

Abstract

Bootstraps and Beltways:

The State's Role in Immigrant Community Banking

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This research addresses how government policies affect immigrant integration, specifically in the banking industry. I studied occasions where government policy targeted the unregulated world of informal immigrant banking. Informal banking relies on trust, norms and networks to keep agreements, instead of laws, courts, or written contracts. The network of social ties that structure this type of economic activity furnishes an ideal opportunity to investigate if immigrants activate their social ties for political ends and how public policies affect the viability of these social ties. An historical, comparative study of immigrants in the banking sector will help to illuminate the political and policy dynamics that mark the intersection of immigrant self-help efforts (bootstraps) and government (beltways).

By tracing policy decisions that targeted Eastern European *unincorporated banks* in 1917 and Haitian *essos* in 1998, I assessed how immigrants with equivalent levels of social capital influenced and are affected by new laws that created neighborhood banks and new approaches to mortgage underwriting. Both cases served as local examples of policy changes that occurred across the nation. In addition, I examined the political coalitions that created new community banking policies during the New Deal and in the civil/consumer rights era of the 1960s and 1970s.

Examining the political development of community banking institutions illuminates how policy designs that determine financial services constitute a hidden dimension of the state's role

in incorporating immigrants. Government intervention lowered barriers to bank ownership and services, which increased working class access to cheap sources of credit, an important move in overcoming inequalities immigrants face in accessing loans from mainstream organizations. However, instead of ethnic interest groups or civic engagement by immigrants who used informal banking playing a prominent role, advocates rooted in public interest and social welfare issues spearheaded these changes. The new licensing and regulatory regimes created to govern neighborhood banks and mortgage underwriting ushered in new bottom-up, community-based financial institutions responsive to immigrant needs. As a result, community-oriented neighborhood banks and mortgage underwriting became a means to transform informal practices from a liability (that justified economic discrimination and exclusion from formal banking) to an asset (that served as a resource for creating more democratic and inclusive banks).

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by
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Chapter 1

Bootstraps or Beltways?

Immigrant Self-Help And Government Intervention

Immigrant integration into US society is primarily understood to occur via private, voluntaristic associations and individual choices, with government playing a background role. The classic image hails from Horatio Alger stories of determined individuals who pull themselves up by their bootstraps. More contemporary accounts emphasize the role of social networks and group resources in structuring migration, settlement and mobility (Cummings 1980; Light and Gold 2000). Whether referred to as integration, incorporation or the much maligned term, assimilation, immigrant life in the United States is often characterized as largely a family and group process, albeit one of enduring public interest.

This research project examines how government matters when immigrant self-help and self-reliance form the dominant modes of social and economic incorporation. The effect of public policies on immigrant social ties becomes a primary consideration because of the centrality of those ties in structuring immigrant life, especially as the source of key benefits not provided for by the state. Deepening our understanding of the means by which government policies affect immigrant self-help illuminates another dimension of the state's role in immigrant incorporation.

This project seeks to understand the political import of immigrant social networks based on an examination of how these networks respond when they are under public scrutiny. Immigrant self-help is too broad a category to meaningfully investigate. Financial transactions furnish one of the clearest examples of the “bootstrapping”

immigrant who use the advantages of the liberal, market economy to obtain economic mobility. Informal banking in particular presents a case of social capital in action because it relies on “trust, norms and networks” (Putnam 1993) to solve collective action problems. This form of self-help exists among many groups and permits comparative study. Though types of informal banking vary, they share the fact that they are socially embedded financial transactions among immigrants where shared norms of participation and social obligations govern transactions. Since economic livelihood is a foundational activity, immigrants’ use of the funds derived from their labors shape much of their experiences. Informal banking practices stands in contrast to that of the world of government regulated formal banks. The research presented here addresses the core issue of government policies affecting immigrant integration, specifically in the banking industry.

Although research exists on the sociological and economic dimensions of informal banking, this study examines them comparatively with explicit attention to the role of public action. On several occasions public rules explicitly targeted informal banking and furnish the entrée point for investigating the political dynamics that created these decisions and the effects of these policies on immigrant social networks. I investigate two policy decisions that targeted immigrants explicitly. In 1917 the Illinois state legislature passed a law requiring Eastern European *unincorporated banks* which were concentrated in Chicago to adopt state banking charters. In 1998 the Miami office of Fannie Mae, a Government Sponsored Enterprise, officially recognized that funds raised through Haitian *essos* can be included in formal mortgage underwriting formulas and processes. The cases allowed me to investigate whether immigrants who were

equivalent in their possession of social capital used their social ties to mobilize to affect the policy process. Although situated within the subject of credit and wealth inequalities, my research questions and findings focus on the politics of immigrant social networks. How are immigrant social networks political? Do immigrants use their networks to engage in political mobilization to protect their interests, either through ethnic interest groups or civic participation? How does public policy affect the economic and social resources embedded in the social networks within immigrant groups? Are there patterns across groups in how their social networks are targeted, responded to and affected by policy changes?

Given the presumptions of pluralist and civic participation theories, I expected to find that immigrants actively articulated their interests and sought to shape policies, especially given that their economic practices were at issue. I found a curious bifurcation between the policymaking process and the impact of policies in immigrant communities. Immigrants played a background role in the creation of new legal and policy infrastructures, but they utilized the new organizations as owners and customers. Seemingly punitive policies proved popular. Under the new laws, immigrants pursued new paths into formal banking that employed their social ties, when their social ties and informal practices were previously marginalized.

