THE COLOR OF MONEY

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Black Banks and the Racial Wealth Gap

Mehrsa Baradaran

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Photograph: The Dunbar National Bank Building in Harlem, New York City circa 1925, by General Photographic Agency / Hulton Archive / Getty Images

To be a poor man is hard, but to be a poor race in a land of dollars is the very bottom of hardships.

—W. E. B. Du Bois

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Introduction

"All too often when there is mass unemployment in the black community, it's referred to as a social problem, and when there is mass unemployment in the white community, it's referred to as a depression," said Martin Luther King in 1968. "But there is no basic difference. The fact is, that the Negro faces a literal depression all over the U.S."[1] Today, across every socioeconomic level, blacks have significantly less wealth than whites.[2] Over a third of black families have either negative wealth or no assets at all.[3] The 2008 financial crisis devoured more than half the wealth of the black community, proving once again the adage that "when Wall Street catches a cold, Harlem gets pneumonia." To the extent that media and politicians focus on the racial divide, it is through its most urgent and salient features such as police shootings, burning cities, white supremacists, crime, and violence. Underneath it all is a deep and growing financial fault line between black and white. Though hard to detect, it is nonetheless *the* defining feature of America's racial divide because it is intimately linked to so many other problems. The wealth gap is where historic injustice breeds present suffering.

This book tells the story of how the wealth gap was created, maintained, and perpetuated. To tell the story, this book lifts the hood on the engines that the black community has used to fight this gap for generations—black banks. Banks are the drivers of wealth creation for any society, and banking policy is integrally tied up with politics and power—and yet scholars have all but ignored the black banking industry's unique role in black wealth development. What this history reveals is that black and white Americans have had a separate and unequal system of banking and credit. However, for over a century, black communities have been urged by black and white leaders to rely on these segregated black banks in order to reach individual and community prosperity. What comes into stark focus as we study these banks over time is the tangible barrier to prosperity presented by segregation, racism, and government credit policy. The effects of these forces on black banks demonstrate that successful banking and wealth accumulation would remain perpetually elusive in a segregated economy. Housing segregation, racism, and Jim Crow credit policies create an inescapable economic trap for black communities and their banks. Black banking has been an anemic response to racial inequality that has yielded virtually nothing in closing the wealth gap.

Despite these grim economic realities, each of the following leaders has championed black banking: Frederick Douglass, Booker T. Washington, President Lincoln, W. E. B. Du Bois, Marcus Garvey, Carter Woodson, Martin Luther King, Malcolm X, Jesse Jackson, the Black Panthers, President Johnson, President Nixon, Alan Greenspan, President Carter, President Reagan, President Clinton, and President Obama among others. On issues of race, there is likely little else that these leaders would have agreed on. Black-owned banks represented something different to each of them, but to all they held the promise that a successful black bank would lead to prosperity for blacks regardless of external circumstances.

Pushed outside the main arteries of American commerce, the black community turned inward and created its own institutions. The first black banks were formed less than a decade after slavery ended, in the hostile climate of racism and Jim Crow segregation. Most blacks could not save or borrow at white-owned banks, so they established their own. The creation of the black ghettos led to a surge in black banks in northern cities. As black bankers rose to the challenges of banking in a segregated economy, the community celebrated each hard-won success.

These banks were created to respond to racial hostility, but in spite of and because of this, they came to signify racial pride, black unity, and protest. For Booker T. Washington, black banking was salvation itself; he said it was by owning a home and "bank account" that the black man would eventually "find his way to the enjoyment of all his rights."[4] To Washington, money had no color and it was the only path toward racial equality.

Likewise, black banks galvanized the black community during the civil rights struggle. In 1968, Martin Luther King exhorted the black community to "take your money out of the banks downtown and deposit your money in [a black-owned bank]. We want a 'bank-in' movement."[5] To black nationalists, black banking was a necessary step toward asserting independence from white society. "Why should white people be running the banks of our community?" asked Malcolm X. Black banking became a symbol of resistance, black power, defiant self-determination, and active resistance to white racism.[6]

Black economic power and autonomy had a natural appeal in the face of segregation and racism, but also constitute a political diversion and a proxy for more meaningful reform. President Nixon threw his weight behind black banking so that he could oppose controversial desegregation programs and woo white moderates and conservatives unwilling to push any further on racial reforms. Presidential candidate Nixon's civil rights platform was centered on "black capitalism." He urged "more black ownership, black pride . . . and yes, black power."[7] The deceptively vague formula of black capitalism was a neutralizing racial détente amid an unprecedented and violent black insurgency and a hostile white backlash. Nixon co-opted the rhetoric of the radical black power movement to create a path through a political quagmire that would disarm black radicals and the white base on which his southern strategy relied. But what he meant by black capitalism was a cheap knockoff of white capitalism.

