Racial and Ethnic Differences in Financial Literacy and the Role of Neighborhood Effects

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Prepared for the Federal Reserve System Community Development Research Conference, Washington, D.C., May 2019

There is a gap between whites and minorities in financial literacy in the United States.

Financial literacy is related to financial behavior

- Owning a bank account

- High cost borrowing

- Saving

- Investing

Racial and ethnic disparities on financial literacy persist even after controlling for
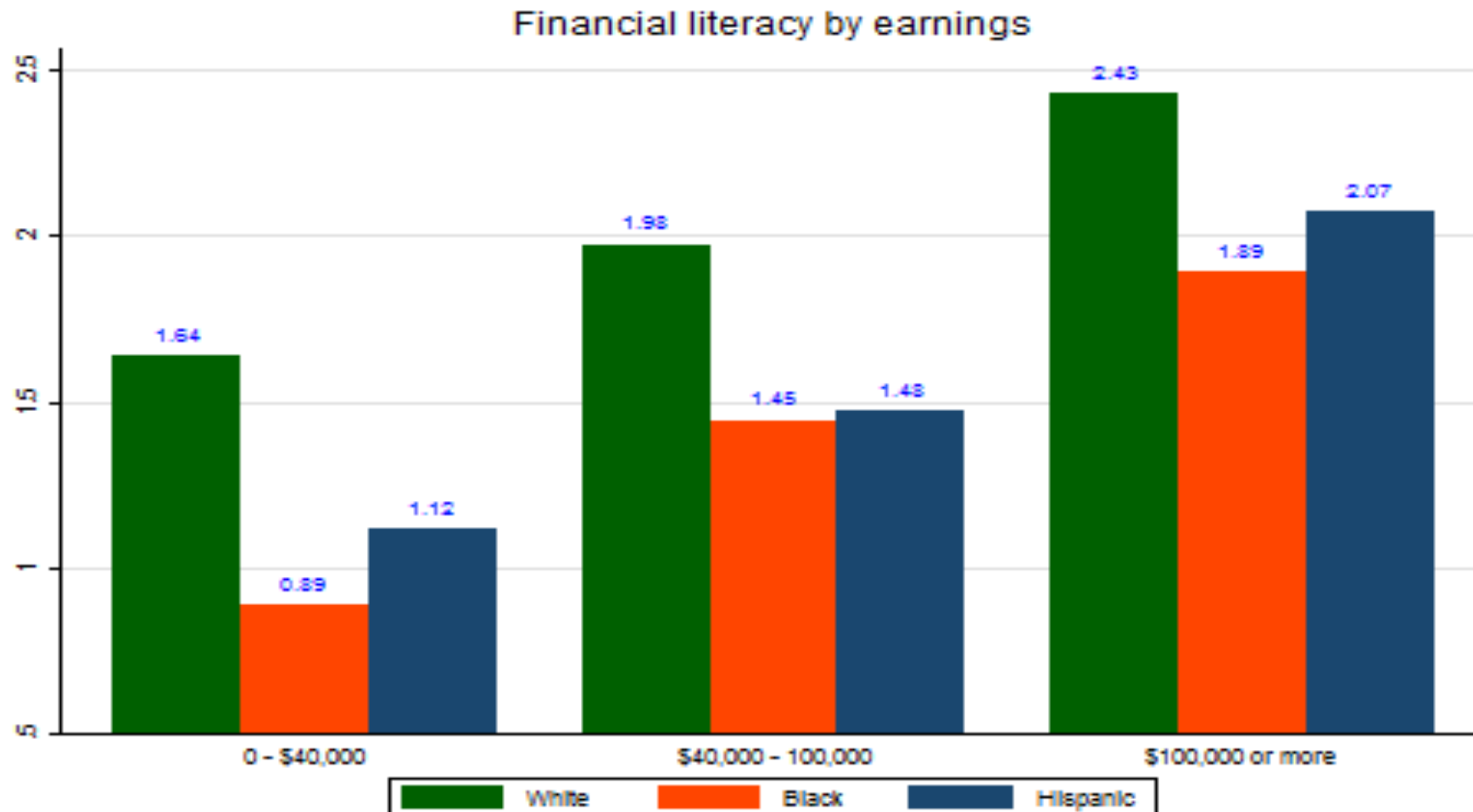
- Education