These laws lowered barriers to bank ownership and banking services and increased working class access to cheap sources of credit, an important move in overcoming inequalities in homeownership, small business development and other mechanisms of mobility. Shifts in organizational boundaries made informal practices a resource in the formal sector rather than a liability by re-organizing the private sphere in

ways compatible with immigrant informal banking networks. Hence, the structure of service delivery proves deeply political, but immigrants do not always lead the political campaigns to alter those structures. In short, self-help is not the absence of the state but a specific policy design that relies on group resources for its full realization. But the attention to immigrant entrepreneurship and political interest groups limits our ability to detect the state's presence and perpetuates the myth of self-help as the means to overcome endemic inequalities.

Bootstraps: The Centrality of the Immigrant Private Sphere

Immigrant self-help can take a variety of forms. Through social organizations based on their village of residence in their countries of origin, family societies, and other social and cultural resources, immigrants can create a world that is largely self-sufficient which scholars termed institutional completeness (the classic statement comes from Chicago School scholars Park 1921; Thomas and Znaniecki 1958 [1927]). In the past, mutual aid societies, fraternal organizations and burial clubs provided camaraderie as well access to sickness, death and unemployment benefits to members. Today's immigrants utilize memberships in religious institutions, hometown societies and social and athletic clubs that furnish opportunities to socialize as well as learn a means to learn about jobs and events of interest. Self-help also includes ethnically-based charities that fund orphanages, hospitals and other social services as well as employment in the ethnic economy, where bosses and co-workers are members of the same ethnic group.

At an operational level, the centrality of social networks in understanding immigrant life has structural, cultural and societal sources. Compared to other Western industrial immigrant-receiving nations, the US is a quintessentially liberal state. Its heavy

reliance on private organizations and immigrant networks as the principal means for immigrant integration constitute a decidedly minimalist approach to state intervention (Soysal 1994). The structural dimension of self-help is seen in the family reunification system which remains the primary mode of legal migration to the United States. A family member with permanent legal status sponsors the migration of other members of the nuclear family. The law holds the sponsor responsible for ensuring that newcomers do not become a “public charge” reliant on public welfare or state-funded resources which makes family members responsible for helping new arrivals to obtain housing, jobs and meet other needs (Fix and Zimmerman 1994). As a result, the US for the majority of its history has paid little attention to what they termed “immigrant policies” defined as “those policies designed to promote the social and economic integration of newcomers” are “skeletal and largely inchoate” while immigration policies(i.e. the terms of entry and exit into the US) receive extensive attention and study(Fix and Zimmerman1994: 251).¹

The cultural dimension of self-help is evident in the Horatio Alger tales popular in the early twentieth century. These bestselling novels articulated the now classic story of self-reliance where heroic young lads worked hard to “pull themselves up by their bootstraps.” Through self-reliance, immigrants inherit the mantle of the self-made ethos from the Pilgrims and those who settled the frontier, keeping alive a fundamental tenet of American culture. Attacks on immigrant groups only reinforce the sanctity of an

¹ In some respects, legal status obviously arises as a principal issue with all else being secondary. But once such status is obtained, other obstacles to adjustment, such as access to linguistically and culturally appropriate services, still remain. Refugee programs garner attention because, in contrast to other legal migrants, the federal government does finance and coordinate an array of social and economic programs to facilitate the settlement of those traumatized by their flight from political persecution. The contrast between refugees and other immigrants demonstrates that settlement is in fact a multi-pronged process that state agencies can affect but historically does not. As a result, the search for housing, education, and jobs largely rely on group efforts and organizations.

immigrant private sphere as a refuge from state intrusion. Coercion and prejudice define the legacy of self-conscious government-based efforts at immigrant assimilation. The Americanization campaigns of the 1920s serves as a prominent example of illiberalism where government power was deployed to “make them like us” (King 2000).

Contemporary efforts at assimilation, like English Only laws, share this illiberal bent. These aggressive campaigns reinforce the primacy of the immigrant private sphere as a haven and the true source of assimilation processes.

Business and entrepreneurship play a special role in the self-help story. The immigrant banking literature highlights the centrality of a group’s social networks and entrepreneurial drive in shaping our understanding of the importance of immigrant self-help as a response to exclusion and inequality (Light and Gold 2000; Portes and Sensenbrenner 1993). It emphasizes the role of social networks in business, and explain how the social, cultural and economic resources of immigrant communities are utilized as they adjust to a new society. Ivan Light’s landmark 1972 study, *Ethnic Enterprise in America*, decisively established the importance of a group’s cultural resources in their attempts to make it in American society. Taking seriously the claims that race matters in structuring society in ways that rendered comparisons between white immigrants and African Americans unfair, Light compared three groups who experienced discrimination based on phenotypic differences. Using an historical, comparative research design, he examined why and how the Chinese and the Japanese were able to use business ownership as the classic route to upward mobility when discrimination blocked access to high-wage and salaried jobs, while Black communities did not. He found a sociological explanation focused on “culturally derived differences in economic organization” (Light

1972: 18). Bank credit discrimination proved unimportant because research showed that most small businesses relied on loans from family and friends, not banks, to cover their initial costs. Further immigrant small business entrepreneurship outpaced that of native whites who presumably faced no discrimination and had access to loans.² Instead Chinese, Japanese and West Indians employed a cultural resource, rotating credit associations, as a means to raise capital without relying on banks. For African Americans, this “African economic custom had vanished from their cultural repertoire” leaving them without a collective mechanism for raising credit independent of bank capital (1972: 36). However, these analyses tend to focus on group behaviors without sustained consideration of political dynamics. The issue has appeared as a cultural one, divorced from any politics and best understood in its full cultural or economic machinations. Consequently, they tell us little about the intersection with the state.

