Banking on Democracy

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The financial system is unequal and exclusionary even as it is supported, funded, and subsidized by public institutions. This is not just a flaw in the financial sector; it is a foundational problem for democracy. Across the financial industry, entrepreneurs, regulators, media, and scholars promote the goal of “financial inclusion” or “access to credit.” Facebook’s Libra, Bitcoin, and fintech providers like Square, PayPal, Venmo and thousands of other new products or startup companies are launched with the stated aim of increasing financial inclusion. These private companies are joined by the Congress, non-profits, and financial regulators with programs and laws promoting financial inclusion. In fact, financial inclusion and access to credit are among the increasingly rare issues that unite the political left and right. Yet despite consensus and years of effort, many individuals and communities continue to be excluded from the mainstream financial system, which forces them to resort to high cost payday lenders, check cashers or other fee-based financial transaction products. The financially disenfranchised pay the most for services that the wealthy and the middle class receive at a subsidized rate. This article proposes a new model of financial inclusion, which situates issues of access and inclusion as central to the legal design of the financial system. This article argues that these remedies have failed because the current model of financial inclusion is rooted in a mistaken and incomplete theory of the financial market. Inclusion and “access to credit” are viewed as ancillary product, gap-filling, or a subsidized add-on to credit markets for those who are left out. In contrast, “normal” and “mainstream” credit markets are conceived of simply, as “markets,” governed by market rules and market dynamics. This article argues that they are both part of the same financial market, which is itself a product of public policy. Instead of financial inclusion, this article proposes to reframe the problem as a matter of financial redesign. The design of credit markets is an a-priori choice embedded in law and policy that determines the contours and scope of the credit markets, including who is included. Reconceptualizing financial inclusion must thus proceed through democratic means because inclusion and access are a byproduct of institutional design rather than private market decision making.

INTRODUCTION

When Facebook launched its Libra currency, the head of the initiative testified to the Senate Banking Committee that “Our first goal is to create utility and adoption, enabling people around the world— especially the unbanked and underbanked—to take part in the financial ecosystem.”1 Mark Zuckerberg emphasized the point when he was called to testify to the House of Representatives a few months later: “The Libra project is about promoting financial inclusion through a safe, low-cost and efficient way of sending and receiving payments around the world.”2 Since its inception in 2009, many in the cryptocurrency industry have promised that one of the main benefits of the distributive ledger technology is to facilitate financial inclusion of the unbanked.3 The language of fintech as

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1 Testimony of David Marcus, Head of Calibra, Facebook: Hearing before U.S. Senate Comm. on Banking, Hous., and Urban Affairs, 116th Cong. (2019).
2 Testimony of Mark Zuckerberg, Chairman and Chief Executive Officer, Facebook: Hearing before U.S. House of Representatives Committee on Financial Services, 116th Cong. (2019).
financial inclusion is so widespread that one could be forgiven for assuming that increasing access to credit were the sole aim of these companies. Regulators have responded with their own encouraging reports pronouncing that fintech, mobile banking, or other innovative new products will eventually lead to financial inclusion. A commonly held belief in the world of finance is that what stands between the current landscape of financial exclusion to full financial inclusion is the right technology or innovation. This is misguided.

This article seeks to reframe the problem of financial inclusion because the current framework misunderstands the problem to be fixed. In order to find adequate solutions to the current inequalities of finance, academics and policymakers must challenge the prevailing narratives about financial inclusion. In proposing a theory of the political economy of finance, this analysis adds to an emerging body of work by other scholars engaged in counteracting the prevailing market neoliberal ideology that governs narratives about markets, power, labor, climate.

The term “financial inclusion” is a nebulous and overly broad and for being so is also relatively non-controversial. Financial inclusion is an umbrella concept that encompasses access to bank accounts, credit products, or financial services of any kind. Murky, too, is the identification of the problem; among a myriad of financial services, which should be available to all? What services are essential for participation in commerce? Generally, financial services can be divided into two categories: the payments system and the credit system. Both of these systems are exclusionary for LMI individuals and communities; aspects of each can be deemed as essential; and both of these systems have public or quasi-public features.