- Income

- Neighborhood characteristics

A gap in the 2017 Survey of Household and Economic Decision-making (SHED) after controlling for education

Financial literacy by education
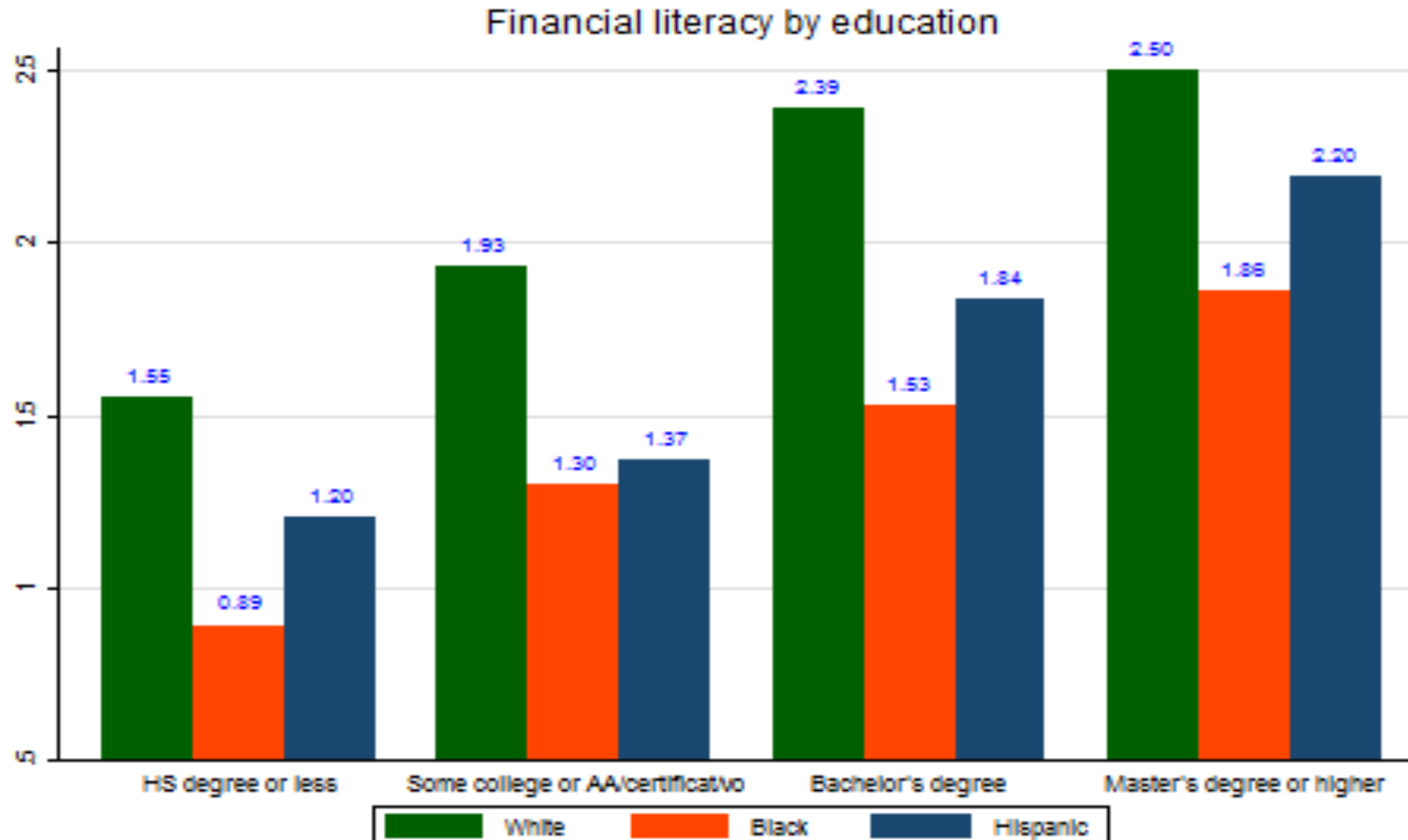
Source: SHED 2017

