

# Postal Banking and Government Profitability: When Should Governments Have to Make Money?

SETH VICTOR<sup>†</sup>

## I. INTRODUCTION

Over twenty-five percent of Americans lack ready access to banking facilities. This is not entirely a product of geography, where people in remote parts of the country are miles from the local bank branch. The internet—and the smartphones that allow people to connect to it all the time—means that physical access to banks is rarely the obstacle. Instead, like many other issues these days, it is a function of economics; the banking industry finds it insufficiently profitable to open its doors to that underserved twenty-eight percent.

Not having basic banking services is devastating. Savings accounts and small credit lines help individual families maintain financial independence, and those communities that cannot access them are often those that have also been left behind by other service industries. The financial services gap thus operates to further increase the distance between those with access and those without. For example, the commercial banking industry continues to discriminate against the same minorities that have been targeted throughout American history, and neighborhoods that are refused community development loans are the same ones that were harmed by redlining. Additionally, the average individual in bankruptcy would need only a small credit line to remain solvent, so some minor shifts in policy would have a large effect on many communities.

So, what can be done? The government could step in and provide a public option for banking services, and it can utilize pre-existing infrastructure by vesting this power in the United States Postal Service (USPS). This is a particularly effective solution because it satisfies the desires of both the private and public sector. In a postal banking system, the government would not be competing with banks for customers, as banks have already demonstrated they are not interested in servicing these individuals. And because the government does not and should not need to show profits, the public sector can absorb any financial risk that stems from serving these communities.

Basic financial services are an important space for the government to

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<sup>†</sup> The author is an attorney in Los Angeles and a member of the UCLA School of Law's Class of 2019. He thanks Professor Jon Michaels for his assistance with this project.

invest in because they help local communities thrive. The average person filing for bankruptcy is just \$26 per month from solvency, but those who lack basic banking services are forced to rely on payday lenders and the accompanying 391% annual interest rates. A public banking system that was structured to guarantee low interest rates for small-dollar loans would help people who need a small amount of support. Importantly, it would also help promote financial equity in the U.S. for people in underserved communities, both rural and minority.

The government is well-suited to offer such a system because it does not need to make profits. Because society has a responsibility to all its members, important services can and should be funded even if they do not pay for themselves. The U.S. already tolerates financial losses in many areas of the government (such as national security), and basic financial services are so important that the government should accept losses in providing them.

Below, I will explore the interrelated concepts of postal banking and government profits. I will first outline the history of government banking in the U.S., with a focus on the Postal Savings System and a discussion of recent proposals to revive postal banking. Next, I will explain why postal banking can help solve some of the U.S.'s financial equity problems. Finally, I will argue that the USPS need not be profitable, especially if it expands to offer financial services in addition to its current mandate. Ultimately, my goal is to make an equity-based argument for the U.S. government offering basic financial services, even if it must accept financial losses to do so.

## II. HISTORY OF GOVERNMENT BANKING IN THE UNITED STATES

### A. 1911-1967 Postal Savings System

Although proposing one now is considered radical, the U.S. did have a postal banking system for over fifty years. From 1911 until 1967, the Postal Savings System offered individuals the ability to deposit money in certain post offices.<sup>1</sup> This service was particularly attractive during the Great Depression because deposits with the government were guaranteed by the “full faith and credit” of the U.S.<sup>2</sup> People continued relying on the Postal Savings System through the Depression and World War II, but it collapsed in the 1960s as commercial banks became more reliable and the economy grew. New Deal-era banking reforms (such as the Federal Deposit Insurance Corporation, or “FDIC”) helped ensure market stability by requiring banks to act more conservatively and placing a government guarantee behind

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<sup>1</sup> USPS Historian, *Postal Savings System*, U.S. POSTAL SERV. (July 2008), <https://about.usps.com/who-we-are/postal-history/postal-savings-system.pdf>.

<sup>2</sup> *We've Done it Before! – The U.S. Postal Savings System*, CAMPAIGN FOR POSTAL BANKING, <http://www.campaignforpostalbanking.org/weve-done-it-before/> (last visited May 15, 2019); see U.S. CONST. art. IV, § 1.

certain accounts.<sup>3</sup> Banks were thus more stable and could offer higher interest rates than the Postal Savings System's statutory maximum of two percent.<sup>4</sup> Deposits declined through the 1950s and 1960s as commercial banks became more accessible and more commonly used, and the Postal Savings System formally ended in 1967 after deposits declined so much that the program was no longer worthwhile.<sup>5</sup>

### B. *The United States Postal Service's Financial Status*

The USPS has been criticized in recent years for its failure to make a profit. As people send less mail and rely more on the internet for communication, USPS revenues have decreased because its services are used less. However, because of its statutory mandate to deliver mail to the entire country, the USPS cannot simply cut costly services the way a private sector company would; as a result, it operates at a loss every year.<sup>6</sup> Politicians from both sides of the aisle have proposed ways to raise USPS profits. Those who believe in a smaller government have tried to cut its costs by limiting its mandate, while those on the other side of the political spectrum have tried to increase its revenue by expanding the services it can offer.

### C. *Recent Proposals*

#### 1. *United States Postal Service Inspector General White Paper*

In 2014, the USPS Office of Inspector General ("OIG" or "IG") published a White Paper proposing that the Postal Service again offer "non-bank financial services."<sup>7</sup> The Inspector General proposed offering payment services (through a debit card), an interest-bearing savings feature, and low-interest credit.<sup>8</sup> Because these services would be targeted at individuals who were unbanked or underbanked,<sup>9</sup> they would not displace many commercial offerings. In fact, the IG's savings account proposal would link postal

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<sup>3</sup> The Banking Act of 1933 created the FDIC, gave the Federal Reserve more authority to control banks, and prohibited banks from selling securities. *Glass-Steagall Act (1933)*, N.Y. TIMES, <https://www.nytimes.com/topic/subject/glasssteagall-act-1933> (last visited May 15, 2019).

<sup>4</sup> USPS Historian, *supra* note 1.

<sup>5</sup> *Id.*; William M. Blair, *U.S. Seeks an End to Postal Saving*, N.Y. TIMES (Mar. 1, 1957), <https://timesmachine.nytimes.com/timesmachine/1957/03/01/91150724.pdf>; see also Richard Grossman & Masami Imai, *Postal Service Banking System Possible if Past Pitfalls Avoided*, THE HILL (May 5, 2018), <https://thehill.com/opinion/finance/386343-postal-service-banking-system-possible-if-past-pitfalls-avoided>.

<sup>6</sup> Matthew Yglesias, *Can the Post Office Save Itself by Becoming a Bank?*, VOX (Jan. 28, 2015, 11:11AM), <https://www.vox.com/2014/8/14/5989767/postal-banking-questions>.

<sup>7</sup> U.S. POSTAL SERV., OFFICE OF INSPECTOR GEN., PROVIDING NON-BANK FINANCIAL SERVICES FOR THE UNDERSERVED i (2014).

<sup>8</sup> *Id.* at iii.

<sup>9</sup> See *infra* note 31 and accompanying text.

service offerings to commercial banks; the Postal Service would partner with a bank to offer the accounts, so the USPS would not be tasked with actually managing investments. The commercial banks would thus get an increase in capital because the USPS would funnel money towards them, and the banks would then get to be a part of this more equitable system. The White Paper's suggestions therefore serve to reinforce the market rather than to compete with it.

Each of the IG's proposals was designed to be low risk. The payment services suggestion involved a "Postal Card," which would function as a debit card onto which individuals could load cash or paychecks.<sup>10</sup> The savings feature would offer individuals the option to divert some of their paycheck into an interest-bearing savings account; as discussed above, the USPS would partner with commercial banks that would ultimately manage the investments.<sup>11</sup> The IG's final proposal—credit access—is the riskiest overall, but it is not particularly risky in any absolute sense. Individuals would have the opportunity to obtain small loans in amounts equal to half of their paycheck, so the government would bear little risk.<sup>12</sup>

Unsurprisingly though, the reaction to the IG's proposal was mixed. Senator Elizabeth Warren supported it and argued that postal banking would help both underserved communities and the USPS's bottom line.<sup>13</sup> The Postmaster General, however, did not endorse the IG's proposal; in fact, he continued to suggest the best cure for the USPS's financial woes were his own proposed policies of closing post offices and cutting back delivery routes.<sup>14</sup> And, at a 2014 House Oversight hearing on the issue, then Committee Chairman Darrell Issa rejected the IG's proposal and instead advanced his own ideas, which were increasing the price of stamps and limiting weekend delivery to improve the USPS's revenue stream.<sup>15</sup> There has been minimal action taken on the issue since the White Paper was published in 2014.

## 2. Legislative Proposals

In 2017, Senator Kirsten Gillibrand brought renewed attention to postal banking by introducing S.B. 2755, which would create a formal postal

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<sup>10</sup> U.S. POSTAL SERV. OFFICE OF INSPECTOR GEN., *supra* note 7, at 10.

<sup>11</sup> *Id.* at 11.

<sup>12</sup> *Id.* at 12.

<sup>13</sup> Elizabeth Warren, *Coming to a Post Office Near You: Loans You Can Trust?*, HUFFINGTON POST (Feb. 1, 2014), [https://www.huffingtonpost.com/elizabeth-warren/coming-to-a-post-office-n\\_b\\_4709485.html](https://www.huffingtonpost.com/elizabeth-warren/coming-to-a-post-office-n_b_4709485.html).

<sup>14</sup> David Dayen, *The Post Office Should Just Become a Bank*, THE NEW REPUBLIC (Jan. 28, 2014), <https://newrepublic.com/article/116374/postal-service-banking-how-usps-can-save-itself-and-help-poor>.