4 LARRY D. WALL, FED. RESERVE BANK OF ATLANTA, FINTECH AND FINANCIAL INCLUSION (2017) ("[F]intech has substantial potential to lower the cost of financial services to many lower-income and credit-constrained consumers"); U.S. DEP’T OF TREASURY, A FINANCIAL SYSTEM THAT CREATES ECONOMIC OPPORTUNITIES NONBANK FINANCIALS, FINTECH, AND INNOVATION 9 (2018) at 12 ("Treasury supports encouraging the launch of new business models as well as enabling traditional financial institutions . . . to pursue innovative technologies to . . . improve access to credit and other services."); Stijn Claessens et al., FinTech Credit Markets Around the World: Size, Drivers and Policy Issues, BIS QUARTERLY REVIEW 29, 30 (2018) (finding financial technology as a pathway to greater financial inclusion); Stephanie MacConnell, How FinTech Companies are Closing the Banking Gap, Forbes (Oct. 23, 2017), https://www.forbes.com/sites/stephaniemacconnell/2017/10/23/financial-inclusion-do-good-make-money/#71f023b13fc3; ("FinTech companies and investors are trying to find solutions to this problem so that those on the margins can become ‘bankable’ . . . .").

5 Lael Brainard, Governor, U.S. Fed. Reserve Bd., The Opportunities and Challenges of Fintech at the Conference on Financial Innovation at the Board of Governors of the Federal Reserve System (Dec. 2, 2016) (transcript available at https://www.federalreserve.gov/ newsevents/speech/brainard20161202a.html) ("One particularly promising aspect of fintech is the potential to expand access to credit and other financial services for consumers and small businesses."); Jelena McWilliams, Chairman, Fed. Deposit Ins. Corp., Fintech and the New Financial Landscape at the Federal Reserve Bank of Philadelphia (Nov. 13, 2018) ("New technology has proven able to improve the customer experience, lower transaction costs, and increase credit availability. [Fintech] also offers a tremendous opportunity to expand access to the banking system.").

When referring to financial inclusion of the “unbanked”, the problem is lack of access to the payments system. Each purchase, sale, payment, and interaction with commerce is mediated by financial institutions and or their proxies. Yet the unbanked and underbanked pays a fee or a premium each time they interact with the payments system. They pay to cash checks, purchase prepaid debit cards, or send or receive money. This class of fees and interest rates usually fall on LMI individuals who spend an average of 10% of their annual income on fees. Many communities have been completely abandoned by the community banks and credit unions that used to serve them and have been left with alternative service providers such as check cashers, payday lenders, or even a single gas station ATM that charges a seven dollar fee for every transaction. These transaction costs are only paid for by those without banking accounts who are usually LMI families. They prove the adage that it is expensive to be poor. It is also time-consuming and stressful to mediate the various external services in the economy like check-cashers, Western Union remittance services, bill pay offices, and pre-paid debit cards. Policymakers, academics, and industry experts recognize that “financial inclusion” is a worthy policy and business goal and have offered various products, services, and even subsidies aimed at financial inclusion. Now, more than ever, the economy is digital, global, and mediated by technology. Those who do not have bank accounts pay a fee every time they participate in modern commerce. Just as the railroad, telephone, and electricity were once recognized as essential public utilities, access to payments should also be recognized as an essential public good.

Financial inclusion also includes “access to credit,” another policy goal actively pursued by legislators and regulators on the left and the right. There is little consensus on how best to achieve “access to credit,” but advocates on both the right and left have described a panoply of proposals as increasing access to credit, rendering the term almost meaningless on its own. Or rather amorphous and decontextualized and up for grabs to promote any political agenda. While a policy on the left may propose that breaking up the banks will increase access to credit, one on the right might

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11 See generally Michael S. Barr, Banking the Poor, 21 Yale J. on Reg. 121 (2004) (discussing the complex and expensive regulatory environment of various alternative financial service providers such as payday lenders and check cashers).


13 Alvin C. Harrell, Consumer Credit in the 1990’s, Part Two–the Coming Bankruptcy Explosion and Its Implications for State Law, 50 Consumer Fin. L.Q. Rep. 2, 16 (1996) ("[T]he Clinton administration has strongly supported an expansion of consumer credit over the past two years."); Eamonn K. Moran, Wall Street Meets Main Street: Understanding the Financial Crisis, 13 N.C. Banking Inst. 5, 30 (2009) (discussing how President Bush’s policies that lowered lending standard extended access to credit especially for mortgages).
advocate complete deregulation of banking markets to increase access to credit. In the business context, many innovative technologies premise their enterprise as increasing financial inclusion through a variety of apps, platforms or networks. A wide range of credit products like payday loans, peer to peer loans, micro-credit, mobile banking, alternative mortgage loans, bitcoin, and other non-bank credit products describe their services as “financial inclusion, “access to credit” or alternatively of “democratizing credit.”