Despite many detractors and critics, self-reliance persists as the dominant model of immigrant mobility in academic circles and popular expectations. It simply forms the societal expectation for the proper process for integrating immigrants. Self-reliance not only defines the image of the success of early waves of European immigrants, as one observer noted, the bootstrap argument has the "political import [which] comes in defining a prototypical American experience, against which non-European minority groups . . . are pressured to measure themselves" (Alba 1990). Individual and group self-help are the rules of the game by which groups are expected to achieve.

² This discrepancy was true historically and is true today. See Bates 1997 on the contemporary research on minority small business.

Beltways: The Importance of Immigrant Political Action

The ethnic interest group is a pivotal component in political science conceptions of the engines of politics. In ethnic politics, collective action on the part of an immigrant group is the origin and basis for policies that will protect the group's interests (Glazer and Moynihan 1970). Only those who mobilize politically through voting, fielding candidates, lobbying and otherwise participating in the political process can have their interests represented and protected (Dahl 1961; Browning, Marshall and Tabb 1984). The primacy of ethnic politics as the source of favorable policies undergird numerous studies of urban politics, ethnic and racial politics and machine politics. Although involvement does not guarantee a favorable outcome, it is a necessary precondition – the wheel must squeak in order to get attention. Consequently, political science approaches to the study of immigrants and politics often focus on trends in immigrant party identification, citizenship rates, voter turnout and other measures of voter behavior and political participation. Scholars also investigate civic participation, public opinion and racial identity as mechanisms for immigrant political incorporation (Erie 1988; Jones-Correa 2002; DeSipio 2001). Social networks and the private sphere can be a vital resource for generating political action. Clearly, immigrant communities have no shortage of such networks and of community based organizations. In general, immigrant communities are actively involved in civic and political activities both in countries of origin and locally. This is true historically and today (Guarnizo 2001).

In a virtual mirror image of sociological emphasis on self-help, the pluralist approach stresses political self-help – the pattern, persistence and savvy of immigrant political mobilization. The attention to politics uses the same ethos of self-help and self-

reliance, however in the political sphere where immigrant mobilization is the precursor to political action. There is no attention to the state as such except as an extension of political dealmaking. A self-conscious forging of immigrant political identity and power is the necessary precondition for immigrants achieving favorable policies. Policy results are the function of ethnic groups functioning as interest groups. Where nativism and nationalism place immigrants in a defensive posture and highlight their political vulnerability, ethnic politics underscores immigrant political agency.

Integrating Bootstraps and Beltways

Studies of immigrant politics converge on participation as the primary way of linking the social to the political. In an important reconsideration of assimilation theory, Alba and Nee acknowledge the state has been marginalized in traditional approaches to studying immigrant assimilation. They come to this view because of the state's contradictory history of both supporting discriminatory practices when captured by anti-immigrant majorities and protecting minority rights to equal opportunity when civil rights groups gain legal and political support. Especially when anti-immigrant hostilities reign, Alba and Nee (2003) argue that immigrants often require state intervention to secure their basic rights. They argue that government support of equal rights is absolutely fundamental to the integration and acceptance of immigrants.

They develop a theory that retains the focus on the private sphere (“...assimilation into the mainstream mainly occurs as an individual, family-based process” (Alba and Nee 2003: 15), but systematically integrates the state's role in the assimilation process. In their theory, the state plays a crucial role because,

...advance on trajectories of assimilation is contingent to a large measure on the predictability of their [immigrants and their children] chances of

success, especially in terms of social mobility; and these in turn depend on the reception they anticipate from members of the majority and other racial/ethnic groups. Consequently, our theory emphasizes the institutional mechanisms that ensure predictability and thus the role of the state in maintaining an institutional environment in which the civil rights of minorities are safeguarded and barriers to entry imposed by racism have been lowered (albeit not eliminated) (Alba and Nee 2003: 278).

The state can enforce fairness of the playing field so that actors know that they have a decent chance of being rewarded for their investment in education and other social goods. They reject legally coerced assimilation but observe that individuals may choose to assimilate to gain the economic rewards that come from a relatively fair socio-economic environment. For Alba and Nee, the primary engine driving political change with respect to immigrant treatment in this society is immigrant collective action. Reflecting the assumptions of pluralism and on immigrant political incorporation, immigrant political agency is a central explanatory variable.

Another approach stresses racial politics. In the classic, *Racial Formation in the United States*, Omi and Winant (1994) argued that the racialization of social groups is the primary way society's distributes resources and explains prevailing inequalities. This approach challenges the classic bootstrapping immigrant model by insisting that state engages in a wide variety of racial actions. Consequently, it is not group traits alone that explain mobility but the process of racialization, where groups are marked by their affiliation to racial categories, and the political, economic and social structures that are created that affect groups that acquire strong racial identities/images in the US. In this framework, the policy victories of European immigrants entailed and reinforced the exclusion of racial minorities. Participation is not enough. It matters whether public discourses and related policy decisions reduce or justify racialized exclusion. The self-help celebrated by one group is spurned by another as state supported discrimination.

Given the primacy of race and role in the distribution of resources in society, identity politics serves a vehicle for mobilization. European immigrants in the past variously employed their rhetoric and strategies to obtain benefits by virtue of their white skin (Roediger 1991; Guglielmo 2003). Contemporary immigrants vary in their responses to blanket racial categories of Black, Latino and Asian which subordinate more complicated ethnic and national identities (see, for examples, Waters 1999; Espiritu 2004).