So politically successful was the promise of black capitalism that every administration since President Nixon has adopted it in one form or another. Presidents Carter, Reagan, Clinton, Bush, and Obama disagreed about many things, but they each sought to promote black banks and businesses through programs called "community capitalism," "enterprise zones," or "minority enterprise." President Reagan called black business and black banking the "key to black economic progress."[8] Bill Clinton even created robust legislation to promote "community empowerment" through banking—an infrastructure that Presidents Bush and Obama bolstered and maintained. President Trump has made promises along similar lines. Instead of meaningful financial support, the urban ghetto would get bankers.

The idea of community self-help, valuable as it was when there was no other choice, has been deployed cynically at several pivotal historical moments to thwart other, more direct answers to the racial wealth gap. The Freedmen's Bureau, for example, initially proposed to give freed slaves an allotment of the land their labor had enriched. Instead, they got a bank. Northern industrialists came out in support of Booker T. Washington's plan for a segregated black economy even as other black leaders were pushing for full integration. The New Deal programs that would have sent aid to build housing in the urban ghetto were instead used to create white suburbs that reinforced and perpetuated racial segregation for the rest of the century. And as soon as the civil rights coalition began to demand some form of wealth redistribution or poverty aid, President Nixon embraced black capitalism. Support for black banking and black capitalism have been consistent policy band-aid solutions, a decoy response to the fundamental challenge of overcoming America's legacy of slavery.

The theory of black banking is rooted in a foundational tenet of American banking policy. Thomas Jefferson believed that banks should be small and local as opposed to Alexander Hamilton's vision of large and national banks. Jefferson's ideal was a locally controlled economy, agrarian in nature, with decentralized monetary policy, but he was on the wrong side of history—it is Hamilton's centralized, national, and large banking sector that became essential to a vibrant American economy. Yet, when it comes to banking policy for poor and marginalized communities, it is Jefferson's outdated vision that is still dominant. Small community banking has always held a special appeal when applied to poor and marginalized pockets of the economy. The promise is that a beleaguered community, having been left out of the dominant banking industry, could pool its resources and collectively lift itself out of poverty.

Black banks promised to control the black dollar and grow it. If the color of the ghetto was black, so too would be the money flowing within. Blacks must "control the economy of our community," said Malcolm X. President Reagan believed that black enterprises "are especially important in neighborhood economies where the dollars . . . spent have a beneficial multiplier effect."[9] But could a ghetto, born from racism and segregation, overcome those forces through banking? Or was James Baldwin right when he wrote that "a ghetto can be improved in one way only: out of existence."[10]

Despite consistent bipartisan support and a few publicized success stories, there was never any evidence that the design would work. The very circumstances that created the need for these banks—discrimination and segregation—permanently limited their effectiveness and would ultimately cause their demise. The catch-22 of black banking is that the very institutions needed to help communities escape deep poverty inevitably become victims of that same poverty. Blacks were poor and, due to segregated housing, their homes were worth less. What this meant for black banks was that their deposits were costlier and their loans were less stable, which created a combustible situation over time. Housing segregation prevented the growth of black wealth and presented black bankers with an industry-crushing challenge. Not only were these banks more vulnerable to failure, but even in flush times, they were unable to perform the money-multiplying alchemy of banking. Pushed out of the mainstream, blacks needed to create their own economic engines, but their marginalization and exclusion from practically all aspects of American economic life made their engines weak and incapable of the economic growth bank financing is typically able to produce.

The truth was that segregated communities could not segregate their money. In fact, black banks, which were created to control the black dollar, became the very mechanism through which black money flowed out of the black community and into the mainstream white economy. The ghetto economy was weak, extractive, and costly. And the color of capital, commerce, property, trade, and money was white.

White, too, was the color of government credit. In America, each rung on the ladder toward prosperity consisted of bank credit—even more so in the twentieth century when homeownership became synonymous with both mortgage credit and prosperity. For blacks, the path toward wealth was closed by segregation, government policies, and economic reality. As the overall American economy grew by leaps and bounds, the urban black economy became locked in a state of perpetual depression.

