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Postal Banking: Finance for Everyone

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Financial Exclusion

According to recently released data by the Federal Insurance Deposit Corporation (FDIC), at least 28% of American households—roughly 93 million people—either have no bank accounts (the "unbanked") or are at least partially dependent upon high-cost services like payday lending (the "underbanked") (FDIC 2014). Excluded from orthodox financial institutions, the unbanked and underbanked pay dearly for basic financial services. In 2012, the income for the average underbanked household was about $25,500, but it spent an average of nearly $2,500 solely on interest and fees for alternative financial services (AFS) like payday lending. That is almost 10 percent of their annual income—about as much as they spent on food.

The unbanked and underbanked are a mix of working and middle-class families, student debtors, the unemployed, and folks living paycheck-to-paycheck for a myriad of reasons. Together, they are a deep cross-section of American society. Still, financial exclusion is disproportionately prevalent among people of color and immigrants, and especially women within those groups. According to the FDIC, more than half of African-American households were either unbanked or underbanked, with similar numbers for Hispanic and unmarried, female-led households. There are many reasons why financial exclusion is so skewed. Like stratification economists and Job Guarantee advocates Sandy Darity, Jr. and Darrick Hamilton, I think much of the disparate impact is rooted in a history of discrimination (Aja *et al.* 2014). Regardless of the rationale, widespread exclusion is even more unacceptable once you consider *who* is typically most affected.

Why, in this day and age, do so many people lack access to basic financial services? As University of Missouri-Kansas City economist L. Randall Wray has argued, providing broad access to money and credit is why the government charters, insures, and regulates financial institutions in the first place. If we do not live in a world with a "lack of finance", we can certainly design policies to "push finance to promote both the private and the public interest" (Wray 2014).

Despite news of recovery in the financial sector, recent reports show that the number of private bank branches in the United States is at its lowest level since 2005 (Chaudhuri and Glazer 2014). There is no reason to think the private sector can sufficiently serve the unbanked and underbanked, even if we wanted it to. As University of Vermont Law Professor and New York Times DealBook columnist Jennifer Taub recently wrote, part of the current predicament is policymaker's inability or unwillingness to consider alternatives to the *status quo* (Taub 2014).

Despite such intransigence, we know how to create a viable public option for basic financial services.

Policy Solution: Postal Banking

Although certainly not a cure-all, one promising remedy for financial exclusion is Postal Banking, a policy proposal I recently analyzed in *Yes! Magazine* (Carrillo 2014). The idea, popularized by University of Georgia Law Professor Mehrsa Baradaran (2014) and journalist David Dayen (2014), is economically, politically, and legally viable. Postal Banking would not only create a public option for credit, but would help insulate Main Street funds from the vicissitudes of the next financial crisis.

Most importantly, physical and operational structures already exist that could help the United States Postal Service (USPS) offer people basic financial services they need for security in the modern economy: prepaid debit cards, mobile transactions, new check cashing services, savings accounts, and even simple, small-dollar loans.

How it Works

Postal Banking is not a new idea: a successful U.S. Postal Saving System existed from 1911-1967, and similar schemes operate overseas today, including in the United Kingdom, Germany, Japan, and Switzerland (Baradaran 2014). Postal Banking is being employed in many ways throughout the world; indeed, in India, postal bank accounts serve as conduits for wages from direct job creation (Drèze 2014).

The attraction to Postal Banking for the unbanked and underbanked is not difficult to understand. A borrower without access to a commercial bank might typically take out a small loan at a very high interest rate from a payday lender. If a postal banking system were in place, however, that customer could instead simply walk into the local USPS branch and take out a small loan as a government-provided public service. Due to the restricted nature of postal banking, customers' access to funds would be comparatively safe from middlemen and the vicissitudes of the broader financial system.

There is little doubt that the services would be used if offered. According to a 2014 survey by the PEW Charitable Trusts, 31% of the unbanked said they would open an account at their local post office. Furthermore, 81% of the underbanked said they would use USPS to cash checks, 79% to pay bills, and 71% would choose small postal loans over payday loans.

It is important to note that many of these folks lack better options even if commercial banks wanted to lend them money. As the PEW survey details, more than 3.5 million Americans live more than 10 miles away from the nearest commercial bank. By contrast, post offices are ubiquitous in the United States, even in "banking deserts" in rural areas.

USPS is the second largest employer in the country, and by most insider reports, it is well equipped to handle a new financial services program. In fact, the USPS Inspector General (2014) has published a white paper detailing steps for legal and operational implementation. The American

Postal Workers Union (AFL-CIO) is equally supportive. Representative Phil Tabbita has argued USPS is up to the task. USPS employees—a quarter of whom are military veterans (Ronaldo 2014)— are already trained to handle simple financial transactions in the form of money orders and remittances.