<sup>15</sup> *Issa Slams U.S.P.S. Banking Idea*, NAT'L ASS'N OF FEDERALLY-INSURED CREDIT UNIONS: NEWSROOM (May 22, 2014), <https://www.nafcu.org/newsroom/issa-slams-usps-banking-idea>.

banking system at the expense of payday lenders. S.B. 2755 incorporated all three of the IG's proposals: it offered debit services, savings accounts, and credit access.<sup>16</sup> This specific set of suggestions had been introduced in Congress once before—Representative Cedric Richmond proposed the same basic ideas in 2014<sup>17</sup>—but Gillibrand was responding to a recent decision by the Consumer Financial Protection Bureau to loosen the constraints on payday lenders.<sup>18</sup> Gillibrand's bill was intended to create a "public option" and thus undercut that specific industry. The Senator herself stated as much.<sup>19</sup>

In May 2019, Senator Bernie Sanders and Representative Alexandria Ocasio-Cortez introduced the Loan Shark Prevention Act.<sup>20</sup> This proposed bill targeted payday lenders by capping interest rates and was designed to reinstate some of the protections that the CFPB had removed. Senator Sanders and Representative Ocasio-Cortez also mentioned postal banking as a way to offer low-interest loans, but they did not include any specific postal banking proposals in the legislation.

### 3. *Bank of North Dakota*

State-run public banking, which is similar but not identical to postal banking, has also been a popular reform proposal. The U.S. had a federally run bank from 1791 to 1811 and then again from 1816 to 1836,<sup>21</sup> but several states created their own banks after the charter of the Second Bank of the U.S. was not renewed.<sup>22</sup> The Bank of North Dakota is by far the most successful and longstanding state-run bank; although it is not the only one to have ever existed, it is the only one currently operational.

Created in 1919, the Bank of North Dakota (BND) has spent the last one-hundred years offering loans designed to promote economic development in the state. Its current role is as a lending institution; BND has no physical locations or tellers but instead provides a part of the financial support for the loan.<sup>23</sup> And although it is not FDIC-insured, the state

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<sup>16</sup> S. Res. 2755, 115th Cong. (2018); Daniel Marans, *Kirsten Gillibrand Unveils a Public Option for Banking*, HUFFINGTON POST (Apr. 25, 2018, 10:28 AM), [https://www.huffingtonpost.com/entry/kirsten-gillibrand-postal-bankingbill\\_us\\_5ae07f9fe4b07be4d4c6feae](https://www.huffingtonpost.com/entry/kirsten-gillibrand-postal-bankingbill_us_5ae07f9fe4b07be4d4c6feae).

<sup>17</sup> Cassie Owens, *How Post Office Banking Could Help the Unbanked Without Congress*, NEXT CITY (Aug. 6, 2014), <https://nextcity.org/daily/entry/post-office-banking-usps-bank-unbanked>.

<sup>18</sup> Marans, *supra* note 16.

<sup>19</sup> Kirsten Gillibrand (@SenGillibrand), TWITTER (Nov. 25, 2018, 10:45 AM), <https://twitter.com/sengillibrand/status/1066719408507113477>.

<sup>20</sup> David Dayen, *Alexandria Ocasio-Cortez and Bernie Sanders Team Up on Bank Legislation*, THE INTERCEPT (May 9, 2019, 9:34 AM), <https://theintercept.com/2019/05/09/alexandria-ocasio-cortez-bernie-sanders-bank-legislation/>.

<sup>21</sup> *Bank of the United States*, HISTORY.COM (Aug. 21, 2018), <https://www.history.com/topics/us-government/bank-of-the-united-states>.

<sup>22</sup> *History of B.N.D.*, BANK OF N.D., <https://bnd.nd.gov/history-of-bnd/> (last visited May 15, 2019).

<sup>23</sup> *The B.N.D. Story*, BANK OF N.D., <https://bnd.nd.gov/the-bnd-story/> (last visited May 15, 2019).

guarantees the bank's loans to ensure that customers have confidence when dealing with the bank.

BND's task is to redistribute individual taxes, which it receives via legislative appropriations, through the use of community development loans. The Bank has multiple arms, and it issues five different types of loans: agriculture, business, residential, infrastructure, and student.<sup>24</sup> Structurally, it operates similarly to federal government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac;<sup>25</sup> it underwrites loans made by local banks and secures them with the authority of the government. A difference between the Bank and the GSEs is how the two systems organize the government's participation. While BND finances loans, the GSEs purchase and bundle them. BND thus operates as less of a market participant than do the GSEs, but it plays a similar role in promoting economic development.

By all accounts, the Bank has been a success. It has made profits for fourteen consecutive years, and it has also generated nearly \$500 million in revenue for the state between 1994 and 2015.<sup>26</sup> Its intervention has helped local credit unions and smaller banks establish a larger market share in North Dakota than they have in other states,<sup>27</sup> and BND operates some programs that are specifically designed to improve individuals' financial health. The Bank therefore successfully promotes economic development within the state, rather than seek its own profits.

Notably, the idea of a state-run bank may be catching on. Current governor of New Jersey, Phil Murphy, specifically cited North Dakota as a model and success story when he proposed a state-run bank as part of his 2017 election campaign.<sup>28</sup> The New Jersey legislature has introduced a bill to implement the plan, but it has not yet materialized.<sup>29</sup>

### III. NEED FOR POSTAL BANKING

Basic banking services are necessary in modern America. The

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<sup>24</sup> *Id.*

<sup>25</sup> *Fannie Mae and Freddie Mac*, FED. HOUS. FIN. AGENCY, <https://www.fhfa.gov/SupervisionRegulation/FannieMaeandFreddieMac/Pages/About-Fannie-Mae---Freddie-Mac.aspx>; BANK OF N.D., *supra* note 23; Penelope Lemov, *The Case for a State-Owned Bank*, GOVERNING (Apr. 12, 2012, 5:00 PM), <https://www.governing.com/columns/public-finance/col-case-state-owned-bank-north-dakota.html>.

<sup>26</sup> Stacy Mitchell, *Public Banks: Bank of North Dakota*, INST. FOR LOCAL SELF-RELIANCE (July 2, 2015), <https://ilsr.org/rule/bank-of-north-dakota-2/>.

<sup>27</sup> *Id.*; Leila Collins, *The Bank of North Dakota: Reliable Financing for the Common Good*, SHAREABLE (July 11, 2018), <https://www.shareable.net/blog/the-bank-of-north-dakota-reliable-financing-for-the-common-good>.

<sup>28</sup> Katherine Landergan, *Murphy's Public Bank Proposal Garners Praise and Skepticism*, POLITICO (Apr. 9, 2017, 5:16 PM), <https://www.politico.com/states/new-jersey/story/2017/04/murphys-bank-proposal-garners-skepticism-and-intrigue-111131>.

<sup>29</sup> John Reitmeyer, *Making Case for Public Bank in NJ, Even as Murphy Plan for It Hasn't Materialized*, NJ SPOTLIGHT (Oct. 5, 2018), <https://www.njspotlight.com/stories/18/10/04/making-case-for-public-bank-in-nj-even-as-murphy-plan-for-it-hasnt-materialized/>.

commercial market, however, does not provide everyone with the necessary access. A postal bank could fill many of the gaps left by the market. A system focused on equity would allow people from communities left behind by the banking market to utilize services they may not otherwise be able to access.

#### A. *The Current Banking System Does Not Serve Everyone's Needs*

Postal banking is a possible solution for some of the issues currently ailing the country. The commercial banking market,<sup>30</sup> which much of the country relies on and uses consistently, does not serve everyone. A significant minority (28%) of the American population is either unbanked or underbanked, which means they cannot (or do not) access the commercial market. As a result, those people are not getting the banking services that have become a necessity in our society.<sup>31</sup> The explanation for this access gap is simple enough: the unbanked and underbanked are too risky to lend to and too poor to be profitable savings and checking customers. The Postal Service filling this gap would compensate for the market "failure" and would also have the added benefit of not infringing on the private market's space.

The Postal Service could ensure that it does not compete with the banks by focusing on the unbanked and underbanked. A narrow approach that focuses just on expanding eligibility, however, is insufficient, because being able to meet loan qualifications is only a part of the problem facing millions of Americans. There are also people who live in banking deserts, and a USPS solution must account for both the people who cannot get a bank account and those who cannot physically access a bank.

Beginning the discussion with banking deserts is intuitive, however, because one of the USPS's main advantages is its infrastructure. Banking deserts are areas where there are no banks within ten miles, and they are more likely to be in low-income and rural communities.<sup>32</sup> These deserts are only growing in size. Banks have tightened their belts since the 2008 recession,<sup>33</sup> and, at the same time, more and more Americans have little-to-

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<sup>30</sup> Throughout this paper, I refer to private sector banks as "commercial" banks to distinguish them from government-operated banks like B.N.D. or my proposed postal bank. I use this framing to emphasize how interwoven the private and public sector is in the banking space because of institutions like the FDIC.

<sup>31</sup> U.S. POSTAL SERV., OFFICE OF INSPECTOR GEN., *supra* note 7, at 2. Unbanked individuals are those who have no checking or savings accounts, while underbanked individuals are those who do have a bank account but also rely on alternate financial services. *Id.*

<sup>32</sup> Donald Morgan et al. *Banking Deserts, Branch Closing, and Soft Information*, FED. RES. BANK OF N.Y.: LIBERTY ST. ECONS. (Mar. 7, 2016), <https://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information.html#.Vt5LhtBYG53>; Drew Dahl & Michelle Franke, "Banking Deserts" *Become a Concern as Branches Dry Up*, FED. RESERVE BANK OF ST. LOUIS (Second Quarter 2017), <https://www.stlouisfed.org/publications/regional-economist/second-quarter-2017/banking-deserts-become-a-concern-as-branches-dry-up>.

<sup>33</sup> Morgan et al., *supra* note 32.

no savings and poor credit. These two factors combine to place additional pressure on individuals' financial situations because there is less of a margin for error, so—for example—a single unexpected bill or a surprise layoff may create a financial crisis for someone.<sup>34</sup> In such situations, access to traditional banking services such as a low-interest loan can be a lifeline. But people who live in banking deserts lack this type of resource because banks are not a part of the community.