The ghettos that initially trapped America's other immigrant groups did eventually improve themselves out of existence, once they were no longer segregated from the mainstream economy. In fact, the dilemma faced by black banks is highlighted when contrasted with the viable banks created by Italian, Jewish, German, Irish, and Asian immigrants. Each of these immigrant groups faced discrimination and exclusion like the black population, but the key difference was that none of them was systematically, uniformly, and legally segregated to the extent and for the length of time the black community was. Many immigrants eventually left their overcrowded ghettos and settled in suburbs where, through violence, zoning restrictions, and racial covenants, blacks were barred. This divergent path is illustrated by the fates of the home loans and banks established by these various immigrant groups. One instructive example is the Bank of Italy, which formed in San Francisco to serve Italian immigrants who could not get loans from the mainstream banks. Eventually, the Bank of Italy grew and merged into the mainstream U.S. banking system—just as Italian immigrants assimilated into American society. What was formerly the Bank of Italy is now the Bank of America—the largest and one of the most profitable banks in the country.[11]

The success of immigrant banks should not be misinterpreted. It was not self-help and community support that allowed them to finance themselves out of the ghetto. They left the ghetto first. And they did so only after being accepted as "white"; not through segregating their money. The bootstraps they were given were government-guaranteed mortgage loans, from which black people were excluded. Doubtless, many immigrants worked hard to achieve the American dream of homeownership, but so too did blacks.

The black ghetto and the white suburb were created by heavy state intervention. A government credit infrastructure propelled the growth of the American economy and relegated the ghetto economy to a permanently inferior position. The government-created credit apparatus did not cross the red lines that policymakers drew around the ghetto, and within the color line a separate and unequal economy took root. If free-market capitalism is understood as allowing the laws of supply and demand to operate without state intervention, then the black ghetto was certainly engaged in capitalism, but at a time when white America was not. Black capitalism, as it turned out, meant capitalism *only* for blacks.

There has always been an attempt at justifying and explaining wealth inequality in the United States. The economic oppression of slavery was justified in the eighteenth century by a corrupted version of Christian dogma that held that the white race had a divine right to subject the black one. Then science was conscripted to do the dirty work of white supremacy as social Darwinism held that race hierarchy was nature's will. Evolutionary theory and a sham science of eugenics and phrenology justified the wealth gap in the nineteenth century. In the twentieth century, economic theory was used to justify the wealth gap. Market fundamentalists such as Barry Goldwater, Milton Friedman, and Alan Greenspan held that the wealth gap was a natural result of market forces and that any government remedy was an inefficient market intervention. Black capitalism and its subsequent iterations became the modern era's justification for wealth inequality. The theory held that the invisible hand had set the price of black credit, the value of black homes, and the cost of black labor. This book is a challenge to that premise and it lays bare the fact that the hand that drives black poverty is not a natural and invisible one, but rather the coercive hand of the state that has consistently excluded blacks from full participation in American capitalism.

This is not just a story about the harsh realities of American racism—the violence and the repeated injustices—though these forces are an essential background to the narrative. This story peers inside the black community and studies its counterattack. But it is not a story celebrating the heroic struggles of individual black bankers who were triumphant despite the odds. There are certainly stories of inspiration to be found, but the overemphasis on Horatio Alger tales of success can lead to distraction. This is not a simple tale of bad guys or good guys—the exploiters and exploited. In fact, sometimes the exploited are the exploiters too. The story is larger than the players within.

This is a story of economics, politics, and laws that sowed the seeds of injustice into the soil of the American economy. The weeds that grew from it did not need to be fed with racism. It used the materials available—commerce, credit, money, and segregation—to regenerate inequality. It is too simplistic to blame the racists or the loan sharks for the wealth gap. We need to identify the subterranean forces that barely make a visible ripple on the surface as they perpetuate injustice over time. To examine the history and function of black banks is to shine a spotlight directly onto the fault line of economic inequality.

In 2016, in conjunction with the Black Lives Matter movement, activists renewed a focus on black banking. Yet, the industry is in distress. In June 2015, Mechanics and Farmers Bank of Durham, North Carolina, announced that it was shifting focus from specifically serving the black community to being just a standard community bank. It hired its first nonblack director, changed its name to the more modern "M&F," and announced that it would start going after a broader customer base.[12] To most banking industry observers, this change was not newsworthy; in fact, hardly anyone noticed. But the move might reflect the last gasp of a dying industry. Mechanics and Farmers Bank was the oldest and strongest black-owned bank in the country. Since 1907, it has been financing black churches, black homes, and black businesses. It survived the Great Depression, saving several other black-owned banks in the process. And for almost a century, its insurance affiliate, the North Carolina Mutual Life Insurance Company, was the largest black-controlled business institution in the world.[13]

While the demise of black banks across the country may have been a foregone conclusion, their loss is significant because these institutions represented something more than their vulnerable balance sheets. These are the institutions the black community has repeatedly relied on to achieve prosperity amid forceful economic headwinds. Their loss is a tragedy not because it is surprising, but because no other institution is in a better position to illuminate the complex and persistent obstacles to creating black wealth.

