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# Do Different Groups Invest Differently in Higher Education?

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# Do Different Groups Invest Differently in Higher Education?

## **Abstract**

On average, education accounts for about 2 percent of total annual expenditures by U.S. consumers, but this percentage varies greatly by demographic. Some groups appear to spend much more than others, so it is natural to question what influences this variation in spending.

A popular conception is that racial and ethnic groups value higher education differently. In economic terms, this is a reflection of the value of human capital—how much people are willing to invest in their children's education. The notion that some groups invest more than others is often based on average participation rates but does not account for actual expenditures or the expenditures when you consider socioeconomic differences. This *Beyond the Numbers* article looks at the amount of money invested in education by different race and ethnic groups and examines different factors that could contribute to the differences in expenditures.

We find that race and ethnicity groups do, on average, spend vastly different amounts on education, but the likelihood of going to college (and thus having education expenditures) and socioeconomic factors have the most influence on families' investment in higher education—and race and ethnicity is not the driving factor, as commonly thought.

## **Keywords**

higher education, investment, race, ethnicity

## **Comments**

### **Suggested Citation**

Lou, T., Holden, R. J. (2014). Do different groups invest differently in higher education? *Beyond the Numbers* (Vol. 3, No. 13). Washington, DC: Bureau of Labor Statistics.

## Do different groups invest differently in higher education?

By Tian Luo and Richard J. Holden

On average, education accounts for about 2 percent of total annual expenditures by U.S. consumers, but this percentage varies greatly by demographic.<sup>1</sup> Some groups appear to spend much more than others, so it is natural to question what influences this variation in spending.

A popular conception is that racial and ethnic groups value higher education differently. In economic terms, this is a reflection of the value of human capital—how much people are willing to invest in their children’s education. The notion that some groups invest more than others is often based on average participation rates but does not account for actual expenditures or the expenditures when you consider socioeconomic differences. This **Beyond the Numbers** article looks at the amount of money invested in education by different race and ethnic groups and examines different factors that could contribute to the differences in expenditures.<sup>2</sup>

We find that race and ethnicity groups do, on average, spend vastly different amounts on education, but the likelihood of going to college (and thus having education expenditures) and socioeconomic factors have the most influence on families’ investment in higher education—and race and ethnicity is not the driving factor, as commonly thought.

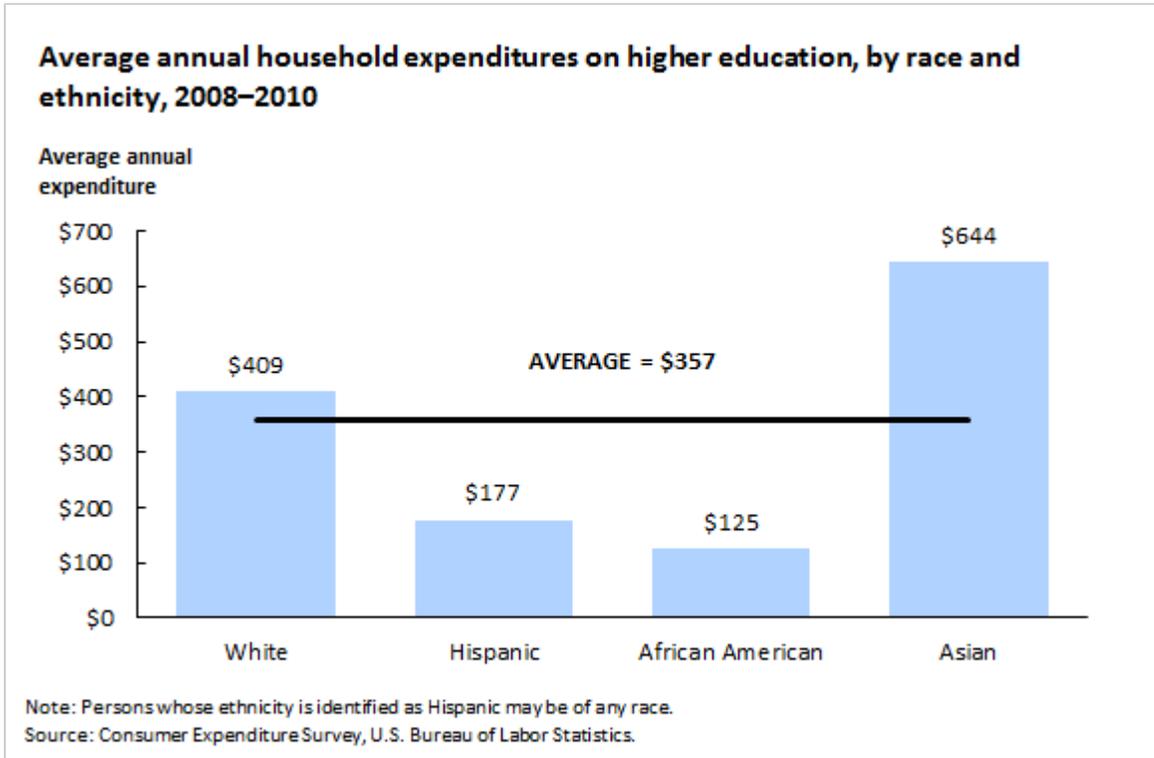
### Education expenditures and participation rates for all households

