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Why the Poor Face a Higher Cost of Banking

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It's expensive to be poor. The poor pay more for food, car insurance, even diapers. But perhaps the widest discrepancy is in the world of banking. Unable to maintain a minimum balance or provide the necessary ID to open a bank account, many poor people rely on fringe financial services like check cashing stores and payday lenders, which charge interest rates that can reach the triple digits.

It doesn't have to be that way, says Mehrsa Baradaran, a University of Georgia law professor and author of "How the Other Half Banks," about inequality in the banking system. Baradaran blames deregulation beginning in the 1970s, which lead to the megabanks we know today — banks so big they can no longer be bothered with the smaller transactions of low-income

Americans. The solution, Baradaran says, is an old one — postal banking. Mainstream commercial banks have all but abandoned low-income Americans, leaving vast banking deserts in areas of concentrated poverty, she says. But there's a post office for every zip code in the country. And because the post office isn't controlled by demanding shareholders, it could offer services at much lower rates than commercial banks.

Baradaran points out that big banks rely on the federal government, which provides them with low or no-interest credit and even bails them out in times of need. Why shouldn't struggling citizens be entitled to the same treatment, she asks.

PBS NewsHour Weekend anchor Hari Sreenivasan spoke to Baradaran recently. Watch that discussion above.

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