Black banks are the engines of promised prosperity in the black community and it is by inspecting them that we can know most about the self-reinforcing nature of black poverty. In fact, poverty is the sand destroying these engines. Noting the "striking" trend of black bank failures, a recent study linked the epidemic to the "deep poverty" of the black community.[14] In other words, the very poverty that these banks have been trying to fight for generations is the main obstacle to their survival. But the poverty rut is perpetuated when communities lose access to banks. As a group, blacks are more unbanked than any other race—60 percent of the black population is unbanked or underbanked, while only 20 percent of whites are in the same category.[15] What this means is that blacks disproportionately rely on fringe banks, leading to a debt trap. Blacks pay higher interest on mortgages and small loans. They pay more fees on basic services than similarly situated whites and they are taken to court disproportionately by creditors for very small debts.[16]

All of this is both due to and contributes to the wealth gap. Without a cushion of wealth, black families pay more for credit and financial services and fall harder when they hit a bump. Wealth provides a layer of financial security, and this shock absorber is missing for many black families. Especially for families on the bottom rung, owning a home provides a substantial buffer against the harshest edges of poverty, a stable foundation that can be passed down to the next generation. It can determine whether your neighborhood has decent or failing schools, whether you will be able to go to college, whether you will face eviction, or whether you can meet unexpected costs without having to resort to a payday loan. A store of wealth is self-reinforcing, as is its absence. As Billie Holiday sang, "Them that's got shall get. Them that's not shall lose."[17]

Historian Manning Marable has lamented that "the most striking fact about American economic history and politics is the brutal and systemic underdevelopment of black people."[18] When the Emancipation Proclamation was signed in 1863, the black community owned a total of 0.5 percent of the total wealth in the United States. This number is not surprising; slaves were forbidden to own anything, and the few freed blacks living in the North had few opportunities to accumulate wealth. What is staggering is that more than 150 years later, that number has barely budged—blacks still own only about 1 percent of the wealth in the United States.[19] When Martin Luther King stood on the steps of the Lincoln Memorial in 1963, he said that "America has given the Negro people a bad check, a check which has come back marked 'insufficient funds.' "[20]

This bad check was, in large part, the consistent faith in and promotion of segregated black banking. The promise of black banking is that the color of money does not matter and that black banks can control and multiply black money in the same way that white banks multiply white wealth. Yet despite a century of honest toil, the check has continued to be marked "insufficient funds." Whether the next century yields a different result will depend, in part, on understanding the nature of the failures of the last.

1

Forty Acres or a Savings Bank

Slavery, "America's original sin," according to James Madison, created the foundation of modern American capitalism.[1] It was slavery and the "blood drawn with the lash" that opened the arteries of capital and commerce that led to U.S. economic dominance worldwide.[2] The effects of the institution of slavery on American commerce were monumental—3.2 million slaves were worth $1.3 billion in market value, almost equal to the entire gross national product.[3] Slaves were also a valuable store of capital because they were liquid assets that could be exchanged on markets more easily than other forms of property. Slavery's unparalleled bounty is what caused many Americans to tolerate such a barbarous institution. Growing international demand for cotton fueled the growth of slavery, and the legal and political arms of the state maintained and protected it. More cotton led to more profits, which led to more demand for slaves, which led to more legislation supporting slavery, and then even crueler methods of oppression to extract more work from slaves.

The institution of slavery was so at odds with the liberal notions of equality avowed in America's founding documents that a theory of racial hierarchy was used to explain away the dissonance. Blacks had to be seen as subhuman so that they could be treated as chattel. In the antebellum era, Christian religious principles were exploited to provide the rationale for racial subjugation.[4] Not only were slavery and white supremacy condoned by God, but it was seen as God's will that white men exploit the labor of the black race. In *The Christian Doctrine of Slavery,* a Presbyterian minister concluded, "It may be that *Christian slavery* is God's solution of the problem [of labor] about which the wisest statesmen of Europe confess themselves 'at fault.' "[5]

The stark wealth distortion caused by slavery and the longevity of its effects cannot be underestimated. Blacks were "articles of commerce," as illustrated by the Constitution's three-fifths rule. Slave bodies were assets, credit, debt, currency—forms of capital and wealth. Between 1820 and the Civil War, banks across the South issued notes with images of slaves printed on the money.[6] The currency of the South was the slave. Slaves were not just the labor in the cotton production process; they were the collateral used to finance the operations. Slavery modernized credit markets, creating complex new forms of financial instruments and trade networks through which slaves could be mortgaged, exchanged, and used as leverage to purchase more slaves. In highly profitable, speculation-based markets, many white men built fortunes trading in slave-backed securities.[7] As is true of property ownership in any era, those who held slaves had the ability to grow exponentially richer because they could use their property to create more wealth.

