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Postal Banking Worked—Let's Bring It Back

Regulated, federally subsidized banks serve the wealthy and the middle class. A Wild West hodgepodge of unregulated lenders serves everybody else.

By Mehrsa Baradaran

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A statue of Benjamin Franklin in front of the local post office in Markham, Virginia. (*AP Photo / J. Scott Applewhite*)

When I moved to Georgia a few years ago, I went to the town water office to get the water turned on. When I arrived, around lunchtime, there was a long line at the cashier's window. At first, I waited in the line; then a woman approached me to ask me what I needed—she apparently knew I was at the wrong window. After I told her, she took me to a back office where I set up my water account and initiated auto-payment on my water bill. As I was leaving, I asked her what the long line was for. But given what I do for a living, I should have known. The line was for customers without bank accounts who have to spend their lunch break paying their water bill in cash. And their heat bill, and phone... you get the idea.

Then I heard from a local pastor that many of his parishioners have a cash crunch right before the holidays because their heat bills spike. The church tries to help out, but it can't help everyone, and the folks it can't help have to get a payday loan so they can keep the heat on in their homes. Those borrowers likely spend the first several months of the year (usually more) paying down the absurd interest rates on these loans (between 300 percent to 2,000 percent APR). I knew all about the statistics and the scale of the

problem, but it's still hard for me to believe how hard life can be for some people.

According to Federal Reserve statistics, about half of the US population would need to borrow money if they had a shortfall of \$400 due to an unexpected expense. And as for basic financial services, over 30 million are either unbanked or under-banked—meaning that they rely on alternative financial services. The unbanked pay a significant portion of their paychecks—around 10 percent—to use and move their money. This is more than the average low-income family spends on *food*. And this doesn't take into account the time and stress of having to take time off from work to go to the water office to pay your bill.

How did we get here? There was a transformation of the banking sector between the 1970s and the 1990s that was a result of both market changes and policy decisions, specifically a strong tide of deregulation. This caused a merger wave and a homogenization and conglomeration of banks that squeezed the community banks. During this time, the credit union and the savings and loans and other cooperative, public-serving, and limited-profit financial institutions were forced to merge and abandon their missions in order to find more lucrative markets and survive deregulation. They left low-income neighborhoods en masse and instituted fees on smaller, less profitable accounts. Many low-income Americans lost their bank accounts during this time.

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The merger wave and deregulation eventually created a banking industry that is the largest and most powerful it's ever been—and it is completely uninterested in banking the poor. In fact, these banks have even used their political muscle to fight New York legislatures' efforts to make it just a little easier for the poor to get bank accounts.

Once the community banks and the savings and loans left these communities, payday lenders, check cashers, and title lenders filled the void. These fringe lenders thrive in areas with the fewest banks—and the rise of these lenders was a direct result of the decline of community banks.

How do we fix this problem? For the last 200 years, the answer has been community banking, and this continues today. Almost every time I read a report about the problems with payday lending, it trails off into a vague proposal that credit unions and community banks provide these services. Indeed, every legislative effort to remedy this problem for the last three decades has tried to use carrots and sticks to make small banks offer services to the poor. But small banks are in bad shape, and they have to compete with the big banks for big profits if they are going to survive. Yes, there is still a big role for community banks here, and we should all loudly lament the loss of community banks, but in many ways the genie has left the bottle. Large and national banking was the decisive winner.

So it's time to consider a large and national solution to the problem of the unbanked.

Almost every other developed country in the world has found the answer in their post office. What very few people seem to remember is that the United States did it too. In fact, our postal banking system, first proposed in 1871, began in 1910 and banked millions of Americans until 1966, when it was phased out, because this was the heyday of community banking and there was no need for the postal banks.

At the time and until today, the public and the press failed to note the centrality of postal banking in one of the most significant periods of banking reform in our country. Faced with constant banking panics in the lead-up to the Great Depression, several presidents and legislators proposed postal banking as the way to make banking in America safe. Indeed, during the widespread bank failures of the Great Depression, deposits sought refuge in postal savings banks. Post-office war stamps and treasury bonds helped fund two world wars and reduce government deficits after the Great Depression. Postal banking was the most successful experiment in financial inclusion in the United States—a problem in front of us once again. Postal banking

brought millions of new immigrants and rural dwellers into the United States banking system.

We are again facing the realization that our banking industry is unstable, but also, more crucially, that it is unfair. Today, federal support of banks—whether through bailouts or interest-free loans—is at an all-time high, and the public benefit of the banking industry to average Americans is at an all-time low. The problem of the unbanked is more than just a market problem—it’s a social and political problem. There is a disparity in banking services today: a mainstream, regulated, and federally subsidized banking sector serving the wealthy and the middle class, and a Wild West hodgepodge of unregulated lenders that provide services to those with less income.

Postal banking can level the playing field by offering savings and checking accounts, money transfers, and small loans so the poor can escape the expensive cash economy. It can do so by using the infrastructure it already has in place for processing money orders and expanding as needed based on successful models from abroad.

The post office is equipped to do this because the post office was organized by the same people that wrote the Constitution and created our government. James Madison, Alexander Hamilton, and George Washington, with the help of Postmaster General Benjamin Franklin, made three crucial decisions in the Postal Act of 1792: The post would be self-sustaining, but not profit-oriented; it would serve every community regardless of costs; and it would be the agent of democracy by subsidizing the dissemination of information from the capital to the rest of the country. The post-office administrators emphasized this mission when they started banking in 1910, stating that postal banking “is not a money-making adjunct to the Post Office Department, nor was it intended as such. Its aim is infinitely higher and more important.”

The post office, though embattled by mounting debt due to some political and some market-driven obstacles, still retains this central mission (my emphasis): “The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services *to all communities.*”

Often, Americans forget just how reliable and efficient the post office is and how central it is to the creation and operation of the routes of national commerce. My book examines how postal banking can likewise open up the routes of credit for the nation. Recently, presidential candidate Bernie Sanders has pledged to fight for postal banking. It is a fight that we should all join.