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## Prologue: Banking for people who think banking is broken

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THIS BOOK IS A ROUGH INTRODUCTION to a number of banking concepts useful to people who are dissatisfied with the current state of the banking industry in America. One of the common problems activists face is that they are, almost by definition, dilettantes. People who spend their careers studying banking tend to be, you'll be surprised to hear, bankers. By and large, they're happy with the system. And they should be; it's theirs. But the rest of us depend on it, and it does not serve us nearly so well.

Unfortunately, most of us spend our time in other occupations, acquiring other expertise. Some of us build things, some of us write things, and some of us simply learn how to be good humans. Which is all great, but it becomes a disadvantage when we notice that banks are messing things up for everyone and we don't have the vocabulary to discuss the problems with confidence. Worse, when discussing banking in public, the moment bankers turn to jargon, people who can't translate run for cover. This does nothing for their credibility, and basically slows down the whole process of fixing a broken system.

I earn my living in Rhode Island, as a freelance writer, engineer, and policy researcher, spending a lot of time on economics, taxation, finance, and other equally nerdy topics. In January of 1991, the new Governor of Rhode Island—only moments after being sworn in—was forced to declare a bank holiday and close 45 small banks and credit unions whose deposits had been insured by a private company. That company, owned and run by the very banks it supposedly regulated, turned out to be little more than a

nest of backslapping and incompetence, and was driven into sudden insolvency by spectacular misconduct at several of its member banks.<sup>1</sup> About a third of the state's population (including me) saw their bank accounts frozen and suddenly inaccessible. The debacle cost the state government over a billion dollars (a third of the annual budget at the time) and devastated the local economy. Trying to understand the problem, and then trying to imagine better policy responses than the ones on offer, began my career as a banking analyst.

Since then, I've helped dozens of elected officials understand how public finance really works, and created alternative banking proposals for activists and officials in Rhode Island and other states. Along the way I've felt the lack of a short and non-threatening introduction to banking, a companion I could trust to help me puzzle through reports and memos, and help me to have productive discussions on the subject with activists, bankers, regulators, and other government officials. I never did find a book like that, but instead found myself consulting banking textbooks, technical reports, and academic papers, as well as harassing bankers of my acquaintance. It has been an effective education, but not the most efficient. This book is my attempt to mark the path I followed so that others can find their way along it more quickly than I did.

Here, then, is a modest list of useful concepts, a discussion of how banks work, and how they fail, as well as some suggestions for new institutions that might help make change. Faced with a landscape of unaccountable and damaging financial institutions, one sensible response is to attempt to regulate them better. Another is to invent new ones. Many people are working on the first response, with what one might charitably call mixed success. It's time for more people to take up the second.

Because some of the most intriguing possibilities for new institutions have to do with government and public control of finance, there is also some attention paid here to governments and their finances, with an eye to how the collective financial clout already contained in our nation's cities, counties, and states might be used to begin to rein in some of the excesses of the banking industry.

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<sup>1</sup>This involved breathtaking embezzlement at two of the banks (see footnote on page 47), unforgivably optimistic lending at several others, and perfectly sensible banking at the rest, which promptly applied to the FDIC and NCUA and quickly reopened.

This book is not intended as a call to arms, or as an investigation into how banking has gone awry, or a history of banking, or even a complete how-to manual. It is a primer on banking language and practice, though many who have heeded a call to arms from some other bugler will find this information useful. Furthermore, this is decidedly *not* a discussion of money, the social consequences of debt, or an introduction to alternatives to our monetary system. Though there are certainly reasons to be dissatisfied with all of that, those topics are well beyond the scope of a small book like this. Nonetheless, this book will equip you to discuss all these topics with confidence and possibly to seem intelligent while doing so, though the details of that masquerade are left to the reader's own efforts, as they always must be.

Banks, banking, and money in general make for a vast and confusing subject. None of the insiders have any incentive to make things clear for onlookers. They use obscure language to describe simple things, and simple language to describe obscure things. I hope to have helped make it a little bit clearer with this book, and its glossary, and further hope some of you will use the information here to become more effective advocates for changing the way our financial system works, and that some will even help create those new financial institutions our nation so desperately needs.

I would be delighted to hear about omissions I've made or corrections and additions you might think necessary. Contact information is on the copyright page.

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