

Author Talks: Gregory B. Fairchild on the next frontier in racial equality

In his new book, Gregory Fairchild shows the power of treating underserved communities as emerging markets.



In this edition of *Author Talks*, McKinsey Global Publishing's Diane Brady chats with Gregory Fairchild, Isidore Horween Research Professor of Business Administration at the University of Virginia's Darden School of Business. In his new book, *Emerging Domestic Markets: How Financial Entrepreneurs Reach Underserved Communities in the United States* (Columbia Business School Publishing, January 2021), Fairchild introduces readers to the rising set of entrepreneurs whose efforts to reach marginalized groups are reshaping the emerging markets of the United States. An edited version of the interview follows.

What problem are you trying to solve with this book?

The book, and what I'm talking about in terms of a solution, is a way of thinking about a financial-services system. And by financial services, I don't just mean credit cards or checking accounts and bank accounts. What I mean is a system that provides investments. And by investments, I mean commercial loans, mortgage loans.

And, yes, I do mean equity to individuals who are trying to make a difference in lower-income communities. That's work that has been going on for decades, long before we had movements like ESG [environmental, social, and governance] investing, which is something we talk about now.

My work is about ways in which a system, by being more democratic, small "d," can be one that helps solve some of the ongoing inequality, and some of the ongoing disparities in racial wealth, and some of the disparities in minority homeownership—and minority business ownership—that we see in our society.

Trends become opportunities

What type of mindset is required to enter these emerging domestic markets?

The emerging domestic-market concept, which is one that I've been developing over the last decade and a half, is one that says, "Even without unrest, and without corporate pronouncements to do

something in their communities, these markets are growing faster. They are experiencing income growth at rates we haven't seen before. And they have fundamental characteristics that make them unserved opportunities that businesses and other investors can come along and participate in, just as they did years ago in those so-called foreign emerging markets."

And so the notion is less charitable, not that the benefits of growth in those markets won't be achieved, and won't spill over to individuals who live in those communities. But the benefits that are derived aren't necessarily through the mindset of coming with a handout. The benefits are coming to create a partnership and grow new institutions.

What surprised you most about writing this book—in the research, writing, or response?

We were interested in whether a community development bank would tend to be more inefficient, more costly to run—because it was doing work in low-income areas—or whether it would be more likely to fail in an economic downturn. And so one of our studies looked at the period inclusive of the recent financial crisis of the 2000s. And guess what? What we found was that pound for pound, dollar for dollar, asset for asset, community development banks were no more likely to fail, and were no less efficient, than banks of comparable size.

In fact, what we found is that in certain periods, they were less likely to fail. More recently, I've done some work looking at minority depository institutions. So these are banks and credit unions that focus on serving minority communities. They're often run by minorities. These could be African Americans. These could be Latinx folks, these could be Native Americans, these can be Asian Americans. And these minority depository institutions are often serving low-income communities.

And guess what? Turns out, again, the finding is that those banks actually outperform, given their size and scope relative to other types of financial institutions. So not only are they less likely to fail, not

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only are they more efficient, but also if you looked at where they are, relatively speaking, they get far less in dollars, that is deposits and assets, than you’d think, given their performance.

The system isn’t frictionless

How did your own experience inform your research or focus in this book?

In this book, I share a number of experiences that I’ve had in the financial-services system. And I point out a set of benefits that I’ve had that accrued to me even before I was born. These were things that my grandparents and my parents were able to do, unlike many African Americans. My grandfather and grandmother served in World War II. They were able to get what’s now known as the GI Bill, or the Servicemen’s Readjustment Act loan.

And with that loan, they were able to buy a home in the 1940s that they raised my father in. And my father, as a benefit of having that asset, had a solidly middle-class life. Then, as my father became a man, grew up, and left home, he joined the US military.

And he joined the military and became an officer at a time when the military was instituting integration

across the board—integration in housing, integration in schools, integration in facilities. And as a result, I was able to be educated in both communities, in housing, and in places that were integrated from the time I started school.

Many African Americans had neither the experience of my grandparents nor the experience I had, people my age, of having been in integrated school systems. I could go on. But what I try to do in the book throughout is to point out ways that I’ve had both challenges, because I’ve had challenges, and I’ve had advantages. And those challenges and the advantages accrue from structural factors, rather than from the benefit of my own individual labors. Or sometimes when we think about what we call inequalities in our markets, we think that the driving factor is discrimination.

And while that may be, and while that is an important discussion, what I’ve tried to do with my work is say that rather than ferret out and look for someone who’s vilified, or point to someone who’s been a deliberate discriminator, my work has said there are structural things that have nothing to do with one person’s animus that enables some of us to move through the system with ease and causes some of us lots of friction.

What would you have us do? Is there a call to action?

One of the first things I'd like you to do is challenge your assumptions. You may not be right about the extent to which these risks or these inefficiencies or these bad behaviors are real. And I'd encourage you to come to this book with fresh eyes about asking yourself whether you're right.

Next, I'd love all of us to really think about how we interact with financial-services systems, and whether there are things we can do to make sure that for those of us who have advantages in the system, we can ensure others do. And that could be putting deposits in institutions that operate in those communities.

There are some people who think banking is a bad-news industry that only cares about the rich. It doesn't. And it doesn't have to. And there are many individuals who are working in the field, they're featured in the book, who do care about

the rest of us. And if you're one of the people who's encouraged by that idea, and you think a nonprofit is the only place you might want to go, you could find your way to a broader base of financial institutions that could help be the change you're looking for.

At the policy level, what I'd love to see is, while we think about income supports, we also think about ways of changing policy to help people right now during COVID-19 with the short-term problems they're going to have; hopefully, we're going to get through these COVID-19 challenges.

And then the question's going to be what types of financial fractures are we still going to have? And so that time will be one when these institutions that are on the ground in lower-income, minority communities are going to be the ones that can help rebuild those communities. And so my real strong advice is to think about policy in ways that put more capital in those institutions.

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