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Postal banking isn't the fix for financial inclusion

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Sen. Bernie Sanders and Rep. Alexandria Ocasio-Cortez recently added their names to a rising chorus of Democrats who have endorsed a plan to permit the United States Postal Service to provide a variety of banking services — a purported solution to the problem of financial inclusion for lower-income households and an alternative to payday lending.

But a century-old public utility model is not the best way to address America's two-tiered consumer financial system; competition and regulatory reform is.

Postal banking is not a new idea. In the United States, the post office offered small-dollar savings accounts from 1911 to 1966. Modern proposals are more ambitious than merely offering savings accounts, but the contours of a functioning postal banking system remain fuzzy. Sen. Kirsten Gillibrand's proposal is a mere six pages long, but it is much more ambitious than the earlier version of the postal bank, which offered only small savings account services. Her proposal would authorize the post office to offer basic financial services such as check-cashing, money orders, and remittances, checking and savings accounts, and to even offer small-dollar loans as an alternative to current payday loans.

The sketchy nature of Gillibrand's proposal is telling — postal banking is little more than a half-baked political stunt, not a serious attempt to solve the important problem of financial inclusion.

Banks make money by serving as a financial intermediary. But how would a postal bank make money? Gillibrand's proposal specifically prohibits the postal bank from engaging "in traditional banking activities such as lending," so that option is out. Beyond that, the proposal offers no solid details, nor does the website for Campaign for Postal Banking. Sanders and Ocasio-Cortez's four-page legislative proposal to regulate interest rates — unveiled alongside their endorsement of postal banking — doesn't even mention USPS getting into financial services as part of the legislation, much less provide operational details.

Some proponents suggest that the post office could make money by competing with payday lenders by making small-dollar loans. But this is a fantasy. Default rates on payday loans are high — approximately 15% of annual revenue — and no one has even hinted at how the post office will do a better job underwriting and collecting on small-dollar loans than current providers with years of hard-earned experience. Payday lenders earn most of their revenue off repeat customers; yet the strongest advocates for postal banking are also among the most outspoken critics of repeat borrowing on payday loans. Gillibrand's proposal caps the interest

rate on small-dollar loans at just above the one-month Treasury bill rate, currently about 2.40%, with no adjustment for operating costs or default losses.

In addition, payday loan customers report that price is only one of the many features that they consider in shopping for a payday loan; because many of them are shift and hourly workers, they appreciate the long hours that payday lenders are open as well as the speed and customer service offered by payday lenders. Convenient hours and speedy customer service are not generally regarded as hallmarks of the post office, to say the least.

As a result, it is doubtful the post office will be able to compete with payday lenders on the terms consumers care about and would have to be provided a government-protected monopoly to even potentially succeed — as Sanders and Ocasio-Cortez's do by effectively outlawing competition through low interest-rate ceilings. But even a monopoly might not be enough — the post office's monopoly on first-class mail delivery hasn't prevented it from losing billions of dollars every year, and it is not obvious why it would be expected to do better with financial services. In fact, the post office's own 2015 internal study admits that it is highly unlikely that the post office would own its own actual bank. Instead, the report indicates that the most likely scenario involves partnering with private companies to provide them with preferential access to postal facilities to hock their wares with the post office taking a cut of the action — hardly a transformative innovation. Indeed, the post office's report noted "tremendous challenges" associated with becoming a full-blown bank offering a full range of financial services: "For starters, the Postal Service may have to retrofit offices, hire significant financial expertise, build internal systems on a massive branch network, raise billions of dollars in capital, and bring in a staff of compliance managers."

A better solution than herding lower-income Americans into a taxpayer-subsidized monopolistic public utility experience — while the rest of America benefits from FedEx-style banking — is to remove the shackles that prevent competition in financial services.

A decade ago Walmart applied for a banking charter, only to run into a buzz saw of special-interest opposition from incumbent banks, consumer activists and FDIC regulators. Walmart eventually pulled the application, which would have enabled it to offer a full suite of banking services through its more than 5,000 stores, including checking and savings accounts. Instead, it offers a variety of more limited services through its MoneyCenter activities, including check cashing for a flat fee of $4 and money orders for 88 cents, compared to $1.25 at the post office. Moreover, unlike the post office's 9-5 hours and long lines, most Walmart stores are open 24 hours a day, thereby catering to shift workers, hourly workers and others who cannot bank at times that are convenient for unionized postal employees. Walmart transformed retailing in America; permitting Walmart, and potentially other retailers such as Amazon or even convenience stores to seek bank charters, would likely do the same for financial services.

Increasing financial inclusion is a moral imperative. But the solution starts by repealing the laws and regulations that block innovative competitors and discourage mainstream financial institutions from seeking out low-income consumers as valued customers, not by further ghettoizing working-class households into a system outside the mainstream financial system.

Competition, not another government-sponsored monopoly, is the gateway to greater financial inclusion for working Americans.

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