For all the economic gains created by slavery, the slaves themselves could never profit. During the 246 years of institutionalized slavery in America, enslaved individuals could not participate in the economy as buyers and sellers. In order for slavery to function, the slaves needed to serve as cogs in the machine and not its drivers. They were therefore not permitted to own assets or offer their labor for pay in any form. These prohibitions, which included ownership of land and trade of any kind, were often cemented in law and enforced through violence.[8]

And since slavery was premised on white supremacy in a racial hierarchy, an ideology avowed across the country and not just in the slaveholding South, even freed blacks were restricted from full participation in commerce. Small numbers of blacks in the North and small populations of free southern blacks did manage to participate in the economy, but they were tightly constrained. In virtually every aspect of northern life, blacks were segregated from whites. Jim Crow laws mandating segregation in practically all spheres of life began in the North and West well before the Civil War.[9] Alexis de Tocqueville, who came to marvel at America's democracy, was shocked at the level of racial prejudice he observed in the North. "The prejudice of race," he wrote, "appears to be stronger in the states that have abolished slavery than in those where it still exists; and nowhere is it so intolerant as in those states where servitude has never been known."[10]

Many states legally prohibited free blacks from owning property, testifying in courts, or practicing professions or trades above menial labor.[11] Black businessmen typically could not sue white debtors in courts and were often restricted from engaging in finance.[12] Similarly, an 1852 Maryland statute excluded blacks from membership in thrift or building and loan institutions.[13] Where there were no legal barriers, there were social forces that blocked blacks from organizing banks and businesses. “A mere legal grant of a thing,” explained a black businessman, “does not mean that it will be immediately enjoyed. Public opinion is often more binding than law.”[14] And public opinion relegated blacks to the lowest economic stratum.

During this era of exclusion, free black businessmen relied on their own race for capital and credit. Black banking began as a private affair.[15] There were several black men of means who lent their own money to other blacks, but the group was so small that their names could be recounted by historians writing about them half a century later.[16] To the extent that there were any formal banking structures, they operated through philanthropic societies and churches. The center of the free black community in the North was the city of Philadelphia, and as early as 1788, prominent black clergy and business owners had organized “mutual aid societies.”[17] Mutual aid societies usually orbited the black church, the central pillar of the black community. The most prominent and long lasting of these was the African Methodist Episcopal Church (AME Church) in Philadelphia, founded by Richard Allen and Rev. Absalom Jones in 1787 with the governing slogan “To Seek for Ourselves.” It did just that. Between 1847 and 1904, the church gave over one million dollars to educational programs for blacks, and by 1907 it had supported twenty-two schools. The collective power the black community harnessed through church membership also made black churches a target for racial hostility and social control. After Nat Turner’s slave revolt in 1831, southern legislators passed laws forbidding blacks from preaching or congregating in their own churches. South Carolina even prohibited groups of black individuals from meeting together “for the purpose of mental instruction or religious worship.”[18]

By the mid to late 1800s, free blacks began to press against trade restrictions by forming a financial sphere of their own. In 1851, leading black businessmen and ministers gathered in New York City “for the purpose of making plans for improving the Negroes’ economic status.” They decided that blacks needed their own banks if they were going to succeed in business.[19] The group resolved that “a mutual savings bank be established by Negroes” in order to “encourage savings and thrift and . . . assist Negroes who wished to enter business."[20] A constant preoccupation among free northern blacks trying to operate businesses or buy property was their inability to secure any type of credit. Abram Harris, a prominent black economist in the 1930s, listed the barriers to black enterprise before the Civil War in the following order: "(1) The Difficulty of Obtaining Capital and Credit; (2) Low Wages, Competition for Jobs, and Immigration; (3) Mob Violence; (4) Occupational Restrictions; (5) Prohibitions against Owning Certain Types of Property; (6) Denial of the Right to Sue; (7) Restrictions against Settlement in the West; and (8) Civic and Educational Handicaps." Harris emphasized that "the greatest handicap was, without a doubt, the difficulty of obtaining capital and credit."[21] Thus, on the eve of the Civil War, there was a vibrant ongoing discussion among free blacks in the North on how they might establish credit and banking associations.