Large commercial banks have largely abandoned low-income communities for being insufficiently profitable, so the post-2008 contraction has had a disproportionate effect on rural areas that had fewer banks to begin with.<sup>35</sup> They instead turn to alternative financial services—known colloquially as payday lenders—that have annual interest rates of 391%.<sup>36</sup> When the average individual who files for bankruptcy is just \$26 per month from solvency, that interest rate stands out as particularly imposing.<sup>37</sup>

An additional component of this discussion is how the commercial banking market has left certain groups of communities behind. Even independent of the 2008 crisis, the market has unfairly targeted minorities. Large banks have repeatedly discriminated on the basis of race,<sup>38</sup> thus exacerbating financial differences between racial groups.<sup>39</sup> And the issue is with the commercial market as a whole rather than just large banks: community banks<sup>40</sup> are also likely to discriminate against racial minorities.<sup>41</sup>

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<sup>34</sup> E.g., Lorie Konish, *This is the Real Reason Most Americans File for Bankruptcy*, CNBC: PERSONAL FINANCE (Feb. 11, 2019, 11:32 AM), <https://www.cnbc.com/2019/02/11/this-is-the-real-reason-most-americans-file-for-bankruptcy.html>; Anna Bahney, *40% of Americans Can't Cover a \$400 Emergency Expense*, CNN MONEY (May 22, 2018), <https://money.cnn.com/2018/05/22/pf/emergency-expenses-household-finances/index.html>.

<sup>35</sup> Dahl & Franke, *supra* note 32.

<sup>36</sup> U.S. Postal Serv., Office of Inspector General, *supra* note 7, at 4.

<sup>37</sup> Richard Cordray, *Prepared Remarks of CFPB Director Richard Cordray on the Payday Rule Press Call*, CONSUMER FIN. PROT. BUREAU (Oct. 5, 2017), <https://www.consumerfinance.gov/about-us/newsroom/prepared-remarks-cfpb-director-richard-cordray-payday-rule-press-call/>.

<sup>38</sup> E.g., Matt Egan, *Wells Fargo Accused of Preying on Black and Latino Homebuyers in California*, CNN (Feb. 27, 2018), <https://money.cnn.com/2018/02/27/investing/wells-fargo-sacramento-lawsuit-discriminatory-lending/index.html>; see also Tracy Jan, *It Can Cost More for a Checking Account if You're Black or Latino, Study Says*, WASH. POST: ECON. POL'Y (June 21, 2018), [https://www.washingtonpost.com/news/wonk/wp/2018/06/21/it-can-cost-more-for-a-checking-account-if-youre-black-or-latino-study-says/?utm\\_term=.a8faa5932c12..](https://www.washingtonpost.com/news/wonk/wp/2018/06/21/it-can-cost-more-for-a-checking-account-if-youre-black-or-latino-study-says/?utm_term=.a8faa5932c12..)

<sup>39</sup> See Tracy Jan, *Redlining was Banned 50 Years Ago. It's Still Hurting Minorities Today.*, WASH. POST: ECON. POL'Y (Mar. 28, 2018, 6:00 AM), [https://www.washingtonpost.com/news/wonk/wp/2018/03/28/redlining-was-banned-50-years-ago-its-still-hurting-minorities-today/?noredirect=on&utm\\_term=.0dc5a4fc646b](https://www.washingtonpost.com/news/wonk/wp/2018/03/28/redlining-was-banned-50-years-ago-its-still-hurting-minorities-today/?noredirect=on&utm_term=.0dc5a4fc646b) (“Racial discrimination in mortgage lending in the 1930s shaped the demographic and wealth patterns of American communities today.”).

<sup>40</sup> Community banks are smaller banks with fewer assets; they have traditionally focused on the needs of local communities. *Community Bank*, BANKRATE: GLOSSARY, <https://www.bankrate.com/glossary/c/community-bank/> (last visited May 15, 2019).

<sup>41</sup> Dahl & Franke, *supra* note 32; Brentin Mock & David Montgomery, *The Tax on Black and Brown Customers When Dealing With Community Banks*, CITYLAB (Jun. 21, 2018), <https://www.citylab.com>.



The commercial market thus has sufficient gaps so that using the Postal Service to expand banking access would serve additional customers without significantly harming the banking market.

*B. Postal Banking Solves Many of These Problems*

Postal banking would solve many of the structural problems identified above. Most simply, the Postal Service already has the physical infrastructure necessary to provide banking services in the most underserved communities. There are over 30,000 widely dispersed post offices in the country,<sup>42</sup> so the most significant physical constraint—geography—on providing banking services to low-income and rural communities would be a non-issue. Further, the Postal Service would only be required to pursue simple and cheap overhauls like installing ATMs and training post office employees to answer basic questions about the mechanics of this new banking system. Because the Postal Service would likely partner with banks to manage any new savings programs,<sup>43</sup> the government would not be required to invest heavily in new financial infrastructure. Banks do have to make difficult decisions about how to administer different types of accounts or how to manage capitalization and liquidation questions. But because commercial banks already do this, these new government-affiliated accounts would not create a substantial burden.

The discrimination issue is more complex. Although equal protection laws forbid the government from discriminating on the basis of race, those laws apply in similar force to the private sector—but such discrimination still occurs, as demonstrated above.<sup>44</sup> Therefore, suggesting that discrimination will not occur simply because the government is forbidden from doing so is naïve.<sup>45</sup> If the government is specifically tasked with reducing inequity (as required by its hypothetical statutory mandate), however, then there may actually be an impact. A postal banking system that is less focused on prioritizing profits would be designed to offer riskier loans and thus less able to decline to provide them, so the number of minority applicants who are rejected would likely decrease.

Recent analysis of government employment statistics suggests that the government is capable of providing solutions in spaces where the private

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com/equity/2018/06/the-tax-on-black-and-brown-customers-when-dealing-with-community-banks/563309/.

<sup>42</sup> U.S. POSTAL SERV., OFFICE OF INSPECTOR GEN., *supra* note 7, at 17; *The Geography of Banks and Post Offices*, PEW TRUST (July 16, 2014), [https://www.pewtrusts.org/~media/assets/2014/07/fin\\_presentation-of-pew-research--the-geography-of-banks-and-post-offices.pdf](https://www.pewtrusts.org/~media/assets/2014/07/fin_presentation-of-pew-research--the-geography-of-banks-and-post-offices.pdf).

<sup>43</sup> This was part of the Inspector General's proposal.

<sup>44</sup> Egan, *supra* note 38.

<sup>45</sup> *E.g.*, Katherine Tully-McManus, *Jackie Speier and Bradley Byrne Aim to End Taxpayer Settlements for Discrimination*, ROLL CALL (Dec. 14, 2018, 5:04 AM), <https://www.rollcall.com/news/politics/jackie-speier-bradley-byrne-aim-end-taxpayer-settlements-discrimination>.

sector fails. A recent NBC study found that black workers are thirty percent more likely to be employed by the public sector than by the private sector because private sector discrimination forces them to find alternative means of employment.<sup>46</sup> And although employment is certainly a different context from financial services, the two areas do bear some similarities. Both are traditionally provided by the private sector, both are subject to market forces, and both are necessary for individuals to thrive in modern society. And when the government lacks a profit motive and is asked to fill an equity gap, it is not difficult to see why the government would be more successful. Where private companies are often specifically interested in making money, a postal banking scheme would be designed to provide equitable access.

The government often enters commercial spaces with the goal of providing commercially available goods to consumers at a lower cost. The most obvious examples of this are Amtrak and the Postal Service itself. Amtrak is a corporation whose shares are owned by the government, but it provides a type of service—long-distance rail transportation—that could also be provided by the market.<sup>47</sup> What Amtrak does, however, is provide access to this service at a lower cost.<sup>48</sup> Similarly, USPS provides fixed-rate mail delivery despite private companies that do this as well.<sup>49</sup> The USPS fills an access gap, though, because it is required to service the entire country at a single cost—even to those less-trafficked rural areas for which mail delivery would be prohibitively expensive. A postal banking service would similarly fill a gap by providing an important service at a lower cost than the market can.<sup>50</sup>

Although my theorizing above is supported by factual analysis, it is nonetheless important to recognize that it is impossible to know exactly what the impact of a postal banking system would be. After all, a different study of employment discrimination rates found that “aggregate rates of verified

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<sup>46</sup> Ned Resnikoff, *How Public Sector Layoffs Add to the Racial Wealth Gap*, MSNBC (last updated May 23, 2004), <http://www.msnbc.com/msnbc/government-layoffs-add-racial-wealth-gap>. Additionally, because it would have a more diverse workforce, a government bank may be less prone to implicit or explicit racial biases.

<sup>47</sup> Henry Grabar, *The Triumphant Return of Private U.S. Passenger Rail*, CITYLAB (Jun. 17, 2014), <https://www.citylab.com/transportation/2014/06/the-triumphant-return-of-private-us-passenger-rail/372808/>.

<sup>48</sup> E.g., Ian Hill, *Amtrak is Having a Flash Sale*, WKYC (Feb. 15, 2019), <https://www.wkyc.com/article/news/amtrak-is-having-a-flash-sale-buy-one-ticket-get-a-second-free/507-cc3b6834-0a21-4ed7-91de-c2ea665e9436>.

<sup>49</sup> *Comparing 2018 Shipping Rates Between FedEx, UPS, and USPS*, FIRST MILE (July 15, 2018), <https://firstmile.com/blog/comparing-2018-shipping-rates-fedex-ups-usps/>.

<sup>50</sup> African Americans are more likely to rely on alternate financial services than are white households. Colin Morgan-Cross & Marieka Klawitter, *Alternative Financial Services Use Across Income, Race, and Ethnic Groups*, UNIV. OF WASH. (Nov. 15, 2011) <https://evans.uw.edu/sites/default/files/public/NWAF%20AFS%20review%20FINAL.pdf>.

discrimination vary little by sector,”<sup>51</sup> directly contradicting the NBC study discussed earlier and suggesting that the government is not actually less discriminatory than the private sector.<sup>52</sup> Further empirical research on the government’s equitable capabilities is necessary, but given the conflicting research on employment discrimination in the public sector, we are unlikely to get an entirely satisfactory answer. However, an individual’s intuition about which is correct likely depends primarily on that person’s assumptions about the proper scope of government intervention in society.

