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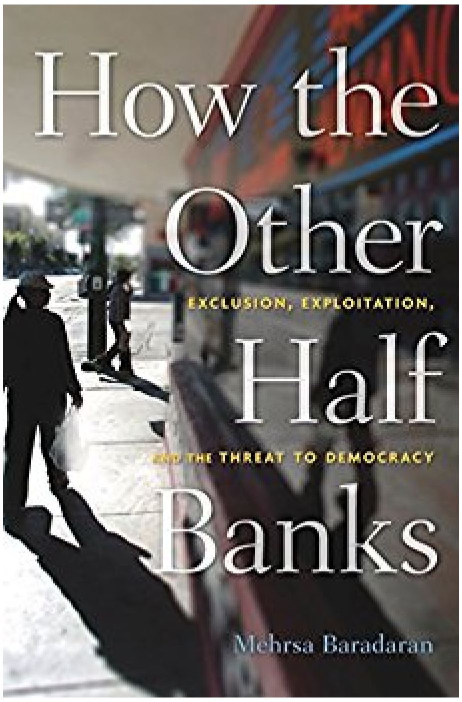
How The Other Half Banks: Exclusion, Exploitation, And The Threat To Democracy



Synopsis

The United States has two separate banking systemsâ ”one serving the well-to-do and another exploiting everyone else. Deserted by banks and lacking credit, many people are forced to wander through a Wild West of payday lenders and check-cashing services thanks to the effects of deregulation in the 1970s that continue today, Mehrsa Baradaran shows.

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Customer Reviews

You canâ ™t get through Professor Baradaranâ ™s book without becoming more informed. Over the last half decade or so, a lot has been written about the financial crisis. And Professor Baradaran has made a worthy contribution to this crisis library. She doesnâ ™t spend a lot of time retreading what Iâ ™ve seen in other booksâ ”she doesnâ ™t really trace the machinations associated with determining whether to save the banks, and which banks to save, or the details of the financial instruments that blew up, or much of the current intrigue.Instead, she lays out the history of banking, with a focus on its relationship to the state. Banks, she explains, have been controversial in the United States since its founding; theyâ ™re essential to grow an economy and put money where it needs to go but, by gathering money together, banks can accrue outsized power and influence.Originally, banks in the U.S. were local; only during the Civil War, when the country needed lots more money than it had, banks really become national. And even then, they were tightly regulated. That regulation ensured both that the banks received necessary support from the government, and that the banks were roughly democratic in how the treated depositors and borrowers. Even with regulation, though, banks tended to shift power to urban areas and to the wealthy, at the expense of the rural and the poor.In her book, Professor Baradaran traces several good banking movements (including credit unions and savings and loans) that were originally meant to provide banking services to a broader population than the banking industry did. She also traces the downfall of these various attempts, as they either transformed into the banks they were meant to supplement, or otherwise failed.

This book is an excellent primer on the history of banking in the United States, as well as a compelling argument for a significant political proposal.I read this book with a couple of different brains. One was the brain of a girl who grew up "middle class poor" and experienced a lot of the instability Baradaran describes among the unbanked or working poor. In my understanding of our family’s struggles, lack of credit was never a consciously felt harm. When we were strapped for cash, we never wondered how to get a loan or went to a payday lender--we either got help from our family, or we got evicted. If there had been an option to go to the post office and get a $300 loan to make rent this month, would we have used that? Would that have helped? If my single mom had atrocious credit, would we have been eligible? In my version of poverty, the philosophy was ALWAYS to find some way to go without rather than incurring any debt, but I realize now as an adult that debt is a key path to many for building enormous fortunes. I’m left with a question--is debt ever anything but a death sentence for the poor? The answer to most of these questions is "I don’t know." My poor person brain sees this whole notion of providing easier, safer access to credit to the poor as just a tiny band-aid on the problem of poverty, and lands me back at the conclusion that fighting capital directly through organizing workers is the best bet the working class in this country has. Postal banking seems like it would be a helpful addition, but not a vehicle for structural change.The other brain I used to read this book, though, was my history major, political brain, and that brain just ate it up.

The book has a very good history of banking in the U.S., but her main theme is based on a conflated model of banking that only someone isolated in an ivory tower could come up with. She claims banking has been based throughout much of our history on a "social compact" between banks and the government authorities that charter them. She describes this compact as requiring private businesses to benefit the public but not themselves. She claims this compact was changed during the Clinton and Bush administrations and now banks only care about profit. Banks must get regulatory approval for many things and she says that approval should only be given if it benefits the public and not if it only benefits the bank. As an example of the abandonment of the compact, she mentions an application approved by the Federal Reserve that only allowed the bank to compete more effectively.I am a former regulator. A bank application would certainly be disapproved if it would harm the public, but it has never been the case that a change that would help the bank operate more efficiently or profitably could not be approved unless it somehow directly benefited the public as well. All bank regulators have always closely monitored bank profitability and always will. A bank that is not profitable could fail and a failed bank causes a lot of harm to its customers, shareholders, creditors and the community it serves. A failed bank can't serve any public needs or convenience. Conversely, the public always benefits if a bank serving that community is stable and financially sound and able to continue serving its customers in all economic conditions. A competent regulator would not deny an application that would benefit the bank unless it would harm the public.

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