Where Alba and Nee cast immigrant political action in a context of hostile anti-immigrant forces, racial analysis recognizes that immigrant political stances can reinforce an unfair playing field rather than a level one. Steinberg finds that groups invoke both liberal and illiberal principles as convenient. They can tear down the ethnic barriers in front of them when they protest exclusion from WASP institutions and other obstacles to their upward mobility. But they build ethnic barriers behind them when they cite a desire to protect their culture and way of life in order to resist demands for inclusion from those below them on the economic ladder as white ethnics did when they resisted residential and school desegregation (Steinberg 1989). A group's position as victim or perpetrator is situational rather than absolute. One of the fundamental conflicts in debates about assimilation is that the very social networks that theorists cast as a benign function of immigrant groups can also function as tools to exclude others. It is this conflict -- whether to treat networks as resources for in-group mobility or obstacles to universal fairness -- that stood at the heart of creating the civil rights state.

In addition, Alba and Nee's approach take the current protection of the civil rights of minorities as a stable product of the contemporary post-civil rights government. "So long as the current ensemble of rules on racial equality remain in force and are monitored

and enforced, we can expect the trend toward inclusion of ethnic and racial minorities in the American mainstream to continue” (Alba and Nee 2003: 284). As a result, they ignore the ongoing politics needed to create, extend and protect rights of immigrants and minorities and simply measure the outcomes such as labor market incorporation.

Omi and Winant very usefully articulate race as a political process, rather than a biological given. Though race is a powerful frame, it doesn't explicitly address how immigrants with distinct cultural practices are treated by the state and social institutions. Cultural practices can function as markers of difference within racially homogeneous groups, setting European immigrants apart from European Americans and minority immigrants from US racial minorities.

Research Design

Social capital theory explicitly addresses the relationship between social networks and the public realm. Although many critiques and nuances of social capital theory exist, Robert Putnam's articulation and elaboration of the relationship between social ties and public affairs remains seminal. Tracing a lineage through classic political theory and de Tocqueville, Putnam argues that the roots of democracy rest in habits of cooperation and participation in the private sphere. Robust social relationships that cultivate “trust, norms and networks” (Putnam 1993) form the bedrock of the ability to overcome collective action problems. Habits of cooperation developed in the private sphere have public consequences. These habits facilitate one's ability to cooperate with strangers when needed to pursue shared goals.

But where are habits of reciprocal social relations cultivated? Participation in civic associations attracts the bulk of attention, but it is not the only site for such activity.

It is also evident when robust, reciprocal social ties thrive. He anticipates that his theory will work well when applied to immigrants because he finds that reciprocal social ties structure immigrant life, often mediating access to migrant destinations, jobs, housing, recreation and transnational connections with friends and family (Putnam 2000). For example, Putnam predicted that groups who utilize rotating credit and savings associations, an informal pooled lending system that relies on reciprocity and trust to keep agreements, will do well when they turn their attention to civic participation because they already possess cooperative habits (Putnam 1993: 167-171). The existence of pooled lending and other informal banking arrangements among immigrants create a unique opportunity to investigate these claims empirically. However to do so requires finding occasions where informal banking practitioners used their social ties to engage in political action.

To answer the question of how immigrant social ties are political, I looked at public policies that explicitly targeted immigrant informal banking. These moments would heighten the likelihood of immigrant political action but require study to learn precisely how immigrant groups mobilized. I wanted cases where a government policy explicitly targeted immigrant informal banking practice with a preference for cases that permit comparison across time periods and racial groups. This case selection criteria had several advantages. First, it assured that the groups would be equivalent in their possession of social capital. Controlling for the presence of social capital focuses directly on the political consequences of immigrant social networks. In particular, I can observe how immigrants activate their networks to pursue a political goal and how their social ties were affected by the policies selected. Second, policy decisions that target informal

banking make it likely that immigrants will respond politically because real consequences are at stake. Third, cases of policy change constitute a clear and decisive starting point for research of the political dynamics that led to these decisions (Orren and Skowronek 2004: xi). These triggering events do not constitute selection on the dependent variable because the outcome of interest – the political relevance of immigrant social capital – remains unknown.

I identified two occasions where public rules targeted informal banking. In 1917 the Illinois state legislature passed a law requiring Eastern European *unincorporated banks* which were concentrated in Chicago to adopt state banking charters (Lissak). In 1998 Fannie Mae, a Government Sponsored Enterprise, officially recognized that funds raised through Haitian *essos* can be included in its mortgage underwriting formulas (presentation at HUD-sponsored conference). Policy decisions are the necessary starting point for tracing relevant events that led to these decisions (Orren and Skowronek 2004: xi).³ These two cases permitted further investigation to identify the political dynamics that created these decisions and the effects of these policies on immigrant social networks.⁴

³ These triggering events do not constitute selection on the dependent variable because the outcome of interest – the political relevance of immigrant social capital – remains unknown until the case study is complete. Only by tracing the political dynamics that created these decisions can we learn the ways in which immigrant social capital is political, what causes the changes in governing arrangements and who benefits from these changes. The existence of clear policy decisions suggest the presence of public controversy and actions that directly targeted immigrant practices. Such dynamics heightens the likelihood of political action by immigrants, which offers a succinct and natural test of the mechanisms of politicizing of immigrant social capital. It also suggests that a researchable set of data exists.

⁴ The Chicago case was identified in Lissak 1989 which indicated the presence of archival material to research the political dimension of this conflict (Lissak focuses on the sociological aspects). I learned of the esso case through participation in a community development conference. Representatives of the Miami-based local nonprofit agreed to participate in the research.