The bank envisioned by this group of business leaders would be organized as a cooperative society and would rely on black investors in New York who, it was hoped, would invest their total accumulated wealth in the bank to be used as starting capital. It was crucial that the bank have access to the entire black community's resources—it was said that northern blacks held between $40,000 and $50,000 in Wall Street banks—so that it could lend to black entrepreneurs and would-be property owners. This was the first of many attempts by black leaders and businessmen to convince blacks to harness the collective power of black capital in support of black banking. The bank ultimately failed to attract enough capital and was never formed.[22]

The black community knew that it needed banks if blacks were ever going to advance economically. Alexander Hamilton, the first treasury secretary and the father of American banking system, explained that it was banks that could create the "augmentation of the active or productive capital of a country." Gold and silver, he said, "acquire life" and only through the operation of a bank. "Banks in good credit can circulate a far greater sum than the actual quantum of their capital in Gold & Silver." Explaining bank lending and the money-multiplying magic of banking, Hamilton explained that bank "credit keeps circulating, performing in every stage the office of money."[23] In other words, it was through banking that American wealth would be created.

Bank credit creates wealth, which is why the isolated free black community kept trying to create its own segregated banking system. Bank credit was needed to "augment" capital, but could a bank be created without capital? Could bank lending lead to wealth creation, or did banking only work to multiply already accumulated wealth? In a circular economic rut that would be repeated throughout history, there was too little available capital to create a bank that could extend credit so that more capital could be produced. And blacks' access to capital was limited because they did not have any political power.

Hamilton had emphasized that successful banking required a strong partnership with the federal government. He told Congress in 1790 that a bank is "not a mere matter of private property, but a political machine of the greatest importance to the state."[24] A healthy government needed a bank to survive, and strong banks relied on government support. In order to thrive, banks needed government charters, free and open access to enforcement of contract laws, and the orderly maintenance of capital and credit markets. Though government intervention in the economy was limited in the antebellum era, government's hand was most apparent in banking and currency markets, and it kept blacks out of both. If Hamilton was right in saying that only successful banking could multiply wealth and that strong central government support was needed for a healthy banking system, could a people on the margins of the economy ever create wealth through banking? Black banks would try to answer this question for two centuries.

Black leaders continued to discuss the bank even as the slavery question was being hotly contested on the national stage.[25] These were interdependent questions, for freedom would be severely restricted without the ability to fully participate in the economy. Black leaders stressed that emancipation would have to be followed by the accumulation of wealth if the black community was ever to achieve meaningful political equality. Frederick Douglass remarked that "the history of civilization shows that no people can well rise to a high degree of mental or even moral excellence without wealth. A people uniformly poor and compelled to struggle for barely a physical existence will be dependent and despised by their neighbors and will finally despise themselves."[26] The debate over a black bank became moot, however, when free blacks lost their political status as a result of the 1857 *Dred Scott* case, which held that no black individual, free or enslaved, could claim American citizenship. The case was the last gasp of the South, which was increasingly under pressure to release its grip on its profitable and abusive institution of slavery. The Industrial Revolution significantly changed the nature of the economy and unleashed forces that would eventually lead to southern secession, the Civil War, and ultimately emancipation.[27]

Even though the Civil War decimated the South, the ill-gotten spoils of slavery remained and grew in the former cotton empires in America and Europe for generations. The theories of racial superiority spun to justify centuries of enslavement stuck around too. These theories, so infused in American culture, could not be shed easily, and their long-lasting effects would lead to economic distortions that constantly impeded those formerly enslaved from participating in the white-dominated economy.

The freed slaves had to make the transition from being capital to becoming capitalists—from being chattel to owning it. They had to do this having "neither money, property nor friends," as Frederick Douglass explained.[28] The road to wealth presented severe obstacles during the terrible confusion and upheaval in the Reconstruction-era southern economy.

The victorious Union army granted the slaves their emancipation, and for a transitory moment the Union came close to giving them a share of the land. After his famous march from Atlanta to the sea, General William T. Sherman remained in Savannah as the war wound down. There, he consulted with several black leaders who told him that the ex-slaves, worried about lingering racial animosity, preferred to take care of themselves on their own land.[29] Black minister Garrison Frazier explained that the "way we can best take care of ourselves is to have land and turn it and till it by our own labor."[30] Blacks had already begun to establish self-governing communities in several places in the South.[31] After emancipation, black communities formed hundreds of mutual aid societies to work toward economic self-sufficiency. They set up charities to take care of the poor and sick and to educate each other. "We have progressed a Century in a year," said one freedman.[32] During the first year of freedom in 1866, a "Negro convention" held in Greene County, North Carolina, suggested that blacks could raise their economic status by creating joint stock companies and patronizing black businesses.[33]

The black community's main objective, which it sought through political means, was acquiring land. Emancipated slaves and their northern Republican supporters believed that land ownership was the only way to achieve a free market in the South. Without land, they would be at the mercy of their previous owners.[34] Sherman signed Field Order 15 in March 1865, which set aside 400,000 acres of confiscated land for freed slaves.[35] Sherman's plan was to create a territory exclusively for ex-slaves where they could live free of white control and manage their own economic and political affairs.[36] In justifying this action, Sherman borrowed from Thomas Jefferson's populist view of land as usufruct. The basic idea was that landholders owned property only due to the benevolence of the federal government, in which all land rights resided. The southern Confederates' traitorous act of secession forfeited their land rights.[37]

