Opinion

Allen Mendenhall: Sweet home Ala-banking

Allen Mendenhall | 11.21.24

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A troubling phenomenon besets modern finance: "debanking," the secretive closure of accounts tied to individuals or organizations deemed politically inconvenient. This practice, cloaked in compliance and risk management technical jargon, often betrays a more partisan agenda.

Targets of debanking span the ideological spectrum, highlighting the widespread and concerning nature of this trend. Prominent figures like Nigel Farage and John Eastman have faced account closures, as have Muslim-led charities and Christian nonprofits such as Indigenous Advanced Ministries. Barron Trump allegedly couldn't open a bank account with Melania's preferred bank. Nor has our State Treasurer, Andrew Sorrell, been spared.

JP Morgan Chase purportedly shuttered the account of the National Committee for Religious Freedom and the Arkansas Family Council, while Wells Fargo terminated its processing relationship with the Ruth Institute, a conservative Christian organization.

In Canada, protesting truckers found their accounts frozen in a chilling act of state-backed financial weaponization. Meanwhile, PayPal has repeatedly leveraged its terms of agreement to discriminate against religious and conservative organizations, further demonstrating the troubling intersection of finance and ideology.

These disturbing developments are symptomatic of a deeper malaise. As Rupa Subramanya explains in The Free Press, the post-9/11 expansion of government surveillance under the Patriot Act has transformed financial systems into de facto tools of political control. Ostensibly justified by counterterrorism efforts, these mechanisms now target politically active individuals and groups in the name of security and stability. Unable or unwilling to act directly, the government has enlisted private banks to do the unsavory work of ideological gatekeeping.

This creeping politicization of finance is not without precedent. We have witnessed the blurring of public-private lines in the tech sector, where companies have been co-opted into suppressing dissenting voices under the rubric of "content moderation." Now banks, wielding their unique leverage over a basic economic necessity – access to the financial system – are following suit.

The roots of this problem run deep into the very structure of modern banking. Thanks to federal deposit insurance, favored lender status, and an implicit promise of bailouts for "too big to fail" institutions, megabanks operate in a world of privatized profits and socialized risks. Freed from the discipline of market forces, they are incentivized to embrace ideological battles that align with the preferences of regulators and policymakers.

Historically, the threat of depositor runs kept banks honest and liquid. But federal guarantees have dulled those incentives, allowing institutions to engage in riskier lending practices. The result is a system where banks feel secure enough to prioritize politics over prudence.

Economist Murray Rothbard famously critiqued fractional-reserve banking as inherently unstable. He argued that the market would expose and correct systemic excesses absent federal backstops. Friedrich Hayek envisioned private currencies competing freely, unshackled by central banks and government monopolies. He believed competition could yield sounder money, just as it produces better goods and services.

The current financial landscape, dominated by central banks and federal guarantees, is far from this laissez-faire ideal. Yet some states have begun pushing back against federal overreach, banning the adoption of Central Bank Digital Currencies (CBDCs) and considering anti-debanking laws. While imperfect, these measures represent a form of political decentralization: a reclaiming of authority by states in the face of federal encroachment.

Financial firms would be free to select their business partners in a truly competitive marketplace, bearing the reputational costs of any unwarranted discrimination. Our current reality diverges sharply from this ideal. We operate within a system extensively regulated and overseen by governmental authorities at every juncture.

Long-term, consequential reform would require dismantling the federal privileges that insulate banks from market accountability: ending deposit insurance, eliminating bailout guarantees, or rethinking the role of central banks. In the meantime, state-level resistance might offer a necessary, if limited, check on federal power.

Tennessee and Florida have passed legislation prohibiting banks from denying customers services based on their political views, religious beliefs, social credit scores, or non-financial factors such as gun ownership or environmental positions.

If carefully crafted, debanking legislation in Alabama might prevent the federal government from leveraging our private financial institutions to carry out actions it is prohibited from undertaking itself. Such measures could also shield banks from federal intrusion, emphasizing their role as safeguards rather than targets of the policy.

The broader implications of debanking are profound. When access to financial services depends on ideological conformity, we risk undermining the principles of free enterprise and individual liberty, replacing them with a chilling form of financial surveillance.

Addressing debanking is essential to preserving the integrity of markets. A financial system that places political considerations above sound practices risks long-term instability. Without proactive measures, this issue could undermine core principles of economic and political freedom.

When banks choose politics over prudence, everyone loses.

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