A gap in the 2017 Survey of Household and Economic Decision-making (SHED) after controlling for income
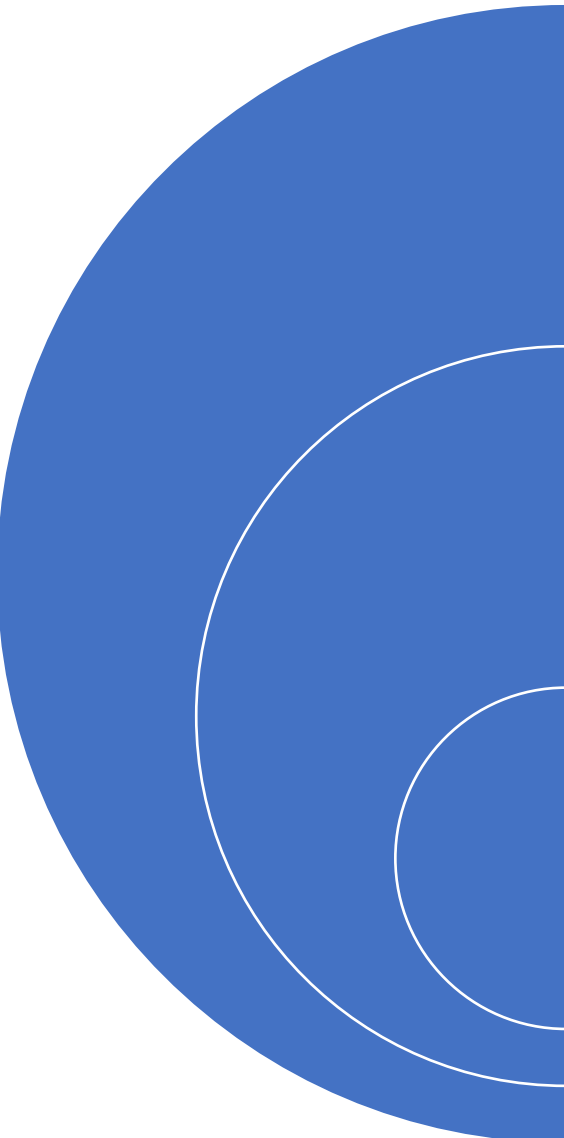
Financial literacy by earnings

Source: SHED 2017

Understanding the racial/ethnic gap on financial literacy

Our contribution:

- Use a comprehensive dataset – SHED
- Consider neighborhood characteristics
- Evaluate the "wealth versus education" hypothesis proposed by Hamilton and Darity (2017)

Factors we consider in our analysis

Individual characteristics	• Education • Income & wealth • Family background
Neighborhood characteristics	• Socio-economic Status • Financial institutions • Alternative Financial Services
Financial education	• State-mandates

Individual characteristics explain the gap in financial literacy

Regression analysis, Ordinary Least Squares

Coefficients	Model 1 Only race/eth	Model 2 + Ind. vars.	Model 3 + Neigh. vars.
Blacks	-0.8248*	-0.4100*	-0.3737*
Hispanics	-0.6154*	-0.2490*	-0.2279*

*Denotes statistical significance at the 1 percent level

Education, income and wealth explain the gap in financial literacy

Blinder-Oaxaca Decomposition

|	Whites vs. Blacks	Whites vs. Hispanics
Gap	0.8248*	0.6154*
Percentage of gap explained by diff. in vars.	0.4360*	0.3828*
Education	0.0802*	0.0882*
Dividends, interest or rental income	0.0982*	0.0791*
Income	0.0624*	0.0477*

*Denotes statistical significance at the 1 percent level

Evaluation of state mandates on financial literacy on the racial/ethnic gap

- SHED question about where individual resided when it started high school

- Urban and Schmeiser (2015) dataset for state-mandates on financial education between 1970-2014