The fact that peoples’ opinions about the desirability of a postal banking service depends on pre-conceived political ideas seems like it would be a problem. A postal banking service would face the same political backlash the USPS does now, but without the backstop of the years of history. However, this issue is likely overblown; a postal banking service would be given every chance to succeed simply because of the environment in which it would be created. The type of administration that creates such a system would locate it somewhere in the administrative state that allows it to thrive.<sup>53</sup> The administration would position it as both a way to increase equity in the country as well as generate revenue. The USPS currently faces significant public pressure for not being profitable, but it also promotes national connectivity and so we do not want it to just fold; using it as a method for providing financial services would be a way to improve its reputation. It would make the USPS a more relevant and important member of modern society and thus hopefully reduce the calls for its demise.

### C. Criticisms of Postal Banking Proposals

Proponents of small government and private ordering argue that the government should not involve itself in private banking because the financial services market has properly priced the risk of lending to these communities. Private banks are self-interested and will occupy any market space where they can make sufficient profits, so the fact that they have

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<sup>51</sup> Reginald A. Byron, *Discrimination, Complexity, and the Public/Private Sector Question*, 37 *WORK AND OCCUPATIONS* 435, 435 (2010).

<sup>52</sup> Note, however, that this is not incompatible with the finding that black workers are more likely to work for the government. People may choose not to try and find work in the private sector if they suspect they will be discriminated against, which impacts the quality of the data the Byron study is based on.

<sup>53</sup> The location of a department within an agency affects the department’s ability to be effective. For example, the food stamp program (SNAP) is located within the Department of Agriculture instead of Health and Human Services, which impacts its priorities because the expertise of the parent agency is in growing food rather than nutrition. See Robert Rector & Katherine Bradley, *Reforming the Food Stamp Program*, THE HERITAGE FOUND.: BACKGROUNDER 2 (July 25, 2012), [http://thf\\_media.s3.amazonaws.com/2012/pdf/b2708.pdf](http://thf_media.s3.amazonaws.com/2012/pdf/b2708.pdf).

deserted these areas indicates that there is no profit to be made.<sup>54</sup> The payday lenders that have filled the gap have astronomical interest rates that the risk of default makes necessary.<sup>55</sup> Because these unbanked and underbanked borrowers are generally poor people with limited financial flexibility, they are less likely to be able to pay back even smaller loans. High interest rates are therefore required for the payday lending industry to be profitable. So many people will default that in order for the industry to make an overall profit, it must collect a lot of interest from those who do pay back their loans.<sup>56</sup>

Another potential issue whenever government gets involved in any market is cronyism, and critics have suggested this is a particularly high risk for a public bank that offers loans. Japan is a potent example here, as the Japanese government recently privatized its national bank after years of corruption scandals.<sup>57</sup> The lack of a market creates a lack of competition, so there is no requirement that a government bank accurately price the risk of a particular loan.<sup>58</sup> Therefore, it is susceptible to losing huge amounts of money because it can offer low-interest loans to people that should be receiving higher interest rates based on their risk profile. This problem is precisely what spurred Japan to privatize its bank.

Although these are certainly valid concerns, they are ones that should be dealt with in implementation and oversight of the banking system. They are not of such a magnitude that they should prevent its implementation, especially because the dollar amounts of the loans would be so low. First, the market does not currently function properly. Commercial banks have an outsized influence on society, and they are so intertwined with the global economy that the American government has decided it cannot allow them to fail.<sup>59</sup> These banks do not operate as if failure will cause them to disband

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<sup>54</sup> Eric Grover, *Return to Sender: Here's What's Wrong with Postal Banking*, THE AM. BANKER (May 17, 2018, 10:31 AM), <https://www.americanbanker.com/opinion/return-to-sender-heres-whats-wrong-with-postal-banking>; Marans, *supra* note 16.

<sup>55</sup> Dennis Shaul, CEO of the Community Financial Services Association of America, recently described "almost all of the attempts to create small-dollar loan alternatives [as] charity-based, required government subsidies, or [] unprofitable and unsustainable." *Id.*

<sup>56</sup> The payday lending industry is not all that profitable, which further complicates matters. Payday lenders therefore argue their high interest rates are necessary in order to make any profits at all. Bethany McLean, *Payday Lending: Will Anything Better Replace It*, THE ATLANTIC (May 2016), <https://www.theatlantic.com/magazine/archive/2016/05/payday-lending/476403/>.

<sup>57</sup> Noah Smith, *Turn the Post Office into a Bank? First Check Japan*, CHI. TRIB. (May 14, 2018), <https://www.chicagotribune.com/news/opinion/commentary/ct-perspec-postoffice-japan-banking-0514-story.html>.

<sup>58</sup> This, however, does not address the fact that there are many examples of government lending programs that do not face these struggles. *See infra* text accompanying note 62.

<sup>59</sup> The best example of this is AIG in 2008, which was the subject of an entire book called *Too Big to Fail*. Andrew Ross Sorkin, *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves* (2010); *see also* Tom Brennan, *AIG: Too Big to Fail*, CNBC (Sept. 16, 2008, 6:39PM), <https://www.cnbc.com/id/26740538>.

because they know that is not an actual risk.<sup>60</sup> Therefore, they are not constrained by the market or forced to adequately price risk because competition does not operate on them as the market says it should.

Second, the existence of some negative examples does not mean that all government banking options are inherently bad. On the contrary, some government banks have been successful, such as the Bank of North Dakota. In fact, the BND can teach some relevant lessons. It credits part of its success to the partnerships that it forms with local banks; the Bank provides financial support that allows more loans to be issued, but it is not the sole decision-maker regarding who actually gets one.<sup>61</sup>

Additionally, there are many other instances where the U.S. government plays a role in making loan decisions—such as housing loans and student loans<sup>62</sup>—where this distribution of risk concern has not been an issue. One positive and one negative example is not enough from which to draw any larger conclusions, but these two examples (from Japan and North Dakota) suggest what types of structures might be successful. The BND is a particularly important example, though, because it is successful despite being subject to the same anti-bureaucratic American culture as our hypothetical Postal Bank. It thus provides a model on which to base the Postal Bank.

#### IV. SHOULD THE UNITED STATES POSTAL SERVICE BE REQUIRED TO MAKE MONEY?

Here, I will argue that the problem with the discussion about the USPS is that it is expected to make money. Many political figures argue that the USPS should generate profits, but its structure makes that difficult because it pays its employees well and has a statutory mandate to provide a low-margin service to rural parts of the country. Further, there are many parts of the government that we do not expect to make money. The USPS should be one of those.

##### *A. Inspector General Believes Baking Could Generate Almost Nine Billion Dollars Per Year*

The place to start this discussion is with the IG's suggestion that this program could generate almost \$9 billion per year in revenue, which is a claim that does not appear to be supported by statistically rigorous analysis.<sup>63</sup>

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<sup>60</sup> This, of course, is precisely what occurred in 2008. Felix Salmon, *Recipe for Disaster: The Formula that Killed Wall Street*, WIRED (Feb. 23, 2009, 12:00PM), <https://www.wired.com/2009/02/wp-quant/>.

<sup>61</sup> BANK OF N.D., *supra* note 23.

<sup>62</sup> Justin Pritchard, *The Most Common Government Loan Programs*, THE BALANCE (updated Sep. 30, 2019) <https://www.thebalance.com/government-loans-315555>.

<sup>63</sup> U.S. POSTAL SERV., OFFICE OF INSPECTOR GEN., *supra* note 7, at 16.

The IG points to the fact that the American public spends \$89 billion per year on “alternative financial services” and suggests that ten percent of that could be diverted into the USPS.<sup>64</sup> There is no basis for the ten percent number, however, which suggests the report simply chose a relatively small number to illustrate how large an impact even a minor shift in banking choices could have on the U.S. government’s profit margins.

The USPS responded to the IG by pointing out some of these flaws in the revenue calculation.<sup>65</sup> First, the IG confused profit and revenue; even if offering these services does increase the USPS’s revenue, there will be costs associated with shifting to this type of model in the form of additional training and infrastructure improvements, so the overall profit would be lower. Second, the IG failed to consider the higher institutional costs the USPS has as a government entity. Third, because of the low profit margin of the alternative financial services industry, any increase in the cost to provide the services<sup>66</sup> will change the calculations and make direct provision of these services less profitable.<sup>67</sup> Thus, the USPS’s overall takeaway is that the IG’s financial conclusions seem incorrectly optimistic. The USPS does not take the time to establish that it should be required to make money, however.

*B. Should Government Be Required to Generate Revenue from Financial Services?*

*1. We Do Not Require All Government Activities to Be Profitable*

The starting place for this argument is that not all U.S. government activities are profitable. This is an obvious statement, but one that provides necessary context; there are certain actions that we as a political community have deemed valuable and thus worth spending money on despite the fact they do not raise revenue. The most visible are public goods—such as national defense—but we also subsidize certain commercial-seeming services such as mail delivery and domestic family-sized farms. These spaces are not particularly similar except that our country has, at various times, decided they are important enough to be funded by the government.

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<sup>64</sup> *Id.*

<sup>65</sup> Press Release, U.S. Postal Serv., USPS Responds to O.I.G. Financial Services White Paper (June 3, 2015), <https://about.usps.com/news/statements/060315.htm>.

<sup>66</sup> This would undoubtedly occur if the government involved itself because the government would have to invest in infrastructure improvements (such as new technology). Additionally, employees might be subject to certain federal government employment rules that require certain minimum wages and retirement funds, so employment costs are almost certain to be higher for the federal government than they would be for private sector employers.

<sup>67</sup> However, increasing more Americans’ access to banks will generate economic gains, and some of those gains will benefit the American government in the form of more tax revenue, more participation in the economy, and lower expenditures on welfare benefits.

The national security spaces are the most distinct from a potential public banking option. National security is not inherently commercial (to the extent such a concept exists).<sup>68</sup> The government funds national security because border security is important to national sovereignty, and it has made a decision that the private market would not provide adequate services. Part of the role for the government of a modern nation is to provide for its own national security. The American government—and by extension the American public—has decided it does not want to entrust this to private parties because governments and private companies have different incentives. Some countries do make money off of national defense; Egypt, for example, allows the U.S. to dictate some aspects of its policy in exchange for money.<sup>69</sup> But because the U.S. has not decided to go this direction, the Treasury allocates trillions of dollars to the Department of Homeland Security every year, with the only expected revenue generated in return being through some asset seizures and sales of some equipment.<sup>70</sup> The American public expects this department to be a financial loss every year because its services are important, and the market would not adequately provide for national security.

Moving further into the commercialized spaces brings us to agriculture loan programs. The Department of Agriculture has a series of farm loan programs aimed at “family-sized farmers and ranchers.”<sup>71</sup> These are targeted programs designed to promote stability and market access for smaller farms, and they come in a multitude of forms: direct operating loans, microloans,

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<sup>68</sup> The Executive Office of Management and Budget has tried to define “inherently commercial,” but “[u]nfortunately, there is no precise method to determine what constitutes an inherently governmental function and what constitutes a commercial function.” U.S. DEP’T OF ENERGY, DETERMINING INHERENTLY GOVERNMENTAL AND COMMERCIAL FUNCTIONS (2010), available at <https://www.energy.gov/sites/prod/files/maprod/documents/DeterminingIGandCommercialFunctions.pdf>; see also JOHN R. LUCKEY ET AL., CONG. RES. SERV., R40641, INHERENTLY GOVERNMENTAL FUNCTIONS AND DEPARTMENT OF DEFENSE OPERATIONS: BACKGROUND, ISSUES, AND OPTIONS FOR CONGRESS 7-5700 (2009). Perhaps these categories are simply a reflection of a society’s values; what is inherently commercial in one country might be inherently governmental in another. Although this issue is beyond the scope of this paper, it is worth considering that some activities are revenue-generating in one country (such as provision of health care services in America) but not in others (such as provision of health care services in Denmark). Anne Zieger, *Denmark’s Health System Suffering Familiar EMR Woes*, HEALTHCARE IT TODAY (Feb. 21, 2017), <https://www.healthcareitoday.com/2017/02/21/denmarks-health-system-suffering-familiar-emr-woes/>.

<sup>69</sup> Farah Najjar, *Why U.S. Aid to Egypt is Never Under Threat*, AL JAZEERA (Oct. 2, 2017), <https://www.aljazeera.com/news/2017/10/aid-egypt-threat-171002093316209.html>.

<sup>70</sup> DEP’T OF HOMELAND SEC., FISCAL YEAR 2018 AGENCY FINANCIAL REP. 27 (2018) (Note, however, that the U.S. government does make some money off of sales of military equipment) E.g., Zachary Fryer-Boggs, *U.S. Sold Almost \$42 Billion in Weapons to Foreign Governments in 2017*, NEWSWEEK (Nov. 30, 2017, 5:56PM), <https://www.newsweek.com/us-sold-42-billion-weapons-foreign-governments-2017-727808> (this is part of a cost-benefit analysis that the government has conducted, deciding that the risk of this equipment being used against American interests is outweighed by the profits generated by sale of these items).

<sup>71</sup> U.S. DEP’T OF AGRIC., *Farm Loan Programs*, <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index> (last visited May 15, 2019).

direct farm ownership loans, and guaranteed loans.<sup>72</sup> There are also targeted loans whose goal is helping minority groups, and there are specialty loans aimed at defraying emergency costs and helping Native American groups.<sup>73</sup> The forerunners of these various types of loan programs were established during the New Deal as part of the farm bill,<sup>74</sup> and they were initially popular because they provided stability in a risky and unstable industry.<sup>75</sup>

Agriculture remained—and still remains—a part of the private sector, and the government did not create public farms where it could grow its own crops. Its loans did, however, put a thumb on the scale and support agriculture businesses because it deemed them important to the American economy and society. Thus, public will supported supplementing a private, profit-generating part of American society to ensure that supply matched demand and to provide a backstop in case a harsh winter affected the production of grain.<sup>76</sup>

The farm bill is a particularly potent example of the importance of historical context. Current criticisms suggest that the farm bill might not be passed if it were first introduced today. However, in the 1930s, small farms were a significant part of the American economy, and they were a significant part of a large enough electoral bloc that their political importance justified the original farm bill. Then, legislative inertia took over and now the farm bill is renewed as needed with some public uproar but without much voting suspense.<sup>77</sup>

Another example of the importance of historical context and political will is mail delivery. Free rural mail delivery began in 1896 in order to ensure that the large percentage of Americans who lived in rural

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<sup>72</sup> *Id.*

<sup>73</sup> *Id.*

<sup>74</sup> Adam Wernick, *The 2018 Farm Bill Stirs Conflict and Controversy*, PRI (July 14, 2018), <https://www.pri.org/stories/2018-07-14/2018-farm-bill-stirs-conflict-and-controversy> (The farm bill is a massive government subsidy to farms and farmers that is passed every several years. In recent years, the subsidy portion of the bill has faced immense criticism because it functions as a government handout to massive corporate farms); Alex Shepard, *The Farm Bill is Everything That's Wrong with Congress*, THE NEW REPUBLIC (May 18, 2018, 11:15AM), <https://newrepublic.com/article/148461/farm-bill-everything-thats-wrong-congress>.

<sup>75</sup> U.S. DEP'T OF AGRIC., *U.S. Farm Policy: The First 200 Years* 24 (Mar. 2000), available at <https://wayback.archiveit.org/5923/20110915024912/http://ers.usda.gov/publications/agoutlook/mar2000/ao269g.pdf>.

<sup>76</sup> Kathleen Masterson, *The Farm Bill: From Charitable Start to Prime Budget Target*, NPR (Sept. 26, 2011, 12:41PM), <https://www.npr.org/sections/thesalt/2011/09/26/140802243/the-farm-bill-from-charitable-start-to-prime-budget-target>.

<sup>77</sup> The most recent farm bill passed with a vote of 386 in favor and just 47 against. See Jeff Stein, *Congress Just Passed an \$867 Billion Farm Bill. Here's What's In It*, WASH. POST: BUS. (Dec. 12, 2018, 5:03PM), [https://www.washingtonpost.com/business/2018/12/11/congresss-billion-farm-bill-is-out-heres-whats-it/?noredirect=on&utm\\_term=.f85580c1e9f4](https://www.washingtonpost.com/business/2018/12/11/congresss-billion-farm-bill-is-out-heres-whats-it/?noredirect=on&utm_term=.f85580c1e9f4). This provides an interesting contrast with the original Postal Savings System, which expired notwithstanding legislative inertia. Postal Savings seems to have been allowed to expire because of the lack of customers, while the farm bill is still often relied upon by farmers.



communities could receive mail.<sup>78</sup> It was originally rejected as too expensive,<sup>79</sup> but as infrastructure improved and the political pressure to provide this service grew, the U.S. Post Office and Congress decided it was an important enough service that the government should fund it.

Mail delivery is a particularly apt analogy here, and not just because it is a part of the same government entity that would provide the public banking options. Today, multiple private companies provide mail delivery, so the scarcity argument that underlay the initial decision to make it a government service is less persuasive. Unlike the private companies, though, USPS is required to deliver first-class letters (but not packages)<sup>80</sup> to all parts of the United States at the same cost, whether it be the middle of New York City or the northernmost parts of Alaska. In large urban centers, private companies—like FedEx or UPS—can deliver letters and packages for prices similar to what USPS charges. This is not the case for extremely rural areas, however, and private companies would either forgo those places entirely or charge exorbitant prices.<sup>81</sup> But because connectivity is understood to be important to building national unity,<sup>82</sup> the government subsidizes mail deliveries for the nearly 40 million Americans who live in rural parts of the country.<sup>83</sup>

The argument that the government should provide public banking services in rural or otherwise underserved areas follows a similar logic. Even though the private market is sufficient for most of the country, approximately twenty-eight percent<sup>84</sup> of the country is being left behind. Additionally, banking services may promote national unity in the same way that rural mail delivery does. Certain long-distance transactions that must be paid via the internet or mail require checks or an online bank account, which not everyone has access to. This means that about one-quarter of the country cannot utilize certain commercial services. Further, banking services also help promote community development, and they promote equity and financial security. Low-interest loans provide a way for rural and poor

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<sup>78</sup> U.S. POSTAL SERV. HISTORIAN, *Rural Free Delivery*, U.S. POSTAL SERV. 1 (Aug. 2013), <https://about.usps.com/who-we-are/postal-history/rural-free-delivery.pdf>.

<sup>79</sup> *Id.*

<sup>80</sup> *Zone Charts*, U.S. POSTAL SERV., <https://postalpro.usps.com/operations/zone-charts> (last visited May 15, 2019).

<sup>81</sup> See Dahl, *supra* note 32.

<sup>82</sup> Lisa McGirr, *Two Books Recount How Our Postal System Created a Communications Revolution*, N.Y. TIMES (July 8, 2016), <https://www.nytimes.com/2016/07/10/books/review/neither-snow-nor-rain-and-how-the-post-office-created-america.html> (describing public communication channels as able to “foster unity”).

<sup>83</sup> U.S. Postal Serv. Historian, *supra* note 78.

<sup>84</sup> U.S. POSTAL SERV., OFFICE OF INSPECTOR GEN., *supra* note 7, at 2 (identifying eight percent of Americans as unbanked and twenty percent as underbanked).

communities to remain viable as the larger private banks abandon them.<sup>85</sup>

A final example of government acting in a profit-generating space is higher education loans. The government offers loans to students pursuing higher education, but the loans are subsidized.<sup>86</sup> They are not subject to market forces because their terms are controlled by the government; the interest rates do not change depending on the health of the economy, and they do not accrue interest while the beneficiary is still in school.<sup>87</sup> The private market is perfectly capable of providing these services itself—at least in some form. But the private market could then exert undesirable influence over educational choices; commercial banks, which can and do offer loans in many circumstances, could offer more favorable loan terms depending on the type of degree being pursued, which would then distort educational trajectories and thus reduce diversity in schooling and then in the choice of professions. Private loans also generally do not stop accruing interest when the student attends graduate school, so they are less helpful to people trying to get graduate degrees.<sup>88</sup> Because society has decided that a more well-rounded citizenry is important and education financing should not be fully vested in the private sector, the government has stepped in to provide more favorable terms.

In 2016, though, Senator Elizabeth Warren criticized the Obama administration for not going far enough in its support of young Americans' pursuit of higher education.<sup>89</sup> She accused the federal government of promoting revenue-seeking instead of equity, and she wanted the Department of Education to “commit to reducing federal student loan profits by fulfilling its existing responsibilities under the law to help student loan borrowers manage their debts.”<sup>90</sup> Senator Warren argued that it was “not the job of the Department of Education to maximize profits for the government.”<sup>91</sup> This logic also applies to the USPS and a potential public

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<sup>85</sup> Aaron Glantz & Emmanuel Martinez, *For People of Color, Banks are Shutting the Door to Homeownership*, REVEAL (Feb. 15, 2018), <https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/>.

<sup>86</sup> *Federal Versus Private Loans*, U.S. DEP'T OF EDUC., <https://studentaid.ed.gov/sa/types/loans/federal-vs-private> (last visited May 15, 2019).

<sup>87</sup> *Id.* For example, the government can forgive any or all of them, and political pressures may encourage the government to do so. *E.g.*, Letter from Elizabeth Warren, U.S. Sen., et. al., to Arne Duncan, Sec'y of Educ. (Feb. 25, 2012), available at [https://www.warren.senate.gov/files/documents/2015\\_25\\_02\\_Letter\\_to\\_Secretary\\_Duncan\\_re\\_Student\\_Loan\\_Profits.pdf](https://www.warren.senate.gov/files/documents/2015_25_02_Letter_to_Secretary_Duncan_re_Student_Loan_Profits.pdf). The same pressures do not exist on the private market.

<sup>88</sup> U.S. DEP'T OF EDUC., *supra* note 86. Private loans also exist in different industries, and this is not the only model for private loans. Some home loans, for example, are structured such that interest rates rise after a certain number of years at a fixed, lower rate; this is similar to the type of deferred interest rates in government-backed student loans. Marilyn Lewis & Beth Buczynski, *Adjustable-Rate Mortgages: The Pros and Cons*, NERDWALLET (Apr. 30, 2019), <https://www.nerdwallet.com/blog/mortgages/pros-cons-adjustable-rate-mortgages/>.

<sup>89</sup> Warren, *supra* note 87, at 1.

<sup>90</sup> *Id.*

<sup>91</sup> *Id.*

banking option. The role of the federal government may well be to provide for its citizens and attempt to better their lives. Cost considerations matter, but they should not be paramount.

2. *Public Banking Should Be One of the Spaces We Do Not Require to Be Profitable*

Public banking would make certain basic banking services available to more of the population, so it should not be required to generate revenue. Low-interest loans are important for community development and promoting equity because they are a part of what allows communities with less disposable income to improve.<sup>92</sup> There are parts of this country that are suffering in abject poverty, and the payday lending system preys on those insecurities.<sup>93</sup> The average individual who files for bankruptcy is just \$26 per month from solvency,<sup>94</sup> and not charging 391% interest rates for small-dollar loans to allow people to get to their next paycheck would go a long way towards helping people stay on their feet.

It is impossible to have this conversation without considering that the U.S. is one of the richest countries in the world. The U.S.'s GDP per capita ranks nineteenth in the world, and its overall GDP ranks second.<sup>95</sup> There is no economic reason that the U.S. government could not afford to provide low-interest loans to people, especially when the dollar amounts are this small. These loans provide both economic and non-economic value; economically, loans allow people to stay afloat when minor financial emergencies strike, and business development loans allow for neighborhoods to develop while remaining in the hands of the people who have lived there for generations.<sup>96</sup> Loans also have non-economic or implicit value because financial stability provides real psychic benefits and encourages people to respect the dignity of an individual life.<sup>97</sup> It is important for society—because we value healthy child development and education—for families to not be ill-nourished or anxious about paychecks.

Given the considerations laid out above, it is tempting to think of this as a cost-benefit analysis where I am advocating that the implicit value in financial stability more than justifies fairly high expenditures on the part of the USPS to provide these banking services. In a sense, I suppose I am; this

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<sup>92</sup> See Glantz & Martinez, *supra* note 85.

<sup>93</sup> *Id.*

<sup>94</sup> U.S. Postal Serv., Office of Inspector Gen., *supra* note 7, at ii.

<sup>95</sup> China and the European Union are the only entities with larger GDPs than the U.S., *The World Factbook*, CIA <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html> (last visited May 15, 2019).

<sup>96</sup> David Morris, *Protecting Communities from Gentrification*, INST. FOR LOCAL SELF-RELIANCE (Oct. 23, 2017), <https://ilsr.org/protecting-communities-from-gentrification-community-land-trusts/>.

<sup>97</sup> Mark P. Taylor et al., *Financial Capability and Psychological Health*, 32 J. ECON. PSYCHOL. 710 (2011).

would not be a feasible project if America were not as rich as it is, so I believe this to be a worthwhile project because we can afford it. But in a more significant sense, that is not the larger goal of this project. Instead, I am suggesting that because we can afford to, we should fund these banking services because they are important to promoting equity and human dignity. And I am unwilling to put economic values on those concepts because we now overemphasize efficiency in government spending. Government is not a business, and there is not a particular profit margin it has to reach in order to survive. Government makes money by taxing, and it then spends money based on what its citizens believe is worthwhile.<sup>98</sup> In some commercialized spaces, certainly, the government does not need to provide subsidies. Not every available service is so important as to impact human dignity in the way that credit access does, and some goods are better provided by the market because supply-and-demand principles actually create a socially beneficial equilibrium. But banking services are important, and they do not have to be funded by a specific amount of revenue that would be generated just by the new and improved USPS; they can be funded by taxes or revenue generated from other fields as well.

*a. Government Should Prioritize Policies with Social Benefits*

Government is not a business, and it has not always been run as such. High tax rates used to be common,<sup>99</sup> and the language of politics has not always been centered around efficiency. Ronald Reagan's 1980 election served as a turning point in the types of language that American politicians used,<sup>100</sup> and thus Democrats have continued to use the language of business even once they succeeded Reagan in office. Bill Clinton, for example, continued the framing of decrying "big government" as inefficient.<sup>101</sup>

Much of modern scholarship on public policy and public management focuses on cost-benefit analyses. On an intuitive level, central reliance on economics models makes sense; money is not unlimited, and the government

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<sup>98</sup> A relatively recent development related to how government spends money is the increased prominence of Modern Monetary Theory (MMT). MMT is a macroeconomic theory of government spending centered around the concept that inflation is "the only constraint on spending" for a country that prints its own currency. So, a country like the U.S. could spend as much as it wanted to (as long as it was not enough to cause inflation), regardless of how much it raised in taxes. *See generally* Peter Coy et al., *Warren Buffett Hates It. AOC Is for It. A Beginner's Guide to Modern Monetary Theory*, BLOOMBERG BUSINESSWEEK (Mar. 21, 2019), <https://www.bloomberg.com/news/features/2019-03-21/modern-monetary-theory-beginner-s-guide>.

<sup>99</sup> For example, the marginal tax rate for the highest income bracket was 90 percent when Dwight D. Eisenhower was president. Glenn Kessler, *Ocasio-Cortez's 70-Percent Tax Rate: Not So Radical?*, WASH. POST: FACT CHECKER (Jan. 31, 2019), [https://www.washingtonpost.com/politics/2019/01/31/ocasio-cortezs-percent-tax-rate-not-so-radical/?noredirect=on&utm\\_term=.5e6e5c2aedff](https://www.washingtonpost.com/politics/2019/01/31/ocasio-cortezs-percent-tax-rate-not-so-radical/?noredirect=on&utm_term=.5e6e5c2aedff).

<sup>100</sup> Stephen Skowronek, *Presidential Leadership in Political Time: Reprise and Reappraisal* 95 (2011) (describing Ronald Reagan as rhetorically transformative).

<sup>101</sup> President William Clinton, 1996 State of the Union Address (Jan. 23, 1996).

does need to ensure that it does not bankrupt itself. Further, it is difficult to conceive of an easier shorthand. An amount of money is objective and thus provides some ability to balance positives and negatives even if it is not the best measurement. But I believe that in some cases, relying on cost-benefit analyses misses the forest for the trees. An example of this is the USPS's response to the IG's White Paper.<sup>102</sup> The USPS focused on the financial practicalities of the proposal, explaining why the IG's calculation of the potential profits was incorrect. It did not address the substance of the issue or explain why the USPS was not the best entity for this project.<sup>103</sup> Nor did it address whether it felt this was the proper role for the government even if the economic analysis were correct. Rather, by focusing on the economics of the project, it accepted the current economics-focused lens of analysis.

My thesis here—and it is supported by generations of political theory—is that government should focus on providing social benefit. Government and businesses are structured differently and operate with different purposes; there are no serious proposals to make the CEO of multinational corporations electable by the general public, regardless of the amount of power they wield. Democratically elected government officials, on the other hand, are responsible to their electorate, and they serve because they are chosen to represent their constituents. They are not necessarily chosen because they have economic experience or the ability to maintain a balanced budget, even if that is occasionally a part of their appeal (after all, some are chosen specifically because they were commercially successful).<sup>104</sup> This difference in roles that business people and government officials occupy demonstrates why their entities—businesses and government—should also be viewed differently.

The government's role is to help ensure the well-being of its citizens. Part of the basis for the legitimacy of government is that government was created as a social compact between citizens to provide an overarching authority structure.<sup>105</sup> This social compact between a government and its citizens justifies the use of certain policies aimed at improving the outlook for a minority; that minority is also a part of the social compact, and the

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<sup>102</sup> U.S. Postal Serv., *supra* note 65.

<sup>103</sup> There are certain constraints on the type of language a politician can use, but the Postmaster General is not a traditional politician. The Postmaster General functions as the CEO of the USPS and is chosen by the bipartisan Board of Governors rather than being nominated by the President. *Leadership*, U.S. POSTAL SERV., <https://about.usps.com/who/leadership/board-governors/> (last visited May 15, 2019).

<sup>104</sup> There are certain situations in government where money should be a factor. When there are multiple beneficial policies, for example, and the government only has the resources to pursue one, then a choice must be made, and a cost-benefit analysis is particularly useful. But what this paper argues is that the United States should reimagine how to measure those “resources” and how to determine when the country has enough.

<sup>105</sup> Edward D. Kleinbard, *We Are Better Than This: How Government Should Spend Our Money* 303–04 (2014).

compact requires that society protect all its members.<sup>106</sup> To ensure that all those members can survive and to prevent itself from breaking down, society creates certain insurance mechanisms.<sup>107</sup> As discussed above, banking services are sufficiently important to justify being treated as a part of this societal insurance.

This concept of the social compact helps explain how we decide what is important enough to be a part of this insurance. In a democracy, governmental values are determined through elections, so citizens have the ability to shape the terms of the social contract and social insurance. Therefore, citizens get to set the terms of the debate and decide what is valued. In situations where important services can be provided to underserved communities but at a higher cost, people can decide that they would rather prioritize equity over efficiency.<sup>108</sup> People can decide that, when more resources are needed to address a problem, they can expand the scope of government because that is “[t]he only solution.”<sup>109</sup> To do that, people simply need to vote for people who will implement policies they support.<sup>110</sup> The language of government is determined at the ballot box.

*b. Not All Profit-Driven Services Work*

An additional reason that it is important the government offer these services is that they promote important social policies that should be provided by the government instead of the private market. The previous section argues that the role of government is to provide for its citizens. With that as the background assumption, it is then important to consider whether the private market could actually provide these services. And examples from around the world demonstrate that the private market is not particularly good at providing services this important.

The first and most relevant example has already been discussed in this paper. The U.S. financial market does not cover everyone, and twenty-two percent of the country relies on alternative financial services.<sup>111</sup> These alternative services come with astronomical interest rates that force people into bankruptcy over an inability to pay back small amounts of money, which is an unnecessary consequence given how important access to money

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<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> Davidson R. Gwatkin et al., *Making Health Systems More Equitable*, 364 LANCET 1273, 1280 (2004) (“But suppose it turns out that there is in fact a tradeoff between equity and efficiency in health system design. Who is to say that efficiency considerations should necessarily prevail?”).

<sup>109</sup> *Cf.* David M. Cutler, *Your Money or Your Life: Strong Medicine for America’s Health Care System* 118 (2004).

<sup>110</sup> Margaret Levi, *Why We Need a New Theory of Government*, 4 PERSPECTIVES ON POL. 5, 13 (2006).

<sup>111</sup> Fed. Deposit Ins. Corp., *FDIC National Survey of Unbanked and Underbanked Households* (2017).

is for peoples' lives. And although this is partially a normative argument regarding the role of government, fewer people in bankruptcy would have positive effects on economic outcomes as well. There could be fewer foreclosures, which would hopefully reduce homelessness. It might also reduce the burden on the state and federal governments to cover healthcare and housing costs.

In the last decade, Sweden has also privatized its health care services model to become more profit-driven.<sup>112</sup> This has not worked well, however; as efficiency has declined and profit-seeking behavior has increased, the vast majority of new health centers have opened in areas where effective and profitable health centers already existed.<sup>113</sup> Further, instances of tax evasion have increased because these health centers are no longer non-profit and are now owned by hedge funds.<sup>114</sup> As a result of these privatizing efforts, health care in Sweden has gotten worse.

In the U.S., many different services have been privatized—at least partially—in recent years, and the results have also been negative. Underserved communities have been left behind, as income inequality and privatization have both increased around the same time frame. A 2016 report from *In the Public Interest* found that as a result of privatization, incomes of people from lower socioeconomic backgrounds have decreased and their access to essential services has declined, all while racial segregation has increased.<sup>115</sup> Privatization can work in some circumstances, but it is not a panacea.<sup>116</sup>

### *c. Empowering Poor Communities Helps Encourage Self-Sufficiency*

I now turn to why a public banking option should be located within the Postal Service. A main reason the Postal Service is the right vehicle for this program is its infrastructure, as mentioned above. The Postal Service already has post offices spread throughout the country,<sup>117</sup> so it has the ability to provide local, retail services just about everywhere. One of the concerns about the federal government being heavily involved in everyday life is the lack of a personal touch,<sup>118</sup> but post offices are community institutions. Mail

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<sup>112</sup> Göran Dahlgren, *Why Public Health Services? Experiences from Profit-Driven Health Care Reforms in Sweden*, 44 INT'L J. HEALTH SERVS. 507, 508 (2014).

<sup>113</sup> *Id.* at 516.

<sup>114</sup> *Id.* at 512.

<sup>115</sup> *How Privatization Increases Inequality*, IN THE PUB. INT. (Sept. 2016), [https://www.inthepublicinterest.org/wp-content/uploads/InthePublicInterest\\_InequalityReport\\_Sept2016.pdf](https://www.inthepublicinterest.org/wp-content/uploads/InthePublicInterest_InequalityReport_Sept2016.pdf).

<sup>116</sup> Mary Bottari, *New Report Documents How Privatization Steals Wages, Harms Communities*, PR WATCH (June 5, 2014, 8:39 AM), <https://www.prwatch.org/news/2014/06/12503/new-report-documents-how-privatization-steals-wages-harms-communities>.

<sup>117</sup> *Sizing it Up*, U.S. POSTAL SERV.: POSTAL FACTS, <https://facts.usps.com/size-and-scope/> (last visited May 15, 2019).

<sup>118</sup> Ryan Messmore, *A Moral Case Against Big Government: How Government Shapes the Character, Vision, and Virtue of Citizens*, THE HERITAGE FOUND. (Feb. 27, 2007), <https://www.>

carriers are local residents, as the people working behind the counter at our new postal banks would also be.

Grounding important decisions in local communities also helps make those communities more self-sufficient. When local communities are a part of the decision-making process, they take more ownership in the process and outcomes improve.<sup>119</sup> This correlation exists across multiple industries; for example, in the 1980s and 1990s, local Community Development Corporations became more involved in some local construction and development projects, and outcomes were in fact better in those places.<sup>120</sup> They were successful because individuals with local roots were given ownership stakes in the projects, instead of the development being outsourced to people who lacked a personal connection. Using the Postal Service to provide a local touch to federal government intervention would be a clever way of creating local buy-in.<sup>121</sup>

This pattern of the importance of community support repeats itself in health care access. In many ways, health care mirrors banking services in the type of problems created by lack of access. Poor people have more treatable health issues than do rich people, and the general cost of treating those issues would be relatively low in more affluent areas.<sup>122</sup> But the lack of resources in poorer or more isolated parts of both the country and the world means that there are few economic incentives for doctors to offer their services. Governments and non-governmental organizations try to fill these gaps by offering incentives and improving doctors' ability to get to these parts of the world, but one of the most effective methods to actually improve

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[heritage.org/political-process/report/moral-case-against-big-government-how-government-shapes-the-character](http://heritage.org/political-process/report/moral-case-against-big-government-how-government-shapes-the-character).

<sup>119</sup> This same argument could be marshalled in favor of state or municipal banks rather than a federal one, as what I am arguing for is local control over the banks. And if the federal government ran the bank, the loaning decisions would likely be made by an algorithm based in Washington, D.C.; the government is unlikely to delegate individual disbursement decisions to single employees. However, putting a local face on national policy decisions also seems important. This is the same underlying structure that exists for veterans' benefits and other similar federal benefit programs. *But see infra* note 121.

<sup>120</sup> Norman Krumholz, *Equitable Approaches to Local Economic Development*, 27 POL'Y STUD. J. 83, 90 (1999).

<sup>121</sup> The federal government is often seen as impersonal, while state and local programs are more responsive to community needs. When the federal government hires members of the local community, however, it personalizes even those policy programs that have been designed thousands of miles away. E.g., Jia Tolentino, *A Chat with Mike the Mailman, Who Delivers the Mail (For Now)*, THE BILLFOLD (Feb. 19, 2013), <https://www.thebillfold.com/2013/02/a-chat-with-mike-the-mailman-who-delivers-the-mail-for-now>. Additionally, although federal government programs are often criticized for being unwieldy, local control of programs does not automatically make them cheaper or more efficient. Instead, the federal government is often a more efficient and productive administrator than states. Annie Lowrey, *Are States Really More Efficient Than the Federal Government?*, THE ATLANTIC (Oct. 2, 2017), <https://www.theatlantic.com/business/archive/2017/10/graham-cassidy-states-federal-efficiency/541599/>.

<sup>122</sup> Gwatkin, *supra* note 108, at 1280 (describing a "higher prevalence of treatable disease" in poor communities).



health outcomes is to create community buy-in.<sup>123</sup> The relatively scarce amount of resources that would be needed to cause a material improvement resembles the banking issues identified above. Just as many of the most common health issues are treatable, so too are most of the most common financial issues easily fixable. The average individual who files for bankruptcy needs just a small bump per month.<sup>124</sup> Minor improvements in access would create huge improvements in outcome.

It is easy to compare the two situations in the abstract, but a specific example drives home the analogy. For many years, poor communities in Mexico struggled with access to health clinics, but a program called PROGRESA paid people to attend health care clinics instead of charging them.<sup>125</sup> This created community buy-in, and people began associating improved health outcomes with community prosperity.<sup>126</sup> A similar logic underlies the idea of postal banks with local ties creating interest-bearing savings accounts or providing low-interest loans that can be used to invest in the community. The best way to promote improved outcomes is to provide the needed services instead of just additional income.<sup>127</sup>

### *C. Funding Decisions Are the Product of Historical Will and Political Accident*

One of the wrinkles to this argument is that I doubt many people would seriously contend these banking services are not important. Instead, there are two main arguments: either the private market should provide them, or the government should better regulate the commercial banking market by requiring discounted rates or vouchers to lower income households. But the market has failed to adequately address the needs of some of these people, and the government should fill the gap where the market has failed. Possible solutions within the current framework are capped interest rates or a requirement that banks provide certain discounts for poor people as a cost of getting a banking license. The government could also distribute vouchers so that loans to low-income people are backed by the federal government or

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<sup>123</sup> *Id.* at 1279.

