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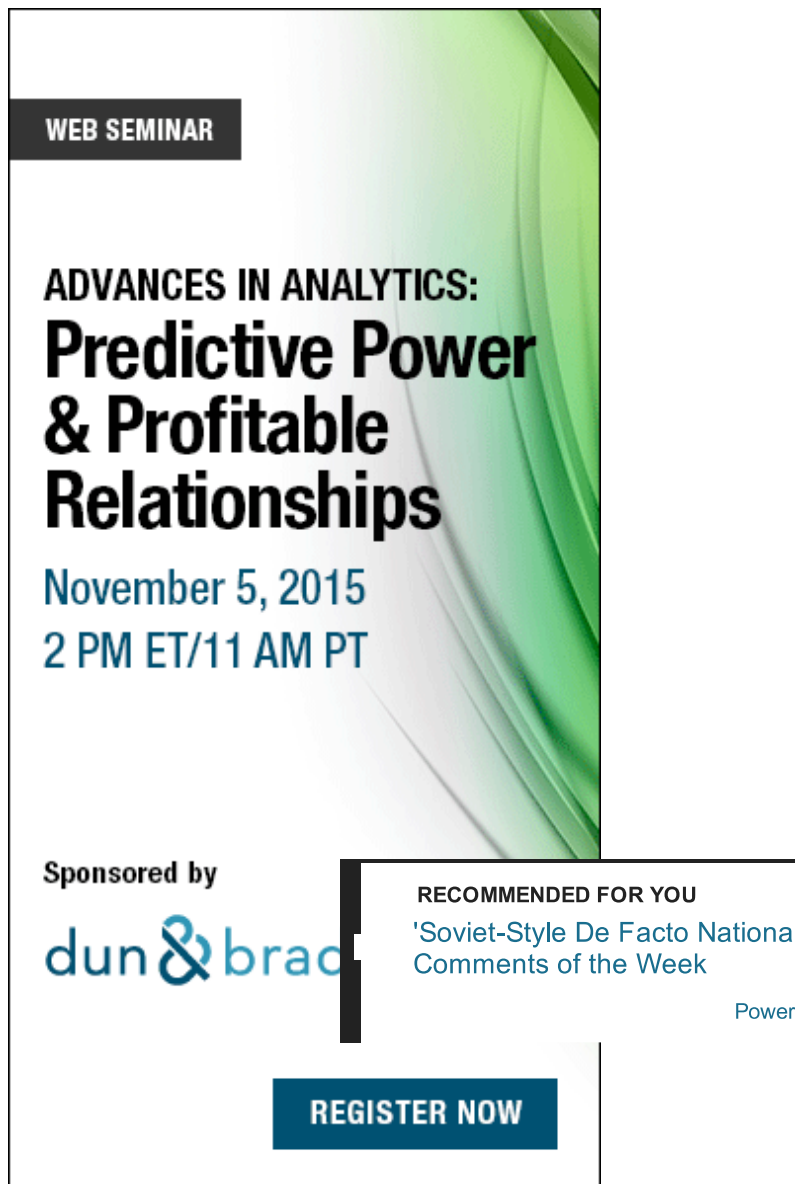
Postal Banking: A Lifesaver for America's Poor

By Mehrsa Baradaran
September 24, 2015

A social contract has existed between banks and the government since the early days of the republic. The government supports the banks through trust-inducing insurance, bailouts, liquidity protection, and a framework that allows the allocation of credit to the entire economy. Banks, in turn, operate as the central machinery of the economy by providing transaction services, a medium for trade and individual and business loans that spur economic growth.

This entanglement between the state and the banking system must surely mean that banks should not exclude a significant portion of the public from the bounty of government support. This is not just a banking market problem but a threat to our society's democratic principles. When the state becomes so heavily involved in the banking system, that system cannot create or contribute to such a vast inequality.

Many policymakers have inferred this obligation on the part of banks and have attempted to force banks to extend credit beyond their preferred customer base. The banking industry has vigorously opposed these efforts, but the democratization of credit is not an issue that should be left to the banks. The supply of credit has always been a public policy issue, with banks functioning as intermediaries. Insofar as the



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state enables credit markets, all creditworthy Americans deserve equal access to credit, especially because reasonable and safe credit can provide a smoother path both through and out of poverty. If banks are not providing credit to the poor, the state should provide it directly.