Two months after the Sherman order, Congress created the Freedmen's Bureau and tasked it with transitioning former slaves to their new lives; part of the plan was to dole out the seized land. The Freedmen's Bureau Act of 1865 formalized Sherman's field order into a law "providing that each negro might have forty acres at a low price on long credit."[38] The order came directly from President Lincoln, who wished to give freed slaves "an interest in the soil."[39] The price of land was to be fixed at $1.25 per acre, 40 percent of which was due up front. The land was to be protected by the military until Congress could act to formalize land titles. Some families even received leftover army mules.[40] It seemed that the government was about to create a black landowning class. In fact, during the Reconstruction era, racial equality was even contemplated. Black lawmakers and radical Republican allies like Thaddeus Stevens, Charles Sumner actively pursued full integration and equality.

Confiscating and breaking up the land meant destroying the slaveholder oligarchies that had controlled the Confederacy. The backlash was extreme and ruinous. Having contemplated a complete reordering of the South, and perhaps exactly because the stakes were so high, the Reconstruction revolution was violently overthrown. Ex-Confederates won back through violence, fraud, and coercion what they could not achieve through military victory or political process.[41] The Ku Klux Klan became a para-military force in the South whose purpose was the overthrow of Republican government, black politicians, and any other activists not fully in line with the established antebellum order. According to Reconstruction historian Eric Foner, "the largest number of violent acts stemmed from disputes arising from black efforts to assert their freedom from control by their former masters." Especially vulnerable were blacks who tried to purchase land.[42] Reformists were assassinated, and black voters were harassed. As W. E. B. Du Bois explained, "Guerrilla raiding, the ever-present flickering after-flame of war, was spending its forces against the Negroes, and all the Southern land was awakening as from some wild dream to poverty and social revolution."[43]

A postwar struggle was being waged over economic control of the South. The Freedmen's Bureau could not survive the violence and chaos that followed Appomattox and thus promises of land and equality vanished.[44] As Du Bois said of Reconstruction, "the slave went free; stood a brief moment in the sun; then moved back again toward slavery."[45]

President Andrew Johnson, the accidental president who assumed office after Lincoln's assassination, joined the white southern backlash and rolled back Lincoln's promises. He thoroughly undermined the Freedmen's Bureau bill, including the land grant, and fought the black rights movements, asserting that America would remain a "white man's government."[46] Though the southern rebels had expected to be hanged for their treason, Johnson welcomed them back into the fold, pardoned them, and restored their confiscated land. The land General Sherman had given to freed slaves in Georgia was returned to the original owners before a full harvest season had elapsed.[47] The effects were devastating for blacks. Had whites made good on this promise to blacks, claimed Du Bois, it "would have made a basis of real democracy in the United States."[48] Instead, the agents of the Freedmen's Bureau went south to "tell the weeping freedmen, after their years of toil, that their land was not theirs, that there was a mistake—somewhere."[49]

Union General Oliver Otis Howard, who had the unpleasant task of taking the land back from the freedmen after he had helped administer the order, nevertheless reasoned that the "freedmen should have land, but they . . . must pay for their land."[50] President Johnson said that the Freedmen's bill was advantaging blacks over whites and that it was time for blacks to fend for themselves. "It is earnestly hoped that instead of wasting away, they will, by their own efforts, establish for themselves a condition of respectability and prosperity." Johnson claimed that the laws of capitalism and free trade would allow the freedmen to accumulate land without any special help from the state. He was confident that freed slaves would be able to choose their "own employment and their own places of abode" and insist on and receive "proper remuneration" for their work and further that the "laws that regulate supply and demand will maintain their force, and the wages of the laborer will be regulated thereby."[51]

It is important to pause and note that during this time the government was in the process of confiscating and distributing millions of acres of land for railroad expansion—a heavy government subsidy to a private enterprise. Banks were also being supported by public taxes in order to induce them to extend credit to the South.[52] The Homestead Acts gave out millions of acres of government land to white settlers for years. The sheer scale of the land redistribution and its exclusion of blacks from the bounty was not the laissez-faire free market Johnson was describing.[53] Blacks were denied land, not because the government was beholden to market rules, but because the government was controlled by political factions favoring the southern white elite, and giving blacks land was politically unpopular.

