Inside the rise of Black consumer cryptocurrency ownership

by: Stan Austin, TEN editor

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Historical factors and forward-looking views help explain why cryptocurrency has become especially popular among Black consumers.

J.B. Harding III sees cryptocurrency as a pathway for Black people to overcome institutional barriers in finance and investing. But just six years ago he knew nothing about it.

Harding, who has owned holistic health businesses in St. Louis in recent years, said he was enrolled in an online course in foreign exchange trading in 2016 when he first heard an instructor mention cryptocurrency, a digital asset—such as bitcoin, Ethereum and Dogecoin—that secures transactions through cryptography and distributed ledger technology (usually blockchain). Although cryptocurrency was originally envisioned as an alternative currency or payment instrument, investment is now the main usage.

"I've always been a techy kind of person, so I got into that educator's online group and started purchasing cryptocurrencies," said Harding, 43. "Honestly, I was baffled why more people didn't know about it. It's a way for you to have more control."

Recent studies indicate that Harding's viewpoint is increasingly common among Black consumers.

In a June 2022 Payments System Research Briefing, Kansas City Fed Payments Specialist Terri Bradford wrote that owning cryptocurrency has become especially popular among Black consumers for reasons related to historical context, ease of entry, a decentralized structure, and the forward-looking views of younger consumers.

The wealth gap

Bradford's study outlines how several factors help paint the picture of Black consumers' attraction to crypto. For example, surveys show that Black consumers in the United States are more likely than white consumers to own cryptocurrencies. In 2021, a Pew Research Center survey found that 18% of Black adults had invested in, traded, or used a cryptocurrency compared with 13% of white adults. Bradford pointed out that this difference between Black and white consumers' cryptocurrency ownership contrasts sharply with other traditional assets.

For example, according to the Board of Governors of the Federal Reserve System's 2019 Survey of Consumer Finances (SCF), 61% of white households owned equity investments compared with 34% of Black households—a nearly two-to-one margin.

Such disparities highlight the historical wealth gap, which plays a key part in crypto's appeal. Bradford noted that in 2019, Black households' median wealth was $24,100—less than 15 percent of white households' median wealth, which was $188,200.

"If you've been hearing that people are getting rich dealing in the crypto space and—recognizing that you might have no wealth at all or have a major gap to break through—then crypto becomes somewhat attractive to you from that standpoint," Bradford said. "So the wealth gap is the thing that really stands out."

'Generational distrust'

Another factor cited in surveys is what Bradford called "generational distrust of financial institutions" because of how Black consumers historically have been treated—from being turned down for basic home or business loans, to paying higher rates than white counterparts.

In Harding's view, cryptography can be a vehicle to direct one's financial progress without the historical obstacles.

"He who controls the money controls the power," Harding said. "Crypto is a way for us to take back some of the power. No one can come in and tell you what you can or can't do with your money."

That sentiment was echoed in Bradford's findings.

"To a certain extent, people are just kind of fed up with relationships with financial institutions, so if there are opportunities to kind of circumvent that—and the costs that go along with it—there's some attraction" to cryptocurrency, Bradford said. With crypto, "It's no longer just that loan officer's decision or that big bank's decision; it's more removed from that. It's almost, in a way, as color-blind as much as something like that could be."

Perceived stability

Another consideration in crypto's appeal is that many see it as a more financially stable and secure environment than traditional financial institutions. This is because cryptocurrencies rely on permanent, irrefutable records of ownership and a private key to access funds.

Transactions take place on the publicly distributed blockchain ledger, so anyone can look up transaction data, including where, when, and how much of a cryptocurrency was sent from a "wallet" address and how much crypto is stored in a wallet.

"This transparency and accessibility may appeal to Black consumers distrustful of traditional financial institutions and of participating in a system that may not work in their best interests," Bradford wrote in the research study.

Leveling the playing field

Black consumers might see cryptocurrency opening opportunities for a more diverse group of investors.