This article describes three general categories for financial inclusion and access to credit in frequent use in the modern finance and policy corridors: First, the product-innovation model focuses on technology or new market innovations including fintech, mobile banking, blockchain technology and other tech products. The second face of inclusion is the “gap filling” model, which is usually focused on removing discriminatory elements of the “normal” credit system. For example, legislation like the CRA attempt to increase access to credit by persuading the mainstream banking system to lend into formerly redlined areas due to previous discrimination. The ECOA aims to censure banks that deny “access to credit” to individuals due to discrimination based on a protected class status. The third category of financial inclusion efforts are the “subsidy/micro-credit model” which includes philanthropy and/or govern subsidies that bolster micro-credit or nonprofit community banking, technology, and other grassroots efforts.

The wide array of solutions and problems related to financial inclusion and access to credit are usually discussed separately because each has distinct characteristics and approaches. For example, fintech solutions and anti-discrimination laws seem to be completely unrelated in the problem they are attempting to remedy and the solution they offer. There is very little overlap in the interest groups or political parties pushing these various models for financial inclusion and access to credit. Yet this article will make the case that all of these paradigms share a common hypothesis and are all based on a flawed theoretical paradigm of credit markets. The misconception they share is in fact pervasive in “neoliberal” legal and financial discourse. The foundational theory is that credit markets and the financial circuitry of the economy are a neutral byproduct of market forces. This

15 See infra Part I; See also Jean Braucher, Theories of Overindebtedness: Interaction of Structure and Culture, 7 THEORETICAL INQUIRIES L. 323, 335 (2006) (“[C]reditors sometimes portray [alternative financial services] as promoting the democratization of credit . . . .”).
16 See Michael S. Barr, Credit Where It Counts: The Community Reinvestment Act and Its Critics, 80 N.Y.U. L. REV. 513, 523 (2005) (discussing the CRA’s purpose was to increase access to credit to previously discriminated against racial minorities); Cassandra James Havard, Advancing the Cra-Using the Cra’s Strategic Plan Option to Promote Community Inclusion: The CRA and Community Inclusion, 29 W. NEW ENG. L. REV. 37, 39 (2006) (“The CRA’s basic premise [is] to [make] credit available across all neighborhoods . . . .”).
17 See Vlad A. Hertza, Fighting Unfair Classifications in Credit Reporting: Should the United States Adopt Gdpr-Inspired Rights in Regulating Consumer Credit?, 93 N.Y.U. L. REV. 1707, 1724 (2018) (“The ECOA prohibits discrimination based on protected characteristics such as race, color, religion, national origin, sex, marital status, or age.”).
18 Neoliberalism is a term overloaded with misuse and misunderstanding and I use it with reservation because I believe it is still the best label for the theories under critique in this article. There is a large body of recent academic work by historians, political scientists, economists, and legal scholars on neoliberalism that has created more clarity in the field and precision in the definition. The clearest definition of neoliberalism is a market-centered model of policy. The term is used generally in a derogatory manner by many on the political left. See generally DAVID HARVEY, A BRIEF HISTORY OF NEOLIBERALISM (2005).
view conceives of financial inclusion or the lack thereof as a “bug” or a gap in the general circuitry. The solutions to the problem of financial exclusion range from creating new products outside the “normal” credit system or filling gaps that have been created by bad actors. Those who find themselves outside of the normal channels of credit and money therefore must be “included” in the credit market using a different device or method than what is offered to those who already have access to credit and financial services. Those who cannot access a normal loan can receive a microcredit, peer to peer, or a payday loan. Those who do not have a bank account can be given an alternative route to transactions such as a check cashing service, a newly designed fintech product, or an alternative blockchain currency.20

Not only does the confused rhetoric of access to credit and financial inclusion lead to failed policy to address financial exclusion, but it also elides an accurate understanding of the mainstream credit markets. Or rather, it does not discuss them at all, taking “the norm” for granted and focusing instead on the periphery. According to the standard neoliberal perspective, the scope, quantity and the circumference of the credit markets are a neutral and natural byproduct of market forces.21 Credit markets are seen through a prism of natural law—credit is given to the creditworthy and withheld to those who are not. There are gaps created by “market failures” that subsidies or financial education can overcome, but the credit market itself operates in neutral conditions. No one is deciding to exclude. In this model of financial inclusion, the design of the credit system is an innate characteristic of the market and not a result of decision-making. A designing entity or policy-creator is absent or irrelevant—presumably credit decisions are guided by the invisible forces of the market. People who are excluded find themselves outside of the financial markets because they are not “creditworