To: Secretary of Treasury, Biden Administration
From: Riley Leonard
Date: 13 November 2020
Re: The Opportunity to Extend Public Banking Access Through the Postal Banking Act

Postal Banking

Postal banking involves offering a variety of basic consumer financial services through the United States Postal Service (USPS), with the goal of providing "affordable, transparent, and trustworthy" banking to under-served and low-income individuals throughout the country. Specifically, the Postal Banking Act (115 S. 2755) would authorize the USPS to provide access to the following provisions:

- Checking and savings accounts (not to exceed the greater of $20,000 or 25 percent of the median account balance reported in the FDIC's quarterly Consolidated Reports of Condition and Income).
- Transactional services such as debit cards, automated teller machines, check cashing, and online banking.
- Domestic and foreign remittance.
- Small-dollar and low-interest lending (not to exceed $500 at a time, or $1,000 from one year of the issuance of the initial loan).

Rationale

In their most recent national survey, the Federal Deposit Insurance Corporation (FDIC) found that roughly seven million households in the United States are entirely unbanked, with over fifty million additional households considered underbanked—that is to say, struggling to access the necessary financial products to sufficiently meet their banking needs. This is due in large part to the relocation and conglomeration of private bank branches, often in search of increased profitability.

With this in mind, a public banking service provided by the USPS would substantially extend secure banking access through the agency's extensive geographical reach, with nearly every ZIP code in the United States serviced by a post office (Rowan, 2020). In addition to increasing physical accessibility to financial services, a postal banking system would also provide more affordable and equitable banking. Traditionally, many Americans—particularly the aforementioned underbanked—have relied on high-interest lending, payday loans, tax refund advances, and high-fee cash checking as their primary means of personal financial management (Berger and Hernandez, 2020).

These expensive (and occasionally predatory) lending practices disproportionately impact low-income populations, exacerbating wealth inequality and adversely impacting consumer trust in private banks. Because postal banks would operate in the interest of consumers rather than profitability, these institutions would be able to offer cheaper borrowing and nondiscriminatory access to credit.

A well-supported public banking system may also assist in the stabilization of broader financial markets. The ruinous consequences of the 2008 financial crisis still loom large, a global recession in which incessant patterns of irresponsibility and corruption in commercial banking were largely to blame, with excessive yield-chasing and the widespread securitization of faulty debt—most notably subprime mortgages—leading to both the creation and collapse of a devastating housing bubble. Not only does a postal banking system lend itself to straightforward regulation and safety, introducing a public banking option generates competitive market forces that should push private banks towards more ethical and equitable practices. This competition also incentivizes banks to more directly serve customer interests, putting deflationary pressure on steadily rising bank fees (Bond, 2020).

The introduction of postal banking also helps address the urgent solvency issues facing the USPS. Burdened by a legal mandate to provide a universal fixed service to every American household (with only marginal increases in service charges relative to volume and inflation), the USPS has lost $69 billion over the past 11 years (Bond, 2020). As an independent agency of the federal government, the USPS is responsible for providing an essential public service, one that is widely trusted and utilized (Gillibrand, 2020). The importance of this service was made abundantly clear in the 2020 general election, where, despite enormous financial and logistical hurdles, the USPS still managed to successfully handle and deliver an unprecedented number of mail-in ballots. While a postal banking system does not completely mitigate the USPS's funding problems, it nonetheless offers a lucrative avenue for the agency to generate additional revenue (estimated to be around $9 billion annually) and continue its operations (Rowan, 2020). This could go a long way in preserving the USPS and the employment of its nearly 650,000 workers (USPS, 2019).

Finally, in the context of the coronavirus pandemic, a postal banking system would be particularly beneficial. Not only are the carrying services of the USPS as essential as they have ever been, but postal banking would also more easily allow for the immediate and streamlined distribution of future economic relief relating to the current recession (the lack of which proved to be a major obstruction in the issuance of the first stimulus check). Unbanked and underbanked persons have also struggled to claim emergency cash and take out short-term loans, aggravating the already enormous economic repercussions of the coronavirus and its successive unemployment crisis. In many ways, the pandemic has lifted the veil on a systemically broken and inequitable financial system, rectifiable by the Postal Banking Act (Long, 2020).

Trump Administration Actions

In addition to his administration passing several laws deregulating the financial sector, President Donald Trump has been outstandingly vocal in his criticism of the USPS (Ray, 2020). Trump's political actions when it comes to financial regulation and the Postal Service are as follows:

- Signed into law the Economic Growth, Regulatory Relief and Consumer Protection Act in (S. 2155, P.L. 115-174), representing the single most significant deregulation of the United States financial system since the repeal of the Glass-Steagall Act in 1999. The legislation consists of relaxing mortgage lending rules, allowing more high-risk proprietary and derivative trading (through the repeal of the Volcker Rule), lifting consumer protections, weakening stress tests, and reducing capital requirements.
- Appointed finance chairman for the 2020 Republican National Convention and Trump campaign donor Louis DeJoy as Postmaster General, who immediately instituted a number of cost-cutting measures and adverse operational changes.
- Contributed to the politicization of a nonpartisan government agency by blocking federal funding to the USPS for politically-motivated reasons.
- Consistently undermined the legitimacy and security of mail-in ballots during the 2020 presidential election.

Biden Campaign Background

- President-elect Joe Biden referenced ensuring equitable access to banking and financial services throughout his presidential campaign.
- More broadly, Biden has consistently favored policy goals that aim to provide economic assistance to low- and middle-income individuals.
- In the case of postal banking, Biden explicitly endorsed the idea (as well the increased regulation of financial markets) as part of his progressive Biden-Sanders Unity Task Force recommendations (Biden, 2020).

Equity Impact

The implementation of postal banking has an unambiguous equity impact, as it aims to directly assist unbanked and underbanked populations. Financial exclusion has enormous economic costs and can be particularly debilitating for those of lower income levels (Solomon et al., 2020). Studies have also shown that Black and Hispanic Americans are five times more likely to be unbanked than whites (Gillibrand, 2020), largely due to the decreasing number of bank branches in communities of color—an issue immediately addressed by postal banking. Lack of credit scores and home ownership for people of color, further results of inequitable financial services, contribute to a wide racial wealth gap. Fortunately, ensuring affordable banking to all Americans would help address a number of these structural economic and social inequalities.

Bipartisan Support

Research by Data for Progress recently found that 84 percent of Democrats and 67 percent of Republicans support some form of postal banking, illustrating a considerable public desire for the service. That being said, the legal implementation of the Postal Banking act requires congressional approval, and passing the senate presents an obvious challenge to the legislation. Unsurprisingly, existing financial institutions have been critical of the Postal Banking Act, as any sort of public financial service acts in disharmony with private banking interests, the likes of which have considerable political influence. Despite some powerful opposition, passing the senate is still a realistic possibility. Republican senators from states with large proportions of constituents without banking access (particularly in rural areas) may favor the legislation, as well as senators from states with a history of successful public banking, such as North Dakota (Mitchell, 2019).

Work Done by Past Administrations

Although public financial services have been primarily nonexistent in the country for over half a century, there is nonetheless historical precedence for successful postal banking in the United States. The Postal Savings Systems, which existed from 1911 to 1967, handled bond distribution and bank accounts during a period where consumer trust in private banks seemed irreparable. While the establishment of the FDIC and introduction of government-insured deposits were eventually able to restore faith in private banking, the Postal Saving System still managed $3.4 billion in deposits at its peak. While the concept may seem novel, Biden’s endorsement for postal banking ultimately represents a continuation of the historical advocacy for public banks in the United States, as well as postal banking’s ubiquity throughout the world (Shaw, 2020).

Cost and Other Barriers to Implementation

Despite the discussed benefits of the Postal Banking Act, there are a number of necessary costs and barriers to implementation. The preeminent concern when it comes to providing financial services through the USPS is the agency’s massive amount of existing debt, which critics frequently point to as evidence of poor management (Gattuso, 2019). However, the USPS’s dire financial situation is predominantly the result of its legal mandate to provide an affordable public good. As such, it is important to avoid thinking of the USPS as a traditional, profit-oriented business. While skepticism about the complexity and increased responsibility imposed on the USPS by a banking system is certainly warranted, the agency's existing infrastructure and institutional experience should provide the necessary framework for a smooth transition into the service.

Meanwhile, despite the fact that much of the disapproval towards the Postal Banking Act from financial institutions is primarily motivated by self-interest, many economists raise valid concerns about the macroeconomic effects of postal banking. Specifically, some experts fear that offering widespread public banking will threaten the delicate and complex private banking system that exists as one of the animating forces of the United States' economy. A compromise, as some slightly more hesitant economists suggest, is that the USPS go through with offering basic banking products (like checking accounts) at low cost, but avoid offering low-interest loans and affordable check cashing (Klein, 2020).

Conclusion

Although forcing private banks towards lower rates with cheap and accessible public banking may impose necessary costs in the form of profit loss, the tradeoff of these costs directly assists consumers, specifically those already harmed by financial exclusion and existing income inequality. As a result, the benefits of the Postal Banking Act should ultimately motivate the adoption of the policy, as the payoff to consumers and the USPS are immeasurably valuable, especially in a recession.

Works Cited

Baradaran, Mehrsa, and Danyelle Solomon. “Creating a Postal Banking System Would Help Address Structural Inequality.” *Center for American Progress*, 15 Oct. 2020.

Berger, B. Dan, and Anthony Hernandez. “USPS Needs to Keep an Open Mind on Postal Banking.” *American Banker*, American Banker, 21 Aug. 2020.

Biden, Joe. “Biden-Sanders Unity Task Force Recommendations.” *joebiden.com*, Joe Biden, 8 July 2020.

Bond, Casey. “3 Ways Postal Banking Could Help Save Our COVID-Ravaged Economy.” *HuffPost*, Huffington Post, 28 July 2020.

Gillibrand, Kirsten E. “S.2755 - 115th Congress (2017-2018): Postal Banking Act.” *Congress*, Senate, 25 Apr. 2018.

Gillibrand, Kirsten. “Voters Support Postal Banking.” *Data For Progress*, Data For Progress, 14 July 2020.

“How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey.” *FDIC*, Federal Deposit Insurance Corporation, 19 Oct. 2020.

Klein, Matthew C. “The Pros and Cons of Postal Banking.” *Barrons*, Barrons, 30 Apr. 2018.

Long , Melanie G. “COVID-19 Exposes Why the Postal Service Needs to Get Back Into the Banking Business.” *The Conversation*, 8 July 2020.

Mitchell, Stacy. “Public Banks: Bank of North Dakota.” *Institute for Local Self-Reliance*, ILSR.

Moritz-Rabson, Daniel, et al. “What Is Postal Banking?” *Newsweek*, 31 May 2019.

Ray, Rashawn. “Why Trump's Attack on USPS Is an Attack on the Constitution, Democracy, and Racial Equality.” *Brookings*, Brookings, 24 Aug. 2020.

Rowan, Lisa. “Would Postal Banking Save the Post Office?” *Forbes.* Forbes. 2 Sep. 2020.

“Size and Scope.” *Postal Facts - U.S. Postal Service*, USPS, 31 May 2019.