For this study, we analyzed 90,872 observations from the Consumer Expenditure Survey (CE) for years 2008 through 2010, and the results indicate that there is more to the story than average expenditures by race and ethnicity.

Consumer expenditure data on U.S. households show that, on average, U.S. households spent \$357 per year on higher education between 2008 and 2010. Hispanic and African American households spent less for tuition than White households, by 57 percent and 69 percent, respectively. (See chart 1.) Asian households spent 57 percent more for tuition than White households.

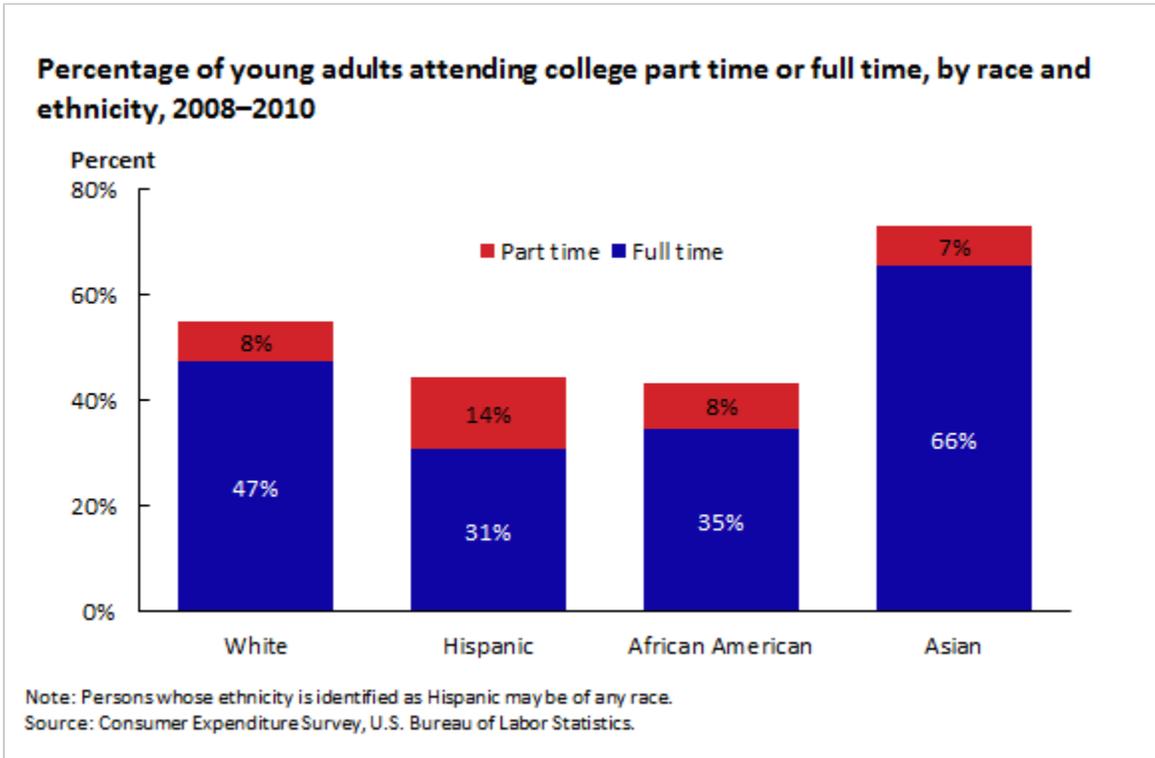


Chart 1



Some of the differences in expenditures are attributable to different higher-education participation rates by various groups. (See chart 2.) According to CE data, Asian families are more likely than other groups to send their children to college and therefore have greater education expenditures, on average. However, average higher-education expenditures across all households are incomplete as they do not distinguish between the families with students who are attending college from those who are not, nor do they compare households of different race and ethnicities on an even socioeconomic level.

