The Garden City Telegram

Delayed COVID-19 aid spurs search

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Financial aid meant to assist Americans during the COVID-19 pandemic has been slow to reach the most vulnerable, who are often disconnected from the banking system, sparking conversations in Congress about making the aging U.S. payments system faster and more accessible.

Although many Americans received federal assistance within a couple of weeks through direct deposits, about 34 million people waited a month or more for paper checks. The Treasury estimates that an additional 30 million to 35 million are still waiting on their payments.

“Too many people, especially Black and brown people in this country, have been shut out of our financial system,” Sen. Sherrod Brown of Ohio, the ranking Democrat on the Senate Banking Committee, told CQ Roll Call in a statement. “How much money you have or where you live shouldn’t determine whether you can get a bank account.”

Brown introduced a bill in March that would allow individuals to open free bank accounts with the Federal Reserve, avoiding the fees and minimum-balance requirements that often block the poorest from traditional banking.

About 8 million households are considered unbanked by the Federal Deposit Insurance Corporation, meaning the family doesn’t have a bank account. An additional 24 million underbanked households use financial services outside the banking system, such as payday loans, despite holding a checking or savings account.

Brown’s proposal, and similar legislation introduced by House Financial Services Chairwoman Maxine Waters, D-Calif., would allow individuals to bank through Fed Accounts, which would replicate the amenities provided by normal banks - including debit cards, online banking, automatic bill pay and ATMs - without the costs.

“This would give people more power over their paychecks and ensure that during and after the pandemic workers won’t have to rely on expensive check cashers to get their hard-earned money,” Brown said.

Fed Accounts would be available at post offices and commercial bank branches. Because the accounts would exist on the Fed’s ledger, transactions could happen instantly.

The bills borrow heavily from an idea proposed in 2018 by professors Lev Menand of Columbia Law School, Morgan Ricks of Vanderbilt University Law School and John Crawford of the University of California, Hastings College of the Law.

Menand says he's observed a "sea change" in congressional interest in Fed Accounts since the novel coronavirus slowed the economy. The virus "shined a spotlight" on the millions of households that have been cut off from the banking and payments system for decades, Menand told CQ Roll Call.

"Congress hadn't paid much attention to it," he said. "Then the coronavirus happened, and the government found itself in the position of having to make payments to these households and not being able to do it in an efficient and safe manner."

In the short term, Fed Accounts would allow the government to send financial relief to people quickly, and their benefits would last beyond the immediate crisis, Menand said. "It would help solve the problem of the unbanked by providing all Americans with an option to have a no-fee bank account."

Menand says the accounts could be launched quickly under Brown's and Waters' proposals, which rely on commercial banks to set up and service the accounts in the short term while the Fed builds out its infrastructure.

Congress could protect account holders' privacy by implementing the same rules and penalties that guard taxpayer data collected by the IRS, he said.

George Selgin, director of the Cato Institute's Center for Monetary and Financial Alternatives, says he's skeptical of the proposal, which would involve building out a government bureaucracy to duplicate services already provided by the private sector. Subsidizing access to payment services would be more efficient, he said.

"It's highly unlikely that the Fed can offer such accounts more efficiently than any ordinary bank," Selgin told CQ Roll Call. "It doesn't have any retail banking experience, and it doesn't have any retail banking facilities or staff."

Selgin said he also doubts that the proposed privacy protections would prevent government overreach. He said the same about a tokenized digital currency backed by the Fed, another proposal that's come to the forefront as Congress searches for a faster way to distribute aid.

The push for a U.S. central bank digital currency has slowly built momentum in Congress as policymakers have grappled with financial stability and national security concerns caused by Facebook Inc.'s cryptocurrency proposal and China's plan for a digital yuan.

Former Commodity Futures Trading Commission Chairman Christopher Giancarlo says the pandemic has prompted lawmakers focused on equity and access to look more closely at a Fed-backed digital currency. After leaving the commission last year, Giancarlo launched the Digital Dollar Project, a think tank to push for a U.S. central bank digital currency.

A Fed-backed digital currency is needed to modernize the decaying financial market infrastructure in the U.S. laid bare by the pandemic, Giancarlo told CQ Roll Call. Connecting the unbanked to the payments and financial system would be a side benefit of the plan.

Both Fed Accounts and the central bank digital currency proposal claim the moniker “digital dollar,” and either one would allow for faster, digital payments. However, while Fed Accounts seek to lower cost and expand access to bank accounts, a Fed-backed digital currency would allow consumers to bypass the account-based payment system entirely, similar to physical cash.

When a shopper uses a debit card to pay for a purchase, it triggers a series of messages from the customer to her bank, from her bank to the retailer’s bank, and from that bank to the retailer. The same would be true under Fed Accounts, though if both the customer and the retailer had Fed Accounts, the Fed would be able to adjust its ledgers directly, eliminating the need for messages to travel between banks.

A central bank digital currency would bypass bank accounts and the messaging system entirely by adapting digital ledger technology pioneered by cryptocurrencies such as bitcoin. A U.S. digital currency would behave more like cash, which changes hands without involving third parties.

By facilitating digital payments without requiring access to a bank account, a Fed-backed digital dollar would allow those who can’t afford a traditional bank account to participate in the financial system to a degree they hadn’t previously.

In theory, a digital currency could solve some of Congress’ payment issues. However, Giancarlo says the Fed shouldn’t rush to launch one and instead should focus on getting it right, which could take years.