“Bank Creation: A Key to Black Economic Development”

It is readily acknowledged that Black Americans have some catching up to do when it comes to income and wealth.

Often, Black Americans focus much of their explanations for these circumstances on racism and discrimination. We, straightaway, argue that the solution is for Black Americans to start our own businesses. Any kind of business will do, we say. The key is to motivate Blacks to become entrepreneurs. Having achieved that, income and wealth inequality should diminish.

This is a simple minded and delusional hope. We all know that, “Hope is no strategy.” There has to be a better strategy that will produce meaningful and sustainable results.

Thoughtful economists take a more comprehensive view to Black American economic development. We say that Black businesses should be initiated more selectively; beginning with small service firms, expanding to larger service firms and small scale manufacturing, then up to large-scale manufacturing where big-ticket items can be produced and sold.

While this is a systematic and strategic approach, the fulcrum of the strategy appears to be missing.

Money is the lubricant of modern economies.   Without an appropriate financial system, it is impossible to develop a sustainable economy.   That is why we advocate centering Black economic development on the formation of Black-owned banks.

Once formed in a community, Black banks can leverage deposits and create loans for businesses that have the best opportunity to produce good returns. As businesses grow and create jobs, they produce ready customers for the banks, which permit banks to grow. In fact, a complete and virtuous circle is initiated when one begins economic development with banks.

Black-owned banks in Black communities can even draw the traditionally unbanked poor into the formal economy and push egregiously exploitative pay-day and check-cashing operations out of business.

Creating a bank is not a very easy, but it is also not a very difficult process. It entails forming a corporation, and fulfilling Federal Deposit Insurance Corporation’s and state government’s requirements for chartering financial institutions.

The most difficult aspect of bank formation is meeting capitalization requirements. Today, in most states, it takes about $20 million to start a bank. That may sound like a hefty sum, but it is really quite small when you consider that it would take less than 30,000 Black American families to invest their average annual church contributions to form a bank. Just 20,000 Black households could form a bank if they saved $20 a week, amassed $1,000 during a year, and invested that $1,000 to create a Black Bank.

In other words, every major city in American with sizeable Black populations should have one or more Black banks. Unfortunately, this is not the case. According to a March 2010 Federal Reserve Board report, there are only 30 Black-owned banks in the U.S.—one for every 1.3 million Blacks. Typically, these are small operations with limited financial assets.

Black Americans can watch old Westerns television shows and movies and see that early towns in this country grew up around banks. Every day, we hear about the work of Chairman Ben Bernanke who provides oversight for the nation's banking system, which is the life blood of the nation. Yet, it is anachronistic that we fail to see the importance of creating and maintaining our own banks. This is something that we can fail to do no longer.

It won't happen overnight, but if Black Americans turn our attention to developing our own banks in our communities, then we can keep money in our communities, create businesses and jobs in our communities, and place the economies in our communities on a sound footing.

It is only under these conditions that we can expect our unemployment rate to go down substantially, our incomes to rise, and for our wealth to grow substantially.

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