A study published in 2021 by the Nonpartisan and Objective Research Organization at the University of Chicago (NORC) found that 44% of cryptocurrency traders are investors of color, compared with only 35% of stock investors. Cryptocurrencies' decentralized structure potentially offers a way for anyone, including consumers without bank accounts, to access financial services. Cryptocurrency can easily be purchased with an internet connection and a computer or smartphone using apps such as PayPal, Cash App, Coinbase and Stash. Also, unlike opening an account at a traditional financial institution, creating a cryptocurrency wallet does not require identity verification or a credit check.

"Cryptography gives one independence from a centralized authority, with more security of transactions," Harding said. "This is revolutionary."

Appealing to youth

Bradford's study also highlights the likelihood that younger Black consumers—having grown up in the digital age and being more comfortable with technological solutions than previous generations—see the potential of blockchain technology even beyond its use in cryptocurrencies.

For example, Pew Research has reported that more than 50% of the Black population in the United States are millennials or younger and are embracing STEM, cybersecurity, and other digital technologies.

"The 'Web3' movement, an effort to shift the internet toward networks based on the blockchain, has created new types of investments such as nonfungible tokens (NFTs) and decentralized autonomous organizations (DAOs), with younger investors driving adoption," Bradford wrote. "Younger investors are more likely to view cryptocurrency and NFTs as legitimate growth investments and to believe that DAOs have the potential to improve the way that companies and organizations run."

Meanwhile, studies indicate that the rise in crypto participation might be influenced by cultural factors, especially when well-known individuals are involved. Black athletes, celebrities, and politicians have promoted cryptocurrencies either by accepting them as a portion of their own compensation, endorsing or investing in the cryptocurrency industry themselves, or advocating for cryptocurrency as a payment option for employees.

A recent Harris Poll that found that 58% of survey participants who had heard of cryptocurrency and 82% of current cryptocurrency traders agreed that advertisements about cryptocurrency are effective at encouraging more people to trade crypto.

Risks and regulation

Harding, who says he tries to raise cryptocurrency awareness among his circle of friends and business associates, doesn't think the crypto wave for Black consumers will fade in the foreseeable future.

"This is the wild, wild west…data is the new money," Harding said. "It's not in trinkets and gold and silver anymore; it's in data."

Even so, many government officials have called for more defined regulation of cryptocurrency to mitigate risks and protect consumers and investors.

In response to Fidelity, the nation's largest 401(k) provider, reporting that it planned to enable participants to put up to 20 percent of their retirement money into bitcoin if employers allowed it, the U.S. Labor Department issued a compliance assistance document reminding plan overseers that they are responsible for choosing "prudent" investment options, strongly suggesting that cryptocurrencies do not yet meet that bar. President Biden this year signed an executive order that charts the way for U.S. regulation of crypto assets, and Treasury Secretary Janet Yellen has stated that regulation should be based on risks, not technologies, to balance the improvements that digital assets can offer to the payment system with the hazards that these instruments present.

Bradford, noting that "innovation always seems to outpace regulation," concluded that while cryptocurrencies have the potential to meet Black consumers' expectations on multiple fronts, the volatile and speculative nature bears watching.

"I just think, to the extent possible, that you need to educate yourself," Bradford said. "Just be educated about it, and understand that just like any other investment, you might lose what you invested…Understand the pitfalls."

In the research paper, Bradford summarized: "The current steep sell-off of crypto assets is putting cryptocurrency risks on full display. Without the guardrails or remedies that accompany traditional financial services, cryptocurrencies are proving susceptible to some of the same pitfalls that have driven Black consumers from other financial investments. Black consumers' willingness to gravitate to a yet unproven financial asset signals the severity of the wealth gap, as well as the need to find meaningful solutions to address issues of trust and access to traditional financial services."

Media



Kansas City Fed Payments Specialist Terri Bradford's study explains several factors contributing to cryptocurrency's popularity among Black consumers. Photo by Gary Barber



J.B. Harding III, of St. Louis, started exploring cryptocurrency six years ago and now sees it as a pathway to financial independence for Black consumers.

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https://www.kansascityfed.org/ten/2022-fall-ten-magazine/inside-the-rise-of-black-consumer-cryptocurrency-ownership/