Do immigrants with equivalent types of social capital use their social ties to mobilize to affect the policy process? To trace immigrant activities, I used archival sources and interviews to learn who acted, how and when. Further data on state policies, regulations and laws were compiled from relevant governmental documents such as statistical reports, research and policy papers, and annual reports, when available. For the contemporary case of mortgage underwriting, I visited Miami, FL and Washington, DC repeatedly where I conducted extensive interviews with officials, staff, bankers, advocates, legislative aides and academics.⁵

These cases form a purposive sample designed to reduce variation on the presence of immigrant social capital and to yield robust observations of the political processes at work. The political dynamics observed in the cases will furnish an empirical test of political relevance of immigrant social capital. I can identify the precise mechanism of social ties in immigrant public involvement, whether it be ethnic interest groups in the era of machine politics, local civic associations or national civic federations or the role of racial identity politics in both periods. However, if bootstrap approaches are accurate, then immigrants will undermine invasive policy decisions with continued use of informal practices. This research design furnishes an empirical basis for drawing valid conclusions about the role and impact of the government on immigrant social networks and by extension, the process of assimilation. The value of this research lies in shedding light on

⁵ The network of community banking professionals in Miami generously shared contacts that facilitated my access to crucial resources. My time on-site with a local Miami nonprofit included tours of the surrounding Haitian neighborhood and site visits of the organization's housing and homeownership projects there (Lofland and Lofland 1995). In addition to formal interviews, I observed interactions among the organization's racially diverse staff members, between the staff and the immigrant families served, and between the organization and other professionals in the community banking field at professional conferences where Haitian and immigrant banking issues were represented to a broader public. I combined these observations with studies of trends in the homeownership industry.

public policies towards immigrant cultural practices, and identifies processes and concepts that illuminate the relationship between immigrant social capital and government intervention.⁶

The main question I will try to answer is, How is immigrant social capital political? Is it through political mobilization (via parties, civic groups or identity politics) as theories predict or is it something else? In addition, I also wish to observe whether the state truly marginal to or destructive of informal practices? The debate about the relative contribution of immigrant self-help efforts and the state to integrating immigrants into society would benefit from an empirical account based on intensive study of actual encounters between immigrant self-help activities and the political apparatus of the state.

Neither probability sampling nor controlled comparisons were appropriate or feasible, especially with the constraint of a formal policy change as a necessary condition for case selection. Where little is known about a subject, nonexperimental research designs are best suited for generating valid initial conclusions (Yin 1984).⁷ Immigrant

⁶ The generalizability is not to a population based on sampling but to development of a theory that can be extended to other cases for testing (see Ragin 1987; Yin 1994). As Yin notes, “This analogy to samples and universes is incorrect when dealing with case studies. This is because survey research relies on statistical generalization, whereas case studies (as with experiments) rely on analytical generalization. In analytical generalization, the investigator is striving to generalize a particular set of results to some broader theory” (Yin 1994: 42).

⁷ Empirical generalization will require testing these conclusions on a new set of cases to see if they hold. Although I learned of more cases as I did the research, I did not expand the study to include new cases to “test” my conclusions because of the depth of research in each case. However this research directly informs the construction of subsequent research (Yin) using an experimental design can now be pursued which can match groups and policies along other dimensions to test specific premises. For example, one could investigate neighborhood banking mandates in Philadelphia, New York and Chicago in the 1910s and 1920s and analyze similarities and differences in the nature of ethnic political mobilization. Or a research design can hold the immigrant group constant across time by comparing the dynamics of Eastern European immigrant banking in the 1920s and again in the 1990s now that post-Bosnia and post-Soviet developments fueled a new wave of immigrants. That would mean follow the same group in the same city at different points in time, for example, Polish informal banking in Chicago and another City in the 1900s and again in 1990s after the resurgence of Polish migration, and see what explains the different policy outcomes in each period.

banking is also a quintessential example of the immigrant self-help story. Whether as cultural habit of saving, ownership of financial institutions, or financial practices transplanted from the homeland to the US, immigrant banking embodies the independence, initiative, hard work and self reliance that is considered to be at the heart of the immigrant mobility story.⁸ Credit is also the lifeblood of the major paths to mobility, financing homeownership, higher education, and business ownership, yet the precise mechanisms of credit as it functions in immigrant communities is rarely the object of systematic study. But banking enjoys simultaneous prominence and obscurity in the immigrant mobility story in the US. Though mentioned in studies of immigrant communities, it rarely obtains sustained attention. We are more familiar with immigrant experiences in mutual aid societies and fraternal organizations than with savings and loan associations and mutual savings banks (Beito 2000, Cummings 1980, Soyer 1997). This study will uncover new information about the structure of banking in immigrant communities, as well as examine how and why immigrant lending practices became a public issue, and assess the policy response.