- Posadas (2019) ecoregions to compare counties with and without mandates

States with financial education requirements and US region boundaries
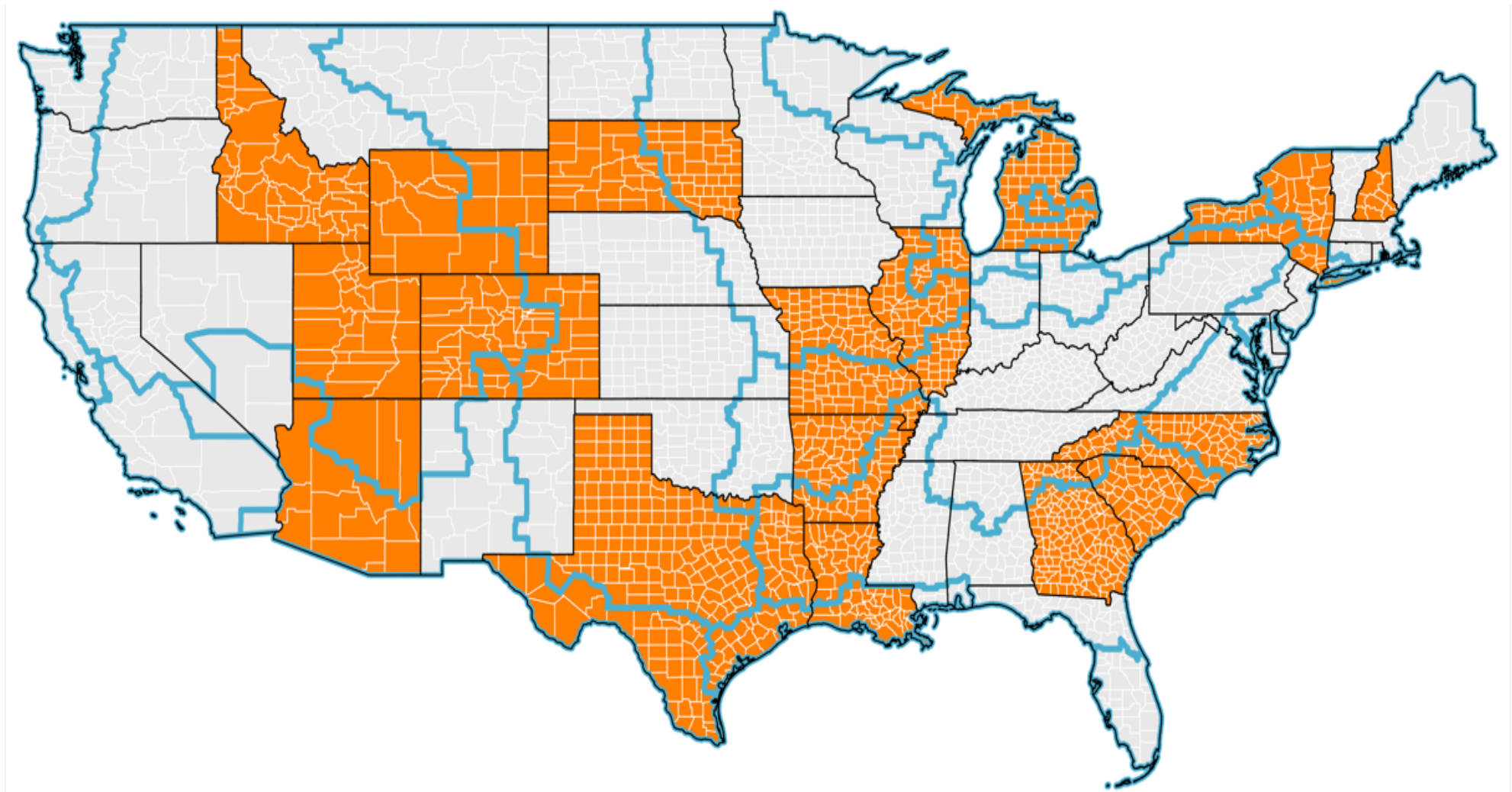
Inconclusive findings in relation to the impact of state mandates on the gap

- Heterogenous impact of mandates for 10 regions
- An important limitation: our sample size

	Mandate	No mandate
Region 6		
Black	-0.0229	-0.3334*
Hispanic	0.1865	-0.2678
obs.	261	437
Region 8		
Black	-0.4744*	-0.5841*
Hispanic	-0.3142*	-0.6469*
obs.	554	374

*Denotes statistical significance at the 1 percent level

Conclusion and Policy Implications

- Individual characteristics seem to play a larger role explaining the gap in comparison to other factors
- Wealth seems to explain the gap to a larger degree than education
- We must re-think the way we educate people about managing their personal finances to address this gap

THANK YOU

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