BlackEconomics.org®

"The Essential Role of Black Banks in Black Economic Development"

Banks have long been at the heart of economic development. Consider, for example, American Western movies and television programs that chronicle the westward expansion. When a new town surfaced, a Bank was one of the first institutions to spring up. Even today, a new housing or commercial development is inevitably accompanied by the appearance of a bank.

While the rise of (non-sovereign and sovereign) digital currencies serve as potential challengers to traditional bank roles in the economy, it appears that, at least in the US case, banks' traditional roles may be preserved under a central bank digital currency.

If the latter is true, then Black America should take new interest in banks and money and their importance in economic development. Why? Because observation reveals a key aspect of the story concerning Black America's failure to advance more rapidly on the economic front.

What do banks do? Suffice it to say that banks (financial institutions) play a financial intermediation role in our areas of influence (communities). That is, banks accept deposits from those who have no immediate intentions of spending their money. In turn, banks use those deposits as a source for lending to those who want to invest or whose current demand for money exceeds their current supply of money.

The foregoing highlights the fundamental keys to economic development in our areas of influence. Essentially, Black Americans need to deposit our surplus funds (no matter how meager) into banks, and those banks need to be purposeful about lending those funds to those desiring to invest or to meet other requirements. But while these conditions are necessary ("need to"), they are not sufficient (a guarantee). For the just outlined process to guarantee strong economic development in Black areas of influence, the banks should be certain to lend to Blacks who are intent on using the borrowed funds to increase development in our areas of influence either through investment or expenditure.

Black America's basic problem is not that we do not have enough access to money (although more would be better), it is that we do not have enough banks in which to deposit that money and enough banks that will loan that money to Black investors and spenders once deposited. Let us consider the status of Black depository institutions relative to the depository institutions of other ethnic groups in the US (see Table 1 on the next page).

Table 1.--Minority Depository Institutions (MDIs) by Race and Ethnicity, March 2022[1]

Line No.	Racial or Ethnic Group	(A) Number MDIs	(B) Population (July 1, 2021)	(C) Total Assets (000s)	(D) Population per MDI (B/A)	(E) Total Assets per capita (dollars) (C/B)
1	Black (African) American	19	45,137,549	$7,068,997	2,375,660	$156.61
2	Asian and Pacific Islanders	73	21,241,200	$170,023,345	290,975	$8,004.41
3	Hispanic and Latino American	31	62,727,918	$138,025,539	2,023,481	$2,200.38
4	Native American	19	4,314,619	$7,478,725	227,085	$1,733.35

Sources: FDIC, Census Bureau, and BlackEconomics.org analysis and presentation.

Table 1 shows that Black Americans bring up the rear among the four main non-White US ethnic groups in bank formation and in the related value of assets that can benefit our areas of influence. And because of that position, many of our areas of influence fail to develop optimally economically.

Given existing depository insurance and bank regulatory frameworks, Black banks can safely expand the money available in our areas of influence if those funds are deposited and then loaned for use in our areas of influence. However, to ensure that there is a virtuous circle of depositing and lending, banks must lend to investors and consumers who are sound credit risks. The little discussed fact is that we can control the level of risk. First, we can ensure that borrower investors are able to repay their loans by vigorously and persistently patronizing these businesses. Second, we can ensure that borrower consumers can repay their loans by ensuring that they are absorbed into stable jobs by flourishing businesses in our areas of influence.

A simple example should be instructive. In step 1, there are Black banks operating in an area of influence, and those banks have total deposits of $1,000. In step 2, the banks lend $500 of the $1,000 in deposits to investors and consumers. (The banks can execute this step because depositors are not likely to require all of their $1,000 in deposits immediately. Importantly, $500 is retained by banks and not loaned so that funds are available should depositors require some of their funds.) In step 3, investors and consumers who receive the $500 in loans, deposit the borrowed $500 back into Black banks so that they can later write checks on their new accounts for investment and consumption purposes. When we reach step 4, the total amount of deposits in Black banks has risen from $1,000 to $1,500 due to lending and depositing. This process of money creation through depositing, lending, and depositing can continue as long as banks are certain that they have sufficient funds to meet demand for deposits in their banks, and as long as borrowers continue to repay their loans. The more money (deposits) available in the Black banks in our areas of influence, the faster and more robust the economy in our areas of influence can develop.

There are three primary factors that prevent Black America from operationalizing the just-described favorable scenario. The first factor is that we have too few Black banks (financial institutions). We have discussed

[1] Data on the number and value of assets of MDIs by race and ethnicity are from the Federal Deposit Insurance Corporation; https://www.fdic.gov/regulations/resources/minority/mdi.html (Ret. 081522). The population estimates are from the US Department of Commerce, Bureau of the Census (Quick Facts) www.Census.gov (Ret. 081722).

problems that would arise if Black Americans deposited more of our money into the currently existing small number of Black Banks here. Therefore, our first order of business should be to create more Black banks. It does not make sense to continue complaining that Black businesses fail because of a lack of access to financial capital and not create banks that can provide that financial capital. After forming Black banks with sufficient deposits, then Black businesses that form will automatically have access to financial capital.

The second factor that hampers our economic development is our unwillingness to deposit our money in Black banks. Table 1 shows the reality. Although Black Americans have over $1.6 trillion in annual spending power, Black banks possessed just over $7 billion in assets at the end of March 2022—a considerable proportion of which was deposits. The creation of new Black banks will be for naught unless we are not intent on depositing our money in these banks. The current outcome results from historical experiences (financial and otherwise) that have produced distrust. We must find ways to rebuild trust in each other and in Black banks.

The third factor that slows or prevents our economic development is our weak support of Black businesses. This too results from an absence of trust. Simply put, we can create Black banks, and those banks can lend to Black businesses, but if Black Americans do not patronize those businesses vigorously and persistently, then the entire economic growth ecosystem will break down. Here again, we must act (one step at a time) to rebuild trust in Black businesses so that those business can flourish, provide jobs for Black Americans, and repay the funds that they borrow. This will keep the entire economic growth machine operating smoothly.

Therefore, Black Americans should stop complaining that our areas of influence are not developing economically. We know how to ensure economic development and growth: (1) Create sound Black banks and deposit our money in those banks; (2) ensure that Black banks lend to Black investors and consumers who plough that money back into our areas of influence; and (3) support vigorously and persistently Black businesses. Either we satisfy these three requirements, or we remain underdeveloped economically forever. The choice is ours.

Black Banks → Black Economic Development

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