King, Keohane and Verba (1994) advise researchers to specify the “observable implications” of a theory in order to guide the collection and evaluation of data. The assimilation, ethnic politics and racial politics literature all lead us to expect that immigrants would actively defend their rights, especially given the fact that their

⁸ Oliver and Shapiro (1995), for example, argue that appreciation of housing values was and are key to economic mobility and wealth building for many immigrant Americans or at least their children and grandchildren (to be more precise). The status of small business ownership is less decisive. Symbolically it is powerful, economically it is the spread of union jobs and entry into mainstream corporations and institutions that had more economic significance than small business ownership. It is an undecided empirical point with the bias against small business. These distinctions do not matter for this study because lending and credit is crucial to all three.

economic and political interests align on banking issues. Here I used Putnam's social capital approach because there is a close fit between his theory and empirical outcomes. We should expect immigrants who used informal banking to organize politically by deploying their cooperative skills and social networks to address policy issues concerning their banking practices. These immigrants could also parlay any memberships they have in civic associations to spearhead political action. This constitutes the strongest test of the political relevance of immigrant social capital. By examining immigrant political response, I can also observe whether and how ethnic politics (especially through political machines and party structures) or racial identity politics played a role, both if immigrants are racially targeted and whether immigrant political actors employ racial arguments in making their claims. Historical cases allow comparison between the newest immigrants and the earlier European migration based on original research rather than rely on generalizations about the past.⁹

I analyzed data in two ways. First, I compared theoretically derived expectations to empirical evidence. When it did not, I used inductive processes to examine patterns across the cases to search for explanations (Miles and Huberman 1994). Patterns that occurred in multiple cases had more validity than those that appeared once (Orren and Skowronek 2004). To increase the number of observations and to check the validity of my initial findings, I also researched the origins of formal "community-oriented" banking organizations such as mutual savings banks, savings and loan associations, the Community Reinvestment Act, and microlending programs. I found the patterns identified in the cases confirmed there.

⁹ See Gerstle and Mollenkopf 2001 on the lack of studies that combine historical and contemporary research on immigrants.

Findings: The Top-Down Construction of Bottom-Up Banking Institutions

Evaluating the creation of new banking policies reveals important dimensions about their political dynamics that depart from the ethnic politics and interest group explanations. Two prevalent assumptions – that state intervention diminishes immigrant social capital and that ethnic group politics accounts for policies that benefit these groups – are unsupported by the evidence.

The familiar story of punitive state sponsored initiatives that diminished social capital did not fit the evidence. The case of regulating unincorporated immigrant banks initially appear to fit this mold but upon investigation, this turned out not to be the case. First, though the laws passed, I found little evidence of concerted efforts to construct enforcement regimes dedicated to ferreting out and bringing an end to informal banking. The laws did not eliminate informal banking but they did help to bring formal banks to immigrant communities to a greater degree than what existed before the law. Second, a good number of immigrants opted into the system both as owners and as customers. Scholarly and popular accounts of immigrant communities that mention formal financial institutions treat like government regulated neighborhood banks as genuine community-based organizations, not state sponsored projects intent on eliminating informal practices. Immigrant ownership of formal banks often serves as an example of a group's entrepreneurial character and evidence of institutional completeness, on par with fraternal societies, mutual associations and group-based charities because social ties remained central to how these formal organizations conducted their operations (Light and Gold 2000; Portes 1987; Cao 1999; Cummings 1980). Hence, ownership and management by fellow ethnic group members proves decisive. Immigrant cooperative economic

institutions, such as savings and loan associations and credit unions, appear simply as part of an apolitical private sphere, a product of liberal market society that immigrant entrepreneurs take advantage of.¹⁰ I find instead a contentious public debates defining the nature and type of financial institutions that make the presence of credit unions and neighborhood banks far from certain. Immigrant access to financial institutions is deeply affected by the outcomes of debates about banking institutions in society.

Because immigrants gained access to community-based banks, perhaps ethnic politics explains how immigrants obtain a firm foothold in the formal banking system. Immigrant bankers and immigrant civic organizations could have lobbied for community banking alternatives that benefited their communities. The Miami case seems to be a clear-cut example of immigrant civil society at work. Further, if ethnic politics explained the creation of policy changes in Illinois and new policies in Miami, it should also help to explain the creation of similar policies in other states where immigrants also utilized credit unions, state banks and obtained changes in mortgage underwriting. But tracing the political dynamics that created these specific decisions as well as similar decisions in other states does not bear this out. Instead advocates devoted to a particular set of policy solutions were the principal political actors. Even the Haitian-based nonprofit in Miami appears to be an independent actor driving policymaking, its actions proved to be a dependent variable where, unbeknownst to it, a prior Congressional law created by national advocacy campaign created new incentives that altered the ability of nonprofits to influence mortgage underwriting formulas.

¹⁰ Putnam treats cooperatives as a independent variable that signal high rates of social capital where I find they are a dependent variable, the result of prior political action determined to construct a legal infrastructure that makes cooperative economic associations easy to access and start.

An apparent paradox exists: immigrants utilized new forms of banking, even though they did not lobby for them and, in some instances, these organizations were juxtaposed to informal practices. But groups don't necessarily organize to pursue their interests. As Seagert, Thompson, and Warren argue, the transfer of social capital to political purposes is "by no means automatic." It requires the work of activists to "transfer the trust, cultural traditions, and networks" within communities to support political causes (2001: 7). Immigrants did not automatically re-shuffle or re-direct existing networks and organizations to address banking issues. Immigrants who were active in transnational politics, civic associations and even electoral politics did not turn their attention to banking in a concerted way. Further, the advocates encountered in this research rarely engaged in political mobilization at the grassroots level as a strategy to pursue their policy goals. Instead, they directly lobbied public and regulatory bodies for the changes they sought. The root of policy changes in banking rested in advocates dedicated to re-vamping the banking system by democratizing ownership and financial practices. The ethnic interest group is only one model of policy change; issue-based advocates and democratizing policy tools are another.