Postal Banking and Public Finance

Combating deficit hysteria goes hand-in-hand with advocating for any public option, and it follows that MMT (Modern Money Theory), in particular, is useful in illuminating the macroeconomic feasibility of Postal Banking. Opponents like conservative Congressman Darrell Issa (R-CA) incorrectly claim that new financial services would intoxicate USPS's balance sheet and subsequently create an unsustainable spending burden for the federal government (PEW 2014).

Part of the misinformation surrounding Postal Banking is a result of confusion regarding the laws and accounting that would govern it. Perhaps the most important legal fact to note is that the post office is not directly funded by tax revenues. The Postal Reorganization Act of 1970 has forced USPS to become self-sufficient, to generate its revenue from its own services, whatever draconian cuts Congress has since imposed (Carrillo 2014). Regardless of USPS's own financial situation, the federal government's balance sheet does not include USPS assets and liabilities. Indeed, the separation is so utterly complete that there's a uniquely foolish law (H.R. 6407) mandating USPS to set aside money today for all future retiree health benefits—without subsidy from the U.S. Treasury. This special burden, which is not imposed upon any other government enterprise, is the chief cause of most of the red ink in USPS' books.

Even if USPS finances were included in the broader federal budget—as many MMT advocates would like—Deficit Hawk policies like the pre-funding requirement would make even less sense. As Deficit Owls, like former Deputy Treasury Secretary Frank Newman, assert, asking a federal agency directly funded by the U.S. government to save for a far distant future, is like forcing us to wear sweaters in July so we can store warmth for January (Newman 2014). Uncle Sam can always create money out of thin air, subject only to inflationary constraints; setting aside dollars for 2058, instead of using them for growth now, is foolish (Carrillo 2013).

Of all the services USPS could offer, small-dollar loans have come under the most scrutiny. Yet they merit the least concern. Opponents like Issa have conjured an image of hard-working taxpayers "subsidizing" lending for the poor. Statements like this reveal ignorance about how bank lending works in the modern era. When a customer asks a banker for a loan, the banker does not check the bank's deposits or reserves before she lends out money. As some economists have observed for decades (Wray 2009) and the Bank of England (2014) recently detailed, financial institutions do not lend pre-existing funds at all, but instead create "money" out of thin air when they lend. When a customer receives a loan, the bank also places her funds in an account, simultaneously expanding both the asset and liability sides of its own balance sheet. This is known as "endogenous money." As long as postal banks are granted the same legal license as private banks—notably access to the federal discount window and interbank lending—the financial stability of postal lending would not depend on "taxpayer money" at all.

Postal Banking and Financial Regulation

During the 2008 financial crisis, many politicians argued that Wall Street firms had to be rescued in order to save Main Street. If preventing Main Street from collapsing along with Wall Street is indeed a national security concern, then a stable postal banking system—a safe place for most people's money—could serve an insular, protective function.

Although some politicos advocate for a public-private partnership with existing commercial banks, postal banks could instead become an integral piece of a new financial architecture. For example, imagine the economy busts and people start to lose their jobs. The Federal Reserve could directly credit post office accounts, either with flat transfers, or preferably wages from a Job Guarantee program. This policy would inject money into Main Street and stabilize prices and wages.

Even conservatives like Reihan Salam (2013) at *The National Review* have recognized the merits of Postal Banking for the private sector. A strong postal banking system could eliminate the need for federal deposit insurance and create more room for the private financial sector to innovate as it pleases.

Political Considerations

The road ahead is not as difficult as one might imagine. Senator Elizabeth Warren (2014) continues to be an ardent champion of the proposal. The U.S. Conference of Mayors endorsed Postal Banking this summer (2014), and Rep. Cedric Richmond (D–La.) just introduced legislation in the House of Representatives (Alpert 2014). Although Postmaster General Donahoe is nominally against postal banking, many of his workers, managers, union leaders, regulators, and lawyers support the idea.

Political viability, however, ultimately depends upon the composition of the USPS Board of Governors, which can circumvent the Postmaster General. The Board consists of nine appointed governors, the Deputy Postmaster General, and the Postmaster General himself. There are currently five—soon to be seven—vacancies on the Board. Importantly, however, the President has recently nominated four governors, who have already passed through the Senate Homeland Security and Government Affairs Committee, and now simply require final Senate confirmation.

Unfortunately, a Republican Senate is unlikely to confirm any of the recent nominees. This means that the immediate potential for Postal Banking depends on taking advantage of the upcoming lame duck session. With successful confirmation, the Board would then be comprised of four Democrats, two Republicans, the Postmaster General, and his deputy. A door would open, at the very least.

Whether the next opportunity to establish Postal Banking is seized or not, it is an outstanding policy that could help build a more just, sustainable, and prosperous economy. It is absolutely worth fighting for in the years to come.

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