The myth that free-market principles were guiding political choices was further exposed as hypocrisy because blacks could not even pay "market prices" for land. White southerners simply refused to sell land to blacks. Land was sometimes sold at half the price to white buyers compared to what black buyers were offering just to avoid selling their land to blacks. Even when white landowners did not have sufficient resources to cultivate the land themselves, they still spurned black buyers.[54] Southern states even passed laws that forbade white sellers to sell land to blacks.[55] The abstract laws of supply and demand could not work when actual state laws excluded blacks from free markets.

The southern economy was anything but a free market. Prominent southern lawyers, legislators, and judges drafted laws that governed all aspects of black life and spurred racial bias across the South. These "black codes" prohibited blacks from property ownership, trade, testifying in courts, and voting. Blacks could not engage in commercial trades other than what they were conscripted to do. An 1865 South Carolina law declared that "no person of color shall pursue or practice the art, trade, or business of an artisan mechanic or shopkeeper, or any other trade, employment or business . . . on his own account and for his own benefit until he shall have obtained a license which shall be good for one year only."[56] One black veteran remarked of these laws, "If you call this Freedom, what do you call Slavery?"[57]

By the end of the Reconstruction era, most freedmen were left landless, voteless, and with practically every profession blocked to them—their only choice was to grow cotton. Of course, that was the point. The world cotton market, headquartered in Great Britain, was heavily dependent on cheap and abundant cotton from the United States. The global web of cotton merchants that connected capital and trade through Liverpool, New York, Chicago, Paris, and Georgia had been closely following the turmoil of the Civil War. The moment the war ended, nervous cotton interests worked in local, state, and national courthouses and legislatures to restore a cotton-growing system as quickly as possible and as close to slavery as permissible. Across the globe, cotton traders and capitalists agreed that blacks needed to grow cotton. As Union general Frank C. Barlow put it in 1865 about his purchase of a southern plantation, "Making money there is a simple question of being able to make the darkies work."[58] Some northerners had opposed the land redistribution efforts for the same reason. New York Democrat John W. Chandler argued that the land bill "leaves the culture of cotton, which is one of the main sources of national wealth, without security and without any certain prospect of improvement."[59]

For blacks, freedom had meant that they would be in control of their own economic destiny. For white capitalists, black freedom meant that blacks would be paid wages for growing cotton. These two interests and definitions of freedom were directly at odds. In order to make blacks continue to work at growing cotton, it was crucial that the freed slaves not be permitted to engage in subsistence farming. In other words, America could not go the way of Haiti. After Haitians led a successful slave revolt against the French, the former slaves refused to grow sugar and output halted.[60] They grew crops they could eat instead. Subsistence farming meant that a family would grow what they could live on, diversifying their crops, with some portion going for sale and some going for consumption. There was every reason to believe that American blacks would also go this route. After the war, in the fleeting moment of freedom, freed slaves had created societies of communal landownership and grew subsistence crops. In Edisto, South Carolina, for example, an independent society of freedmen consisting of 5,440 people cultivating 3,230 acres of land grew 33 percent cotton, 54 percent corn, and the rest in garden vegetables. The land was owned cooperatively and the profits from the harvest were shared.[61] One South Carolina Bureau agent called the freed people's land use "contrary to the laws of Nature and Civilization as I understand them." He was appalled that they would be planting vegetables in the most productive cotton soil in the world.[62] Some blacks rejected growing cotton because it was a "slave crop," permanently associated with "the overseer, the driver and the lash."[63]

The southern plantation economy could not function without cotton, and the cotton machine could not hum as it had before the war without exploiting black labor. A South Carolina planter said "the negro [is] the proper, legitimate and divinely ordained laborer of the South . . . [who] has become wild in the exuberance of his freedom . . . and will be trained to work as a free man. He cannot be permitted to become what he is in St. Domingo [Haiti]."[64]

Denying blacks landownership took care of the threat of subsistence farming, but black labor also had to be "induced" back to the cotton plantations. The South worked quickly to turn freedom into a legal technicality as opposed to an experienced economic reality. The black codes and compulsory work contracts took care of that by mandating constant and unrelenting work and punishing resisters through vagrancy laws.[65] Work contracts forced blacks to stay on the plantation, and a contract breach, usually enforced through monetary damages, was punishable by violence, imprisonment, and loss of life.[66] So coercive was this system of enforced labor that freedmen were prohibited in many states from hunting or fishing, which prevented them even from exploiting natural resources for survival.[67]

The criminal and legal system of the South was used to prevent the free movement of blacks in the market. Besides unrelenting cotton production, there were other forms of exploitation. The South's burgeoning mining economy needed cheap labor, and southern entrepreneurs used the criminal justice system to re-enslave thousands of black men and work them, usually to death, in abhorrent labor camps.[68] Having relied on unpaid black labor for so long,

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