<sup>124</sup> The average individual who filed for bankruptcy in 2012 was just \$26 per month from solvency. U.S. POSTAL SERV., OFFICE OF INSPECTOR GEN., *supra* note 7, at ii. And the 391% interest rate means that \$26 actually costs about \$100 per month to obtain. *Id.*

<sup>125</sup> Gwatkin, *supra* note 108, at 1279.

<sup>126</sup> *Id.*

<sup>127</sup> Amartya Sen, *The Political Economy of Targeting*, in PUBLIC SPENDING & THE POOR: THEORY & EVIDENCE 19 (Dominique van de Walle & Kimberly Nead eds., 1995) (arguing for “direct public provision of such facilities as medical services and educational programs” because these services are not transferrable and are only useful to the person who needs them). Although Sen is not referring to the type of financial services contemplated by this paper, their importance to American society makes her argument applicable to them as well. Low-interest loans and savings account are not transferrable; an individual cannot sell their bank account (which is separate from the money in the account), and they cannot lease their ability to access low-interest loans.

use creative tax incentives to encourage commercial banks to fill banking deserts.

None of the traditional governmental tools is an ideal solution for this problem, however. Vouchers are good at redistributing resources to service providers (in this case, banks), but they are not as good at making sure the individual beneficiaries of the services actually receive the help they need.<sup>128</sup> In the public banking space, that would manifest as the banks receiving payments in exchange for offering services to low-income households, but it would not necessarily result in those households' outcomes actually improving.<sup>129</sup> Further, regulation is not inherently more effective than government provision of services; the success of GSEs in forming and then guaranteeing the secondary mortgage market is one example of positive government intervention.<sup>130</sup> Thus, although such alternatives will undoubtedly be proposed as less costly alternatives, there is no reason to believe they are inherently more effective.

Notably, there are some spaces that the government has gotten involved in despite the market having a clear role. Two of those examples have been discussed above—higher education and agriculture—but there are other places as well. K-12 education, for example, is one space where the government has monopolized the service because providing young people with education is so important to society. Another example is more minor but still interesting; some state governments have begun auctioning off hunting licenses, and the money raised is then spent on conservation efforts.<sup>131</sup>

In all of these areas, to one degree or another, the government has to make a choice between pursuing profit or providing the services. And in some cases, the government does decide that human dignity is more important than raising profits.<sup>132</sup> It is this thought process that I am urging

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<sup>128</sup> HANOVER RES., *Assessing the Effectiveness of School Voucher Programs* (Feb. 2013), <https://www.gssaweb.org/wp-content/uploads/2015/04/Assessing-the-Effectiveness-of-School-Voucher-Programs-1.pdf> (finding no connection between education vouchers and student improvement but finding a connection between education vouchers and school improvement). This transfer is actually somewhat useful in certain contexts—such as education—where part of the problem is that the service providers are underfunded. This not the case for banks, who have plenty of resources.

<sup>129</sup> Jesse Walker, *Big Banks, Food Stamps, and the Trouble with Vouchers*, REASON (Feb. 18, 2014, 11:36 AM), <https://reason.com/2014/02/18/big-banks-food-stamps-and-the-trouble-wi/>; see also HANOVER RES., *supra* note 128.

<sup>130</sup> Robert C. Hockett & Saule T. Omarova, “Private” Means to “Public” Ends: Governments as Market Actors, 15 THEORETICAL INQUIRIES IN THE L. 53, 67 (2014).

<sup>131</sup> John Branch, *The Ultimate Pursuit in Hunting: Sheep*, N.Y. TIMES (Feb. 16, 2017), <https://www.nytimes.com/2017/02/16/sports/bighorn-sheep-hunting.html>.

<sup>132</sup> E.g., Daniel Nichanian, *In the Wake of Amendment 4: Spotlight on Disenfranchisement in Kentucky*, THE APPEAL: POLITICAL REPORT (Dec. 6, 2018), <https://www.appealpolitics.org/2018/kentucky-disenfranchisement/>. The Supreme Court also recently acknowledged the importance of preserving certain fundamental rights at the expense of the government's ability to raise revenue. *Timbs v. Indiana*, 139 S. Ct. 682, 689 (2019) (incorporating the Excessive Fines Clause of the Eighth Amendment against the states to prevent certain types of civil asset forfeiture).

be given more consideration. The role of costs and benefits changes depending on when the analysis is conducted, and which political groups are in power. Which programs are established (and how they are funded) has immense consequences for future generations, but the process is not as uniform as the importance of the choices would indicate.

For example, as discussed above, governmental funding of agriculture exists today because the industry was historically valuable, and so the farm bill is a good example of the power of legislative inertia. Government-backed higher education student loans are a more complicated story, but they began when college costs rose and the government became more involved in the financial services market in general.<sup>133</sup> Interestingly, governments have taken a different approach to K-12 schooling. They have been more hands-on and ensured free access to this education and—depending on the state—requiring attendance at least until the student turns sixteen.

American history is littered with examples of the government continuing to pay for things beyond their usefulness. The farm bill (as discussed repeatedly) is one such example. So too, however, is the 2011 decision to subsidize shipping costs for Chinese exporters.<sup>134</sup> This was originally done to encourage Chinese companies to export to America, but it quickly allowed Chinese sellers on websites like eBay to ship a product to America for pennies on the dollar. Shipping costs back to China were so much higher, however, that it was too expensive for American buyers to return the item if it was not what was ordered or of poor quality. It also forced American sellers out of the market because of the artificially low shipping costs.<sup>135</sup> President Trump recently ended this policy because it no longer made sense,<sup>136</sup> but it survived for seven years despite being clearly harmful to exporting interests, making it a powerful—if short-term—example of Congressional budgetary inertia.

Ultimately, what I am advocating here is a type of political action that focuses on rearranging government's priorities. I want to question certain assumptions about the language of government and the way government is supposed to work in modern America. Because this is one of the richest countries in the world, it should be able to pay to support its citizens. Instead,

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<sup>133</sup> *Looking Back*, LUMINA FOUND., <https://lookingback.luminafoundation.org/> (last visited May 15, 2019).

<sup>134</sup> Wade Shepard, *As U.S. Postage Rates Continue to Rise, The U.S.P.S. Gives the Chinese A "Free Ride"*, FORBES (Nov. 5, 2017), <https://www.forbes.com/sites/wadeshepard/2017/11/05/how-the-usps-epacket-gives-postal-subsidies-to-chinese-e-commerce-merchants-to-ship-to-the-usa-cheap/#7ff4b68d40ca>.

<sup>135</sup> Alana Semuels, *The End of Cheap Shipping from China*, THE ATLANTIC (Oct. 17, 2018), <https://www.theatlantic.com/technology/archive/2018/10/trump-changes-terminal-dues-and-epacket-rates/573337/>.

<sup>136</sup> *Id.*

income inequality keeps growing<sup>137</sup> and workers receive an increasingly small percentage of corporate income.<sup>138</sup> These disparities have resulted in a gap between how much wealth the country generates and the quality and quantity of services available to so many of its citizens.

There is no one-size-fits-all solution to this fundamental economic problem, but because this is a democracy, the government is at least partially responsive to the people.<sup>139</sup> If a service is important enough that people need it to survive or think it would improve their lives, then the country should come up with a way to fund it. Voters have the ability to set the terms of political discussion based on what they prioritize in elected officials, and if voters believe these services are important enough then they can elect representatives who will enact them. The importance of the service is the focus, though; whether it is revenue-neutral or sufficiently profitable should not be the determining factor in whether the policy is actually enacted.

## V. CONCLUSION

Financial equity is important because of the role money plays in American society. Everyone needs access to basic services, but over one-quarter of the country is not adequately served by the commercial banking market. Additionally, the history of racially discriminatory banking practices demonstrates the inadequacy of relying on the market to provide for everyone. I have therefore argued that the government should be stepping in to provide financial services to those racial minorities or rural residents for whom the commercial market is inadequate.

One of the most common criticisms of the USPS is that it is inefficient and loses too much money. However, financial losses are accepted for many different parts of the American government, so there is no inherent reason we need to demand profits from the USPS. Instead, what must be profitable is determined by public demand; if the people and policymakers decide something is important enough to fund even if it loses money, then that service will be funded. The way to determine what must be profitable is therefore through the ballot box and in how advocacy is framed. Postal banking is one of those areas that should be important enough to fund

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<sup>137</sup> Estelle Sommeiller & Mark Price, *The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County*, ECON. POL'Y INST. (July 19, 2018), <https://www.epi.org/publication/the-new-gilded-age-income-inequality-in-the-u-s-by-state-metropolitan-area-and-county/> (finding that “[i]ncome inequality has risen in every state since the 1970s”).

<sup>138</sup> *The Share of Economic Output that Workers Receive has Fallen*, THE HAMILTON PROJECT (Sept. 26, 2017), [http://www.hamiltonproject.org/charts/the\\_share\\_of\\_economic\\_output\\_that\\_workers\\_receive\\_has\\_fallen](http://www.hamiltonproject.org/charts/the_share_of_economic_output_that_workers_receive_has_fallen).

<sup>139</sup> See Bernard E. Harcourt, *American Democracy Has Been Eclipsed*, THE NATION (Feb. 21, 2019), <https://www.thenation.com/article/donald-trump-authoritarian-constitutional-crisis/> (describing all three branches of the American government as counter-majoritarian). All three branches being counter-majoritarian matters because it makes the government less responsive to the public. However, the U.S. continues to hold federal elections every two years, so there is still some level of responsiveness.

regardless of the government's profit margins.