specifically, it is well understood that socially advantaged youth –white youth in particular – tend to have greater access to social resources, greater likelihood of attending high quality schools, and more extensive training in both the cognitive and non-cognitive skills that are understood to be important indicators of success in college and in the labor force than do disadvantaged youth. The effects of these different circumstances may become intensified over generations. Such socio-historical constraints on the families of many African American and Latino youth have fostered such cumulative disadvantages, including limited access to quality schools and neighborhoods, and the cognitive and social resources that are associated with each. For example, recent research suggests that skill gaps prior to kindergarten in such areas as vocabulary can explain much of the variance between racial group members in educational performance, gaps that are generally found to intensify over time. While these sociological mechanisms for generating and reproducing social inequality can explain minority underrepresentation in higher education and higher status careers, the challenge remains in identifying the causes of persistent racial-ethnic variation in returns to similar levels of educational attainment.

The problem remains that education insufficiently explains racial-ethnic differences in earnings. Human capital theory maintains that variation in individual earnings should be accounted for by variation in educational attainment and accumulated skills and experience. Considerable attention has been paid in recent years to the potential effects of academic ability, as measured by standardized test scores. In addition to external shifts in the political and labor climate unrelated to race-ethnicity, research suggests that the persistent differences in earnings between members of different racial-ethnic groups may be attributed to group-level variation in school quality, academic preparation, language competencies, and continued discrimination by teachers and employers. Despite the popularity of human capital theory however, the black-white gap in earnings remains insufficiently explained by education and skills. Rather, it seems that social disadvantages and unobservable factors relating to inequality may strongly contribute to this pattern.

## **Conclusions and Future Research Directions**

The recent studies described above employed careful and sophisticated econometric methods to address issues of selection and ability biases, ranging from propensity score models to fixed effects to various identification methods. Advances in data modeling and statistical software would facilitate the analysis of stronger conceptualizations of the relationship between cumulative disadvantage and educational returns. While empirically oriented demographers tend to lead research on returns to education and how they vary by social group membership, these important issues would benefit from more theoretically driven inquiry.

On the whole, racial-ethnic differences in returns to education appear to be decreasing. The reasons for this shift are not well-understood and the possibility remains that sample selection biases may mask existing gaps. Nevertheless, recent empirical studies reveal notable variations in returns for African American and Latino who have completed particular levels of education and within-group differences by gender. These differences present an interesting puzzle for further exploration. Moreover, related differences in selection of career sectors seem important to consider with respect to the intersection between racial-ethnic and gender differences in returns to education, but tend to be overlooked in most analyses of racial-ethnic differences in returns to education. Finally, while data availability on minority educational attainment and earnings over

time make the U.S. a more feasible case for analysis, studies of disparities in the returns to education between majority and minority groups in other countries would inform the field's understanding of the U.S. context.

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**Further reading:**

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