The existing post office framework represents the most promising path toward effectuating such a public option. American banks long ago deserted their most impoverished communities, but post offices, even two centuries later, have remained — still rooted in an egalitarian mission. There have never been barriers to entry at post offices, and their services have been available to all, regardless of income.

And so, it is not unreasonable to suggest that as America's oldest instrument of democracy in action, the post office can once again level the playing field, and in the process, save itself from imminent demise. In fact, the post office inspector general's office, a small regulatory branch of the post office, issued a *White Paper* report in January 2014 proposing just such a move. As of this writing, the postmaster general has not publicly supported the proposal and no congressional committee has seriously considered postal banking.

But it is a proposal worthy of serious consideration. The basic idea of modern postal banking is a public bank offering a wide range of transaction services, including deposit-taking and small lending. The post offices could offer these services at a much lower cost than banks and the fringe industry because (1) they can use natural economies of scale and scope to lower the costs of the products, (2) their existing infrastructure significantly reduces overhead costs, and (3) they do not have profit-demanding shareholders and would be able to offer products at cost.

Although postal banking could potentially save an institution that predates the Constitution and made our first-rate democracy possible, the most important argument in favor of postal banking is its potential to bank the unbanked. Consider the social and economic benefits of a system that enables the unbanked in the United States to leave the expensive and time-wasting cash economy and pay their bills online, send funds to family, make debit card purchases, and save money without worrying about draconian overdraft fees.

And not just the unbanked stand to benefit. An even larger portion of the population do have bank accounts but have been forced to rely on high-cost fringe loans. Postal banking can provide small loans to the creditworthy among the low and middle-income without life-crushing fees and interest.

Critically, by making banking available to those deserted by a government-supported banking system, the state can minimize the threat to democracy posed by the heavily subsidized, exclusionary, and powerful banking sector. The social contract has been breached. Banks enjoy broad government support but do not serve the entire public. Direct government involvement remedies the breach and bridges the gap in services.

Because of the unique institutional capacities of a nationwide post office, its services can significantly underprice any of those on the market. This is not just a hope or an empty promise. The detailed post office white paper explains how to achieve this by using tools currently available only to the post office.

Most of these transaction services are straightforward products that do not require a high level of sophistication. The post office can build on its existing network to meet a significant market demand.

Walmart, for example, came to dominate financial services to the poor, practically overnight, without causing a substantial ripple in its core business. The company has been able to use its size and existing infrastructure to offer financial products at a fraction of the price, while making a healthy profit offering them.

Current estimates show that the unbanked spend \$89 billion each year on financial fees and services. All of this money goes to alternative financial service providers — payday lenders, check cashers and other nonbanks that charge high fees to store and move people's money. Providing these services at much lower costs has a triple advantage of reviving the beleaguered but too-important-to-fail postal service, putting the money back in the pockets of the poor, and providing an alternative to a harmful industry that has proved nearly impossible to regulate away.

Postal banking may seem radical to many in the U.S. who remain convinced that banking should be a "private market" free from "government intervention," but it is a mundane part of life for the rest of the world. Postal banking is the norm, not an aberration.

Postal banking has operated in many Western countries since the 1800s, and currently, 51 countries use postal banking as their primary method of financial inclusion — only 6% of postal carriers worldwide do not offer banking services. (It is estimated that postal banking has banked over one billion people worldwide.)

A variety of models exist worldwide — some focus on the poor and others offer postal banking services to the entire population. In fact, the U.S. is one of the only developed countries in the world without a postal banking network. However, we do not need to look abroad for a justification or even a model for postal banking when we can refer to our own rich history.

Just as our postal banks did successfully for half a century, their rebirth can lead to increased saving by the broader public. By providing low-barrier savings accounts, the post office can again offer a refuge for the countless small savers in the U.S. who have been shut out of the banking system because their too-small savings accounts are no match for high bank fees. Increased access to low-cost savings accounts can greatly benefit a population living without any financial cushion.

Postal savings accounts could provide a much-needed financial buffer that would even diminish the need for short-term credit. Having just a few hundred dollars stored away can make a significant difference to a moderate-income family facing an emergency.

Postal savings accounts can even reinvigorate a culture of saving that has been long lost in the U.S. but retained in Japan and Germany precisely because of their strong postal banking network. A 2015 survey shows that over half the population has savings that they do not deposit in banks and many admit they store their cash in sock drawers, cookie jars, under mattresses or in their freezers. It is possible that just as in the 1900s, hoarded money from across the country would pour into the postal banks from under mattresses, from prepaid cards or from funds otherwise wired abroad.

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