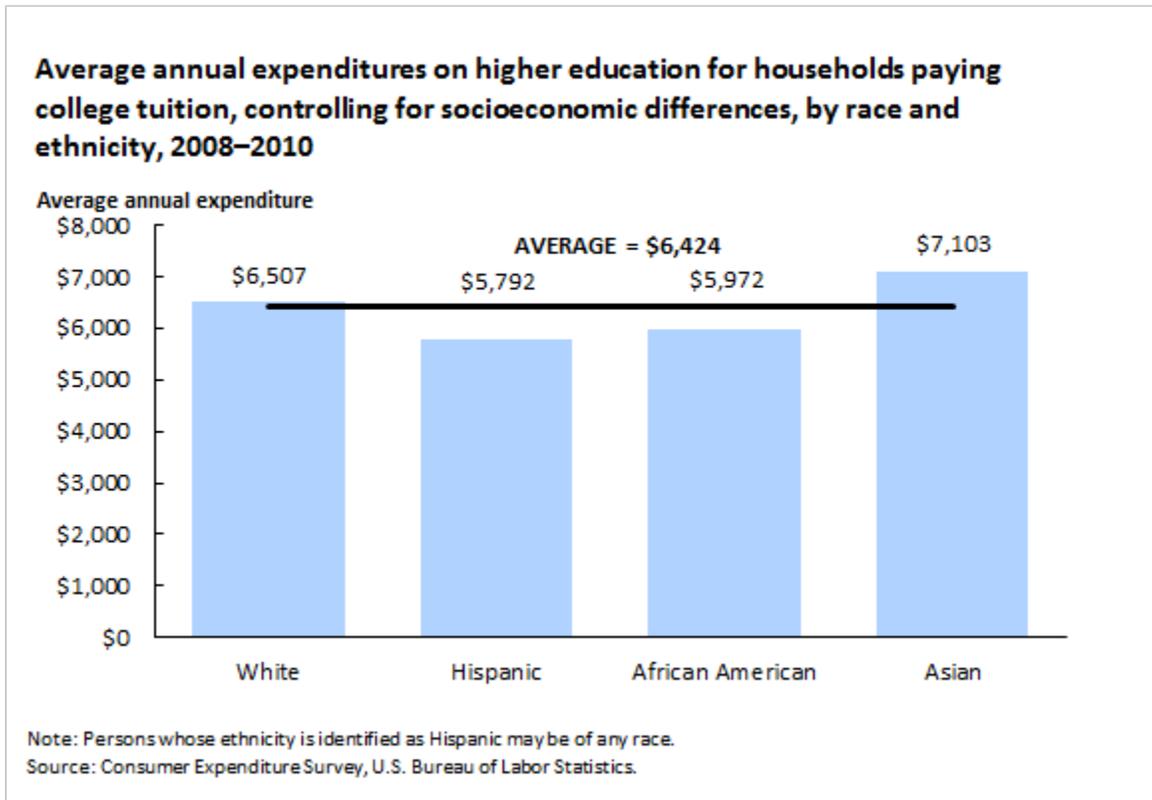
Chart 2



### Digging deeper: analysis on the socioeconomic level

When we analyzed the households with a college student with a tuition expenditure, and accounted for the household income and education level of the parents,<sup>3</sup> we found that the differences in tuition expenditures between races and ethnicities converge. For college students with tuition expenditures who have parent(s) with a bachelor’s degree and a median annual income of \$70,000, Hispanics and African American households had tuition expenditures that were only 11 and 8 percent lower, respectively, than those made by White households, while Asians had 9 percent higher tuition expenditures than White households. (See chart 3.)

Chart 3



However, these much smaller differences in tuition expenditures are not actually statistically significant. In other words, when you compare families with similar household incomes and parental education levels, the higher education expenditure levels are essentially the same across all race and ethnic groups. As parents' education and income level increase, so do the expenditures for higher education. From another perspective, socioeconomic differences, not differences in race or ethnicity, have a greater influence on how families value higher-education investments.

*This **Beyond the Numbers** summary was prepared by Tian Luo, economist in the San Francisco Division of Economic Analysis and Information, and Richard Holden, regional commissioner in the San Francisco Regional Office, U.S. Bureau of Labor Statistics. Email: [luo.tian@bls.gov](mailto:luo.tian@bls.gov). Telephone: (415) 625-2286.*

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**NOTES**

- <sup>1</sup> *Consumer Expenditures in 2011*, U.S. Bureau of Labor Statistics, April 2014, <http://www.bls.gov/cex/csxann11.pdf>.
- <sup>2</sup> See Tian Luo and Richard Holden, "Investment in higher education by race and ethnicity," *Monthly Labor Review*, March 2014, <http://www.bls.gov/opub/mlr/2014/article/investment-in-higher-education-by-race-and-ethnicity.htm>.
- <sup>3</sup> For details on methodology, see Luo and Holden, "Investment in higher education by race and ethnicity," <http://www.bls.gov/opub/mlr/2014/article/investment-in-higher-education-by-race-and-ethnicity.htm>.

## **SUGGESTED CITATION**

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