Black Banking and Credit Coordination
By: Byron A. Ellis – July 09, 2017

The Jethro Project - Most blacks are unable to use savings deposited in white financial institutions for investment in productive assets and hence create employment in their communities. Thus, community output and living standards are less than they could otherwise be.

The question is, what should blacks do to change the status quo, and who should do it? That is, what are the mechanisms to increase the use of black savings for productive investments and employment in black communities, and who should lead this effort?

Historically, discriminatory lending policies precluded credit from white-owned banks, which adversely affected black investments and economic growth. Lack of credit prevents the expansion of black productive capacity, money circulation, wealth building, and employment.

The Black Lives Matter movement created to counter extrajudicial killings of blacks by police and vigilantes generated new interest in black financial institutions. Celebrities such a Killer Mike, Solange Knowles, Usher, and others highlighted the need for blacks to deposit funds in black financial institutions. Ms. Knowles recently announced that she had taken the necessary steps to use banking services at one of the twenty-one black-owned banks.

However, it is essential to understand that black-owned banks' lending practices mirror those of white banks. All chartered banks base credit on the three Cs: character (credit history), capital (collateral), and capacity (ability to repay). Therefore, recipients of credit from black-owned banks may not be community members, and even if they are, there is no guarantee that borrowed money will circulate in black communities.

For example, if credit is given to a black individual to buy an automobile, the borrower will undoubtedly obtain the automobile from a white dealership across town, because there are few, if any, black-owned automobile dealerships in black communities. So, the expansion of money, through credit, would not circulate in the black community, and we could think of many other similar examples.

Therefore, if the black community is to benefit from black savings and credit, it must develop an overarching plan to keep a high rate of money turnover within the community. The implication is that black banks would need to prioritized credit allocation to maximize the rate of money turnover in the community. For instance, loans used for purchasing items across town would have zero turnover rate and would not create jobs or raise standards of living in the community.

The problem is that most black communities lack the business infrastructure to facilitate the repetitive turnover of money in their community. Thus, proponents of saving in black financial institutions will be disappointed when credit issued by black banks does not make the community better off.

One way of ensuring a high rate of money turnover in the community is to preplan the utilization of bank credit. Thus, guaranteeing that funds successively move through the hands of multiple community members before it is extinguished or leaves the community.

Loans for sizeable community projects, such as housing rehabilitation, would require a host of service providers, such as carpenters, plumbers, painters, sheet-rockers, electricians, demolition workers, and so on, as well as suppliers construction materials. However, if community members do not control the support structure, money turnover in the community will be insignificant, and it will leak out. Thus, it is necessary to have appropriate black businesses and service providers in place before the flow of loaned funds to community members.

The concept of black savers supporting black financial intermediaries (banks, credit unions, insurance companies, and so on) and black financial intermediaries providing community credit to black borrowers is an excellent and necessary first step for black economic progress. However, by itself, saving in, and credit from, black financial institutions are not sufficient.

The sufficient and critical step is planning to ensure that the allocation of credit (money) from black financial intermediaries circulates more than once within black communities. Since, it is the rate of money turnover in communities that creates high rates of consumption, production, sustains jobs, and produces rising standards of living.

Planning for retaining money in the community requires know-how, constant communications with, and commitment from black savers and financial intermediaries to fund projects that ensure high rates of return while using the infrastructure of local businesses. It requires prefunding and prepositioning local merchants and contractors, as well as pre-training of craft persons (carpenters, electricians, etc.) required for community projects, such as housing demolition and rehabilitation.

So, the African Diaspora in the United States of America would need a capable agency to coordinate and steer black economic and social development. Similar to the Ministry of International Trade and Industry (MITI) of Japan, whose mission was to coordinate trade policy and was also responsible for domestic industries and businesses.

Regional black economic think tanks could develop blueprints for coordinating the retention of money circulating in black communities, as well as providing instructions on how to set up local viable financial institutions, such as banks, credit unions, and insurance companies. Engineering think tanks could develop minimum cost housing rehabilitation plans, and other think tanks could qualify black suppliers and contractors to perform the different work functions associated with value-added community projects.

A community member cooperative could use financing from black-owned banks to purchase and upgrade a large stock of dilapidated buildings. Use black contractors and suppliers to rehabilitate the buildings for housing and business purposes. Thus, improving the community employment and housing stock for members of the cooperative.

Furthermore, after restructuring neighborhoods, funding should be used to introduce key black-owned establishments, such as supermarkets, restaurants, theaters, and so on.

The economic importance of black-owned savings institutions (banks, insurance companies, credit unions, and so on), as well as blacks' deliberate collaboration, involvement, and commitment to ensuring the highest level of money turnover in black communities, cannot be overstated. These issues have been absent for too long from the wider black community debates and now have surfaced as a fundamental survival strategy.

A numerical example will provide additional clarity as to why these issues are primary and fundamental for black economic progress. Assume a typical city with 300,000 black residents with a conservative black income per capita of $18,000 per year. The resulting gross aggregate black income is (300,000 x $18,000 =) $5,400,000,000 per year. If blacks saved a mere one percent of gross income ($18,000 x 0.01 =) $180 per person per year or $0.50 per person per day, in black financial institutions, they could potentially reinvest close to ($5,400,000,000 x 0.01 =) $54,000,000 in the first year. The one percent savings, however, may be too optimistic. So, let's assume that blacks only saved $50 per resident annually (or $0.14 per person per day). Under this scenario, the potential for reinvestment is close to (300,000 x $50.00 =) $15,000,000.00 per year.

Surely, on the average, blacks save more than $50 annually, so the potential for yearly reinvestment in a typical black community is higher than the conservative estimate. Given the above, if economic progress is desirable, blacks must collaborate to create and nurture black-owned financial institutions, as well as a capable agency to coordinate and steer black economic and social development and use black savings to establish and support black-owned businesses.

So, why do blacks continue to bank in financial institutions that do not reinvest in their communities?