

Systemic Racism: A Study on the Lack of Financial Literacy and Wealth in Black Families

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In the United States, black families face a lack of opportunities and struggle with the burdens of structural racism. Throughout the history of the country, people have accumulated wealth through property. However, systemic racism has hindered black families' ability to grow wealth, resulting in lesser financial resources, lower quality of life, and disadvantages in multiple fields. For example, black families earn a lower annual income compared to other racial groups, which keeps the economic disparities alive. Studies have shown that people with lower annual incomes have a lower financial literacy rate, and this is evident in black families throughout the country. The goal of this research project is to analyze the fact that the lack of opportunities & structural racism correlate with black families having lower financial literacy in comparison to other races and to introduce solutions to this problem.

Black families have a lack of opportunities and suffer from structural racism. Due to systemic oppression, there have been policies put into place that create an unequal playing field for black people. Throughout the history of the United States, people have built wealth through property. Slavery stopped black people from owning land and property, which hindered their ability to build wealth and created a wealth gap. This gap has only widened through the effects of systemic racism in the United States. Redlining is an example of a systemically racist policy that has prevented black people from building wealth. Through redlining, the United States was legally allowed to deny black people housing because they believed they were “financially risky.” According to a report from the Center for American Progress, “2 percent of the \$120 billion in FHA loans distributed between 1934 and 1962 were given to nonwhite families.” This statistic highlights the stark difference in opportunities that black families faced then and still face today.

Because of the above difficulties black families face, they tend to have a lower net worth in comparison to the other races. Throughout the history of the United States, wealth has been built through property and is passed down through generations. Due to the lack of wealth in black families, each generation passes down less than their white counterparts, which keeps the wealth gap alive. The wealth gap in the United States between black and white families is more underestimated than people would believe. According to CNBC, “The median black family has only 10% of the wealth of the median white family.” So, black families are less wealthy than white families, and this is still an ongoing problem.

Typically, people with a lower annual income have lower financial literacy rates. According to the Federal Reserve’s tri-annual survey, “the top quartile of households scored about 38% better on very simple financial literacy questions than the poorest quartile.” This highlights the growing disparity in financial literacy between income levels. According to the U.S. Government Accountability Office, financial literacy is “the ability to make informed judgments and take effective actions regarding the current and future use and management of money.” This pertains to wealth building in terms of investing and saving your money. People who have a lower annual income have fewer opportunities, and when they make mistakes, they have bigger consequences like being unable to access wealth-building tools that are available to those who

do make more money. The gap in knowledge and income only grows with the difference in asset-building tools between the lower and middle classes. For example, a person in the middle class can often obtain a 401k and home ownership, unlike someone in the lower class. This difference in opportunities creates a cycle of families which are unable to grow their wealth due not only to a lack of knowledge, but also to a lack of access to knowledge.

Black families have a lower financial literacy rate in comparison to white families. According to a FINRA study report in 2018, Asian and white Americans were able to correctly answer 3.2 out of six questions meant to assess basic financial literacy, while black Americans answered 2.3 out of six questions correctly, which was below the national average. Through this study, it is evident that black families are below the national financial literacy rate. Moreover, this disparity is not only in the average population but it is also present in the youth. In a PISA Financial literacy study in 2018, white and Asian 15-year-olds had much higher financial literacy rates than their black counterparts. This can result from people making decisions based on what they are exposed to, and at 15 years old, when a person hasn't had a lot of financial experience, a gap can still be seen in financial literacy between the races which could be attributed to not only education but also in the surrounding community. This highlights the fact that the lack of financial literacy is affected by the environment and is a problem that is passed through generations causing it to perpetuate in the black community.

Although the black community in the United States has faced many hurdles, due to the ever-changing world, the biggest opportunity for change is right now. Here are some solutions to improve financial literacy in the black community.

People tend to replicate what they are exposed to. This could be changed through a community-wide effort in financial education throughout black families. According to K-12 Dive, studies reveal that children begin to understand the concept of money by age 6 and that can be taken advantage of in the black community through implementing financial literacy programs in children's education. The US Department of Education can mandate financial literacy to be taught through core classes like math and history. Schools can incorporate the basics of personal finance in classes through real-world examples of saving, investing, and budgeting. Another pathway to fixing the financial literacy gap is through social media. According to the American Academy of Child & Adolescent Psychiatry, "Surveys show that 90% percent of teens aged 13-17 have used social media." This presents a massive way to reach a large audience easily. Through the collaboration of social media influences and non-profit financial literacy advocates, financial literacy can be taught to the black youth in uninformed populations.

As discussed above, black families have a lack of opportunities and suffer from structural racism. Because of this, they have a lower annual income in comparison to other races. Typically, people with lower incomes have lower financial literacy rates. This leads to the claim that black families have lower financial literacy rates in comparison to other races, however, there are lots of ideas, including the ones listed in this research project, available to increase financial literacy in the black population, especially in the youth.

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