Advocates varied in their relationship to immigrant communities. Some worked directly in immigrant communities and those experiences influenced their formulation of the limits of status quo banking and the solutions they pursued. Others marketed new approaches to banking to immigrants. In both cases, state-endorsed policy solutions proved viable in immigrant communities. Because these policy solutions rested on ownership or civil society models, they created new sites for action where immigrants could exerted agency, discretion, and autonomy on the local level. These policy changes

occurred at moments when immigrant groups were overwhelmingly working class and economically and politically vulnerable, making it unlikely to have obtained these policies on their own through traditional interest group politics. The new policies dramatically lowered the costs of entering the banking field for everyone, not for a specific immigrant group, which increased the opportunity for ownership and for individuals to save with formal organizations. Since these new policy tools relied on existing social structures in communities to function (credit unions, for example, persuaded mutual and fraternal societies to create credit unions), they reinforced existing patterns of racialized access to financial resources.

The traditional ethnic politics framework of quid pro quo exchanges misses other sites of immigrant-based policy making, such as public interest laws. While community banking policies don't explicitly validate informal practices, they nonetheless empower and employ community norms and networks to inform formal banking services. This utilization is not simply the result of local immigrant entrepreneurs. It also comes from policy designs that encourage local solutions. The diversity at the local level appears to be the result of a hands-off, laissez faire, liberalism that simply leaves groups to their own devices. But that diversity flourished around a clear set of institutions: credit unions, neighborhood banks, postal savings banks and mortgage underwriting. The creation of these as distinct organizational categories involved considerable political effort. Each organization was designed to pursue a particular public purpose, that of democratizing banking. One outcome of this effort is that potential owners encounter a largely routinized administrative process for an organizational form that has public legitimacy

and consumers have a wider array of institutions to choose from, limited presumably by their own knowledge of the options, preferences and goals.

If immigrant social networks and social capital aren't deployed to political mobilization, how are they political? Immigrant networks intersected with politics in two other ways. First, as policy targets immigrant practices crystallized social problems, in much the way the welfare queen imagery functioned in welfare politics. As policy targets immigrant informal banking is singled out and functions as part of the problem definition which Kingdon notes is a crucial step in distinguishing issues amenable to policy action from the vast swath of conditions in society that exist. Second, immigrant practices are affected by a policy's design. Their social ties can either be embraced or marginalized by policy choices. In policy impact informal networks and group resources are actually the vehicle by which organizations conduct their business.

Advocates, often nonprofits, succeeded in democratizing banking services but did so without including immigrants in a democratic political process. They functioned as cultural brokers of a sort. They deployed their knowledge of how traditional banks excluded new social groups to develop and promote new approaches to banking. To be clear, this is not a study of the evolution of informal banking. Rather it examines informal banking at a particular moment – when it has been the object of a policy decision– in order to learn about political behavior and the nature of state intervention in the immigrant private sphere. To focus on the state's presence does not imply that genuine self-help does not exist. Nor do I argue that interactions with the state is the exclusive or even the dominant force in the evolution of immigrant self-help. Factors other than government regulation can play a role in determining if self-help waxes or wanes,

including the state of the economy, the age cohort of the immigrant group, geographical proximity of group members. But regulation, through the public attention and resources allocated, can have both symbolic import and institutional consequences. Arguments that focus only on immigrant “bootstrapping” strategies and counter-arguments that emphasize actions of state and federal governments (“beltways”) miss a wealth of policy choices in-between.

These findings also challenge the tendency in assimilation theory to treat informal and formal banks as equivalent members of the immigrant private sphere. Doing so obfuscates the politics that surround formal banks and the way in which their legal status in society affords a different range of action. It also masks the nature of the disadvantages immigrants as a group experience by insisting that self-reliance alone is the primary means for overcoming those obstacles. Far from being just another example of the apolitical, market-driven, immigrant private sphere that attests to immigrant self-help, self-help is a distinct policy design that banking organizations are designed to cultivate and reward. Formal banks in immigrant communities are the result of two processes – first a legal and regulatory infrastructure that defines the scope of the organization’s actions and second an entrepreneur who chooses to open a bank in a specific locality. Assimilation theories tend to focus on the latter to the exclusion of the former. The study of the politics of policy design shifts the perspective such that immigrant bank ownership is not simply the natural expression of a group’s entrepreneurial character but is directly tied to shifts in banking policy.

However, this perspective stems from documenting the politics of organizational births. This project “brings the state back in” to re-cast processes often understood

through the lens of “normal” market forces or immigrant culture. But this analysis is not centered on the machinations of the administrative state. It accounts for the role the public legitimacy of private organizations as a distinct resource at moments when indigenous immigrant modes of self-help is marginalized by institutions in society.

This research contributes to efforts in political science to understand the intersection of immigrants, politics, and the state (Freeman 2004; Hollifield 2000; Alonso 2001; Kloosterman 2004; Soysal 1994). It locates engines of policy change outside of, yet complementary to, immigrants. It recognizes how a wide range of policies cast in nonimmigrant terms function as immigrant policies in effect because they shape how immigrants become integrated in society. The lens of immigrant politics shifts from behavioralist approaches focused narrowly on how immigrants emerge as citizens (*immigrant political incorporation*) to a broader range of institutional changes that affect how immigrants become Americans (*immigrant institutional incorporation*).

I argue that successfully understanding the state’s impact on immigrant social networks turns on discerning the range of financial institutions that serve immigrants. A pattern of top-down policymaking that cultivates community-oriented financial institutions occurs consistently. Community banking organizations are incorrectly understood as apolitical market entities, even though at an individual level they may be experienced that way. Their origin and operations are rooted in the state even as they rely on cooperative and mutual social relations. The creation of these organizations reflected significant policy changes that involved debates about the worth of different social groups. This study illuminates the public side of banking institutions centered in debates about recruiting inequalities in the availability of financial services. I pay particular

attention to how immigrants are implicated in these debates and how these decisions affected whether immigrant social networks functioned as a beneficial resource in formal banking or pariah.

This account highlights the presence and contribution of the state, because its presence is so often overlooked, naturalized or vilified. When given something to read, we tend to focus on the black typeset – the print that conveys the words and messages that make a document distinct. Government’s presence in the immigrant private sphere functions as the white sheet of paper, an invisible backdrop against which culture occurs. This study spotlights how the crafting of new policy tools (the white paper) that seek to reduce inequalities become the vehicles for bringing immigrant practices into the realm of formal banking (the black ink). This is not a story of the state’s intent but of the effect of the presence of its public authority on marginal groups. This analysis situates entrepreneurship and culture within a phalanx of rules, regulations and politics that render some cultural practices viable while relegating others to marginal status.

The study encompasses the politics surrounding the construction of the major deposit-taking financial institutions in the US, with a focus on the intersection with immigrants. Commercial banks provide the major (but not the only) point of reference because they are by far the dominant form of banking. Other dimensions of the banking world receive less attention in this account, though they are important. Criminal activity, such as loan sharking, money laundering or exploitative debt servitude arrangements where immigrants turn over some or all of their wages to the middlemen who arranged their transport, fall outside of my scope. Also fringe-banking financial transactions that occur through non-depository entities like payday lenders and check cashers – receive

some attention but only in contrast to the prominence assigned to formal banks. Although financial transactions like remittances are also important to many immigrants, my task is not to represent the entire range of financial transactions that immigrants engage in or the full scope of regulatory activity.¹¹ Nor do I examine the politics of elite banking such as the political deal making behind the financing of public work projects or deciding which banks receive government deposits.

Efforts to democratize formal, deposit-taking banking services are solidly the basis for this study. References to formal banking and formal banks refers to these government regulated, deposit-taking institutions. Technically, the term bank does not represent all of these forms but given the popularity of using the term in that way I employ it when referring to these organizations as a general category as well as the term financial institutions. Banks strictly refers to deposit-taking institutions with commercial bank charters (as distinct from credit union or other charters). However, commercial banks vary in their size and market. The Wall Street-centric Citibank and the Main Street-centric Bank of Topeka possess the same charter but serve very different needs. I will refer to neighborhood or community banks to characterize banks with a local focus which are usually small and use the terms mainstream or traditional banks to refer to large-scale, non-immigrant serving financial institutions.

Chapter Overview

The research captures immigrant social capital at two moments – one at the point of policy origination where I assess how immigrants participated in those debates and

¹¹ I have not included efforts to regulate high-interest lenders such as finance companies and other fringe bankers. For a history of such efforts, see Calder 1999; Caskey 1994; and Johnson 1985.

second at the impact of policy to see if and how immigrant social networks responded to new policies. The chapters situate informal banking within the pursuit of policies that define new approaches to delivering financial services. The three case study chapters convey the interaction of three key factors in the politics of immigrant incorporation: advocacy, policy designs and institutional incorporation.

Each case study chapter addresses three roughly chronological processes. First, each chapter examines the interest groups that shape the policy decision, accounting for immigrants as political actors and as policy targets. Second, I describe the main features of the new policy addressing how specific ideas and various political compromises defined the new laws. Finally, I consider how these policies worked in immigrant communities. My primary concern here is with the viability of immigrant social ties and how new policies affect the legitimacy of community knowledge in formal financial institutions.

To trace the story of the policy process I used archival sources and interviews to learn who acted, how and when. Further data on state policies, regulations and laws were compiled from relevant governmental documents such as statistical reports, research and policy papers, and annual reports, when available.¹² For the contemporary case of mortgage underwriting, I visited Miami, FL and Washington, DC repeatedly where I

¹² To supplement the case studies, I sought historical and sociological accounts of immigrant banking. Surprisingly, very few studies of this type exist and very few of these seriously consider questions of politics and policy. Economists conduct most studies of banking institutions and policies but for most neighborhood-based financial activity barely warrants a footnote to the machinations of the large financial institutions that drive the economy. A handful of studies by economic historians and social historians proved useful. These include Lamoreaux 1986 and 1994; Calder 1999; Johnson 1985; Tenenbaum 1993; and Wadhani 2002. The paucity of studies reflects, in part, the scarcity of publicly available bank records to analyze.

conducted extensive interviews with officials, staff, bankers, advocates, legislative aides and academics. By tracing the details of the political dynamics leading to the policy change, I identified whether immigrants who are equivalent in their possession of social capital used their social ties to mobilize to affect the policy process. In addition, I assessed the impact of the policies on their social ties.

Chapter 2 presents the case study of the regulation of unincorporated immigrant private banks in Chicago and explains how new laws, not laissez faire market forces, shaped immigrant access to neighborhood-bank. Chapter 3 assesses the political dynamics that surrounded small banks as the New Deal battled the banking crisis and argues that pre-New Deal developments in the community banking sector shaped the New Deal. Chapter 4 addresses the racial impacts of banking policies and its relationship to the birth of the landmark Community Reinvestment Act of 1977, a new tool to that sought to re-create the ethos of neighborhood banking.

In chapter 5 a Haitian nonprofit procured changes from a government sponsored enterprise that recognized *esso* funds in mortgage underwriting. This chapter demonstrates that activities in Miami were the local manifestation of a new policy design championed by a bevy of nationally networked advocates. Chapter 6 concludes and considers the significance of these policies for addressing the role of government in immigrant integration. Overall the project should illuminate how the state constructed self-help in this sector and the social foundations of financial institutions that make the embedding of organizations in underlying social networks a matter of policy design, not just immigrant choices.