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BOOK REVIEW

The Color of Money:

Black Banks and the Racial Wealth Gap: Mehrsa Barardaran. Cambridge, Massachusetts: The Belknap Press of Harvard, 2017, 285pp

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The rise of "black banking" has been a gift and a curse for the black community in the roughly two and a half centuries since its inception. The gifts of hope for a better economic future and pride in substituting labor for compensation that could lead to capital and wealth creation have been tempered with barriers that have hindered advancement toward these dreams. Beginning with the failed Freedmen's Bank chartered for black Union soldiers of the Civil War and culminating with the apocalyptic "Great Recession" period of the late 2000s that crippled remaining black banks, the road to capital formation and wealth accumulation for the black community has been marred by unfavorable legislative action, weak enforcement of laws, and barriers to credit attainment through a "separate but unequal" banking system. These are the arguments which come to light in *The Color of Money*: *Black Banks and the Racial Wealth Gap*.

Chapter 1 of the book describes the substitution of perhaps more effective means of compensating former slaves for centuries of lost economic opportunity with the specter of deposit banking. Alexander Hamilton, the first treasury secretary, explained that through banking, "credit keeps circulating, performing in every stage the office of money." (p.13). Hamilton felt that banking was the portal to wealth creation. US Congress members agreed, and after the abortion of land reparation plans begun after the Civil War, the Freedmen's Savings Bank was created in 1865. Within 10 years, severe speculation and mismanagement of deposits caused the bank to close its doors, with over 60,000 depositors left without access to nearly $3 million. Black leader W.E.B. Du Bois went so far as to claim that "not even ten additional years of slavery could have done so much to throttle the thrift of the freedmen as the mismanagement and bankruptcy of the series of savings banks chartered by the Nation for their special aid." (p.31).

Chapters 2 and 3 look ahead to credit and insurance arrangements started by foundational black institutions such as churches and fraternal societies in the 1880s. The steady deposits provided by fees and contributions from members of these organizations soon led to the formation of banking institutions. The symbiotic coupling of the banks and the institutions was not without peril, however. The author suggests that "customers of these banks expected to receive services and terms…" "…on the basis of friendship rather than according to strict up-to-date [business] methods" (p. 42). Some private banking arrangements emerged during the period that attempted full-scale commercial lending, but the author cautions that "most were short-lived and unsuccessful" (p.44). A large problem with the black banking institutions derived from the lack of access to safeguards against changing financial conditions that were all-too-common in the black community. Before the days of FDIC deposit protection, banks relied on diversifying risk through the formation of relationships with institutions in neighboring communities. These bank collectives would collect dues from their membership to ensure protection against "bank runs" by panicked depositors during perceived financial crises. Black banks were routinely denied entrance into these "clearinghouses." On the occasion that one of the major black banks, Binga State Bank, was finally accepted into the prestigious Chicago Clearinghouse, the other clearinghouse members voted to let the bank fail during the Great Depression without providing protection using funds set aside for that purpose. Binga State Bank would be the only clearinghouse member to be allowed to fail (p.73).

In Chapter 4, the end of the Great Depression in 1933 brought forth a series of federal programs ushered in by President Franklin D. Roosevelt titled "The New Deal." The programs served as economic stimuli and panaceas for almost

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all Americans—except for black Americans. The author points out examples of programs that through local administration of laws, exclusion from labor-protecting unions, unfavorable allocation of grant programs, and commercial and housing mortgage lending policies that practically eliminated black neighborhoods from participation, the "New Deal" raised the tide for all boats except those anchored in the "black" harbors. The author remarks, "Unfortunately, most of the significant New Deal policies were administered in such a way as to maintain the South's racial hierarchy, which meant an almost categorical exclusion of blacks from government subsidies." (p. 101).

The New Deal widened the wealth gap and nearly made permanent the schism between the non-black middle class and the black ghetto underclass.

Chapter 5 offers a positive glimmer of hope during a golden period spanned by the John F. Kennedy and Lyndon B. Johnson Administrations of the 1960s where the Civil Rights Act was passed, ensuring on paper that the USA would align the equal rights pledges and promises outlined by its forefathers with the laws on its books and its actions. The legislation ended "Jim Crow" racial segregation practices throughout the country and eliminated employment discrimination. It was believed that the removal of these practices would allow blacks to participate in the efficient economic engine that improved the welfare of all other Americans. Access to jobs, credit, capital, and wealth creation seemed to be at the fingertips of the economically starved black population, which had been sidelined for so long by policies that had "stacked the deck" against them for centuries.

Unfortunately, the inspirational and urgent messages delivered by noted black leader Rev. Dr. Martin Luther King Jr. on the public mall in Washington, D.C., and in cities such as Detroit, Michigan, and Memphis, Tennessee, would be used to limit the pledges and concessions offered to the black population in the aftermath of the historic legislation. Rev. King's messages were intended to encourage government action in helping black America to attain "equal rights" under the law and to reduce the rampant poverty in black neighborhoods long excluded from the greater economic system because of the lack of these rights. The twisted interpretation by legislators and many in the general public claimed that any special economic concessions given to blacks would violate the "equal rights" clause by favoring blacks over whites. The author states, "The other edge of the sword of equality was used to cut down any claims for special privileges." (p. 138).

The lack of credit markets for black individuals remained a hallmark of this period. But removing discrimination in banking would not be as easy as drafting a law. Lenders used zip codes to determine the underwriting terms for loans, so black Americans—who were prevented from receiving mortgage loans in white neighborhoods and were forced to live in certain zip codes—paid more to attain credit regardless of their creditworthiness. The author notes: "If these borrowers could be integrated into the general market and large retailers allowed to do individual credit evaluations, the borrowers could have paid less for credit. This would have allowed lenders to diversify their risks, thus driving down prices for everyone." (p. 151). Capital formation would take a back seat once again and blacks would protest the lack of economic opportunity with rioting in several large cities at the end of the decade.

Chapter 6 would show that government help for poverty alleviation would not be forthcoming. Plans by the Johnson Administration to wage a "War on Poverty" ended with the recessionary late 1960s. The Nixon Administration of the early 1970s encouraged "black capitalism" as a strategy to appease poverty-stricken black Americans of the forgotten ghettos. Black capitalism encouraged integration on different terms. According to Nixon, "Integration must come…" "…but in order for it to come on a more sound and equal basis the black community must build from within." (p. 170). The author highlights that "Presumably he meant that blacks would have to work toward integration themselves, as though segregation had been an act of nature and not a system imposed and enforced by racism and state power." (p.177). Replacing the "habit of dependence" by blacks was a veiled code for the removal of monetary government help and the introduction of vague "support" for black businesses by a poorly funded Office of Minority Business Enterprise (OMBE) within the Department of Commerce.

In Chapter 7, the author effectively describes how assumptions concerning the "laws of free market capital" have actually acted against black businesses. For example, it was "the free market" (and not racism) that led to formation of white-only neighborhoods and black-only ghettos. People were simply expressing their "preferences" for neighbors of the same ethnic type. Therefore, the "free market" led to the lack of mortgage lending to blacks and the denial of business loans to black entrepreneurs, and the denial of bank charters to black banks. The "free market" was also used as an excuse to reduce welfare and to fight increases in the minimum wage. In describing former President Ronald Reagan's ideology, the author states, "While fighting both welfare and minimum wage hikes, he claimed he was waging a fight for the black community…" "…which meant moving toward an 'opportunity society', not a welfare state." (p. 221). Credit institutions were now encouraged to enter the black community, but there was now a quality problem with credit rather than a quantity problem. Predatory lending rates prevailed during the period.

Chapter 8 examines the events leading up to the financial crisis of 2008, and how government-sponsored enterprise agencies (GSEs) created mortgage-backed securities to satisfy the foreign lending market, which was very much interested in participating in the growth of the American housing market. These agencies purchased large groups of mortgage loans from banks and turned the mortgage payments into a securitized stream of income for investors. Of course, the new demand for housing mortgages by the agencies led to banks thrusting offers of credit at its most deprived customers—black borrowers who had been credit-starved only a generation ago. The banks developed new predatory lending practices that charged higher sub-prime interest rates to this new group even if the black borrowers qualified for loans at favorable rates. These high-interest loans soon proved to be too much of a burden for the borrowers and thus was born the liquidity crunch that caused the largest bailout of financial institutions (and GSEs) in history.

This book is a stimulating walk-through of the history of the expansion of the wealth gap between black and white Americans that has grown even larger since the Emancipation Proclamation freed blacks from slavery. That first black banking and then black capitalism were introduced as politically palatable substitutes for land and capital as slavery reparations for the black community serves as an eye-opening testimony to the powerful incentives produced by the need for maintenance of distributional hierarchy in conditions of scarcity. The black banking institutions themselves are minor co-stars in this playbill as there are very few success stories that can be carried over throughout the arc of the story.