



How the Poor Can Save Capitalism

Rebuilding the Path to the Middle Class

John Hope Bryant
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Rating

9 9 Applicability
8 Innovation
9 Style

Focus

Leadership & Management
Strategy
Sales & Marketing
Finance
Human Resources
IT, Production & Logistics
Career & Self-Development
Small Business
Economics & Politics
Industries
Global Business
Concepts & Trends

Take-Aways

- Politicians and business leaders who ignore poor and working-class Americans are making a serious miscalculation.
- Consumer spending drives the US economy. The top 1% of US earners spends nearly 49% of its income on consumption; the bottom 80% spends 90% on consumption.
- Middle-class African-Americans hold just a fraction of the wealth of middle-class whites.
- The \$321-billion alternative financial services sector, which includes payday lenders and check cashing stores, thrives on the poor's financial illiteracy.
- Financial literacy is a language people need, yet money is a foreign concept to many.
- Low credit scores are a costly side effect of financial illiteracy. Boosting impoverished consumers' credit scores is a life-changing move.
- The United States should fund the teaching of financial literacy to students of all ages.
- Poor borrowers didn't create the subprime bubble, but they bear the brunt of it.
- The "dignity mortgage" offers impoverished Americans a shot at homeownership.
- Business owners should be mentors for needy youth. The poor hold unappreciated reserves of creativity and resilience.

Relevance

What You Will Learn

In this book summary, you will learn: 1) Why the poor represent an untapped economic resource, 2) How to increase financial literacy and economic mobility in the United States, and 3) How being broke and being poor differ.

Review

In this engaging study, entrepreneur and activist John Hope Bryant prescribes something of a New Deal for America's poor and working class. Bryant – a self-made businessman and founder of the nonprofit Operation HOPE – doesn't dwell on the data of America's growing inequality. He focuses instead on opportunities and solutions. If disenfranchised people started businesses, he argues, the US economy would spark to life in new ways. *getAbstract* recommends this powerful guide to policy makers, activists, NGO leaders and entrepreneurs seeking a new, workable approach to income inequality.

Summary

"The poor are an untapped, unleveraged asset for the future prosperity of our nation, and America's inner cities are the last bastion of lost capitalism."

"If we could provide a paid internship for every youth who achieves a passing grade in high school, we might be able to crush the high school dropout epidemic in America."

An Unequal Economy

Many problems plague the US economy: inequality, a lack of upward mobility, and the decline of the American dream for the working and middle classes. Politicians and business leaders who ignore people on the bottom of the income distribution scale make a serious miscalculation. Consumer spending drives the US economy. The top 1% of American earners spends nearly half its income on consumption; the bottom 80% of earners spends 90%. They have no choice but to devote their incomes to living expenses. Lifting the lower-class tide would raise all boats.

Walmart is the world's largest merchant because the working class controls vast buying power. The poor view themselves as victims, and that can lead to passive acceptance of their plight and pessimism about their opportunities. For many, poverty is a permanent mind-set. As economic insecurity spreads into the American middle class, a feeling of helplessness spreads as well.

Financial Literacy

Author and activist John Hope Bryant grew up in South Central Los Angeles and in Compton, California, poor communities that were disconnected from the mainstream economy. One day, a white banker visited Bryant's school. With his business suit and talk of entrepreneurs and financing, he seemed to come "from a different planet." Bryant learned that the banker lent money to business owners. That inspired him to pursue a similar career path.

Financial literacy is a language people must learn, yet knowledge about money is still a foreign concept for too many people. After Abraham Lincoln signed the Emancipation Proclamation that freed the slaves, he created the Freedman's Savings and Trust Co., an institution charged with teaching financial literacy to African-Americans. But the Freedman's bank collapsed, and nothing replaced it. Some 30 million African-Americans have received no formal schooling in capitalism. Middle-class African-Americans hold a fraction of the wealth of middle-class whites.

“Discussing poverty in America today is arguably even more taboo than discussing race.”

“In America, issues of money and good decision making are often wrapped up and mixed up with issues of individual self-esteem and confidence, community culture and belief systems, values and, quite frankly, emotional and psychological depression.”

“Asking poor people to read The Wall Street Journal is about like asking them to read and speak advanced Russian.”

“We must make financial literacy – teaching each and every one of our children the language of money – the new civil rights issue for 21st-century America.”

Financial illiteracy costs the poor in many ways. Consider the Earned Income Tax Credit, a federal subsidy for lower-income workers. A quarter of those eligible for the credit never claim it, leaving behind some \$10 billion per year meant to help people who are living paycheck to paycheck. Bryant launched Operation Hope to improve the financial prospects of the 100 million Americans who earn less than \$50,000 annually.

Poor Americans are adrift in a sea of opportunity. Many impoverished areas remain underserved by mainstream banking, retailing and entertainment. Bryant wants to help disadvantaged people realize the opportunities available to them, including in their own neighborhoods.

“Bad Selfishness”

Traditional banks don’t pursue customers in poor neighborhoods. They ignore a huge market of potential clients. Alternative financial services, such as payday lenders and check cashing stores, fill underprivileged neighborhoods, but their services are costly. Financial illiteracy leaves consumers unable to distinguish between banks and these types of storefront companies.

American capitalism exercises two types of self-interest: “Good selfishness” interprets the profit motive to mean that the entrepreneur makes money while the customer gets a fair shake. Bad selfishness is the atavistic greed that led to the housing bubble and the mortgage meltdown. The \$321-billion alternative financial services sector thrives on bad selfishness.

This industry includes check cashing, “buy-here-pay-here” auto loans, payday loans, remittances, prepaid credit cards, tax refund anticipation loans, money orders and rent-to-own merchants. Alternative financial service providers seek to maximize profit rather than to build mutually beneficial relationships. The size of the alternative finance sector reveals a huge untapped market.

Good Selfishness

Some companies do practice good selfishness. In Orlando, La Familia Pawn and Jewelry offers customers access to credit cards. In Los Angeles, Nix Financial operates as “an ethical check casher” by charging low fees, just 1% to 3%. In 2000, Union Bank of California purchased Nix Financial, seeing its three dozen locations as a gateway to an underserved market. Union Bank tellers urged customers to open checking accounts, which would let them cash checks for free.

“Dignity Mortgages”

For decades, the American working class relied on homeownership as its version of a “hedge fund.” Making mortgage payments enabled homeowners, even those with low incomes, to establish some wealth by the time they retired. For a time, lenders conducted subprime mortgage lending responsibly. As a result, poor families built collateral they could use to help pay for their children’s college education or to launch small businesses.

The subprime mortgage crisis threatened that lifeline to the mainstream economy. Reckless lending practices led to a crash, followed by foreclosures. Poor borrowers didn’t create the subprime bubble, but they bear the brunt of it. In the aftermath of the crash, subprime lending all but disappeared. Now, only borrowers with stellar credit and hefty down payments can qualify for mortgages – blocking homeownership from those who need it most.

“Real estate has always been the working family’s hedge fund – a hedge against being dead broke at the end of a life of hard work.”

“When you are poor, most everything is a challenge, and this translates into poor overall well-being.”

“Call it Misery Row: those predatory check cashers next to rent-to-own stores next to payday lenders next to liquor stores.”

“The net worth of middle-class blacks is a fraction of the net worth of their white counterparts, who have simply had better financial and economic role models for a much longer time.”

For impoverished Americans to have a shot at homeownership, the country’s financial sector needs to embrace a new way of viewing risk. The “dignity mortgage” offers a possible solution. These loans would be available only to borrowers who make less than 120% of their area’s median income, and only for properties valued at 95% or less of the region’s median home price. The loans would require borrowers to complete credit counseling and to take a financial literacy course. They would have to show an ability to weather a financial emergency such as a job loss. Dignity mortgages are unlikely to create default issues for lenders. Such a program is crucial for the long-term health of the US housing market and the fortunes of the American working class.

Credit Scores

Low credit scores are a costly side effect of financial illiteracy. Many poor people fall victim to a common neighborhood trap: the liquor store next to the check casher. Poor neighborhoods are full of people with unbankably low 500 credit scores. A credit score in the 650 to 670 range moves a consumer into the mainstream financial system. Boosting a poor person’s credit score is a life-improving move that can turn a borrower from a victim into a dignified consumer and, perhaps, a wealth builder. This financial transformation happens at the individual level. Regulation plays an important role, but the financial system has no “mortgage police” or “auto loan police” to oversee dubious borrowing. Society must teach people how to look out for their own best interests.

Criminal Entrepreneurs

Millions of low-income Americans are financially illiterate, but they’re neither stupid nor lacking in ambition. The thriving illegal economies in many impoverished communities underscore this reality. The drug dealers of inner-city Chicago and South Central LA engage in a stomach-turning trade devoid of morality. From this view, dope peddlers are death merchants, traitors to their own people. Viewed from a slightly different vantage point, street criminals exemplify wasted human capital. They’re entrepreneurial hustlers who understand risk and reward, supply and demand, and marketing and branding. They might be corrupt and misguided, but most of them have never had an opportunity to build a legitimate sustainable business. Redirecting their “untapped brilliance” could unleash a powerful wave of entrepreneurial energy in US inner cities.

Declining Start-Ups

Gallup research says about half of all American jobs come from businesses with fewer than 100 employees. In recent years, the number of start-ups declined from about 400,000 a year to 350,000. How can the United States make up that gap? Many entrepreneurs could emerge from the ranks of those “left behind, ignored, or massively misunderstood and underestimated.” The poor possess unappreciated reserves of creativity and resilience. Gallup research shows that impoverished students are more likely to develop problem-solving skills than wealthier students. People who endure adversity can develop an ability to persevere through difficult situations. Aside from the lack of mainstream banking services, poor neighborhoods face a critical shortage of grocery stores. The US Department of Agriculture estimates that some 13.5 million low-income Americans live more than a mile from a large grocery store, placing them squarely in “food deserts.”

Role Model Eric McLean

Starting a business doesn’t require technical skills or deep pockets. It does require an ability to identify an opportunity and take advantage of it. Consider Atlanta entrepreneur Eric McLean. The African-American businessman happened onto the notary business after paying \$36 for a notary stamp. He decided the community needed a mobile notary public

"The world needs...a generation endowed with the empowered human capital to create its own jobs."

"In addition to developing people's talent and opening the way for entrepreneurship, we must encourage stronger community and business role modeling."

"If we can connect aspiration with career opportunity through increased role modeling for youth, everything could be different."

who would travel to offices to stamp documents. "By his eighth month, he was generating \$17,000 per month" in revenue. Later, McLean branched into auto insurance. He knew traditional insurance agents work regular business hours, but most people buy cars outside of business hours. McLean hired evening and weekend workers as his businesses grew. He established his companies without lenders or investors. His ideas were simple, and his start-up costs were modest. Entrepreneurs in inner cities and rural areas could easily replicate some of his models or learn from his opportunistic ethos.

Mentors

Role models such as Eric McLean are critical, since they can show potential entrepreneurs the way. Bryant's role model was his father, who ran a business. Yet too many inner-city youths have only two types of role models: those from the "thug culture," or those who toil for bosses at big corporations or in the public sector. Neither offers a sustainable path toward life-changing wealth. Business owners should take visible and active roles as mentors for needy youth. Too many poor kids drop out of high school before graduation because they don't see any reason to stay in school. If an army of role models began working with impoverished children through middle school and high school, many kids would develop a self-image "of opportunity and aspiration rather than poverty and despair."

A Literate Citizenry and an Inclusive Economy

To level the financial playing field:

- **Teach financial literacy** – People must learn how to navigate a complex financial system. The federal government should fund financial education.
- **Bring 50 million American households into the banking system** – Fully 40 million US households are "underbanked," and 10 million more are unbanked. Policy makers should ensure a bank account for everyone.
- **Tackle credit scores in poor communities** – Raising consumer credit scores would transform impoverished neighborhoods.
- **Boost tax breaks for homeownership** – The government should offer tax incentives to help low-income and middle-class Americans buy homes or renovate blighted properties.
- **Make the Earned Income Tax Credit automatic** – Americans shouldn't be punished for not knowing about this benefit for low-income taxpayers. The Treasury Department and the Internal Revenue Service should automatically offer it, rather than waiting for people to request the credit.
- **Create incentives for internships** – Too many impoverished children don't stay in school. If every student got a paid internship, more would stick with their studies.
- **Invest in infrastructure** – Rebuilding roads, bridges, ports and other public infrastructure would create jobs and address a glaring need.
- **Spend more on education** – Investing in schools is wiser than investing in prisons, yet too many underprivileged schools lack teachers and other resources.
- **Make mentoring pay** – Encourage Americans to volunteer as role models by creating a tax break or other incentive to reward their participation.

About the Author

Entrepreneur, author, self-made business success and former adviser to President Barack Obama, **John Hope Bryant** is founder, chairman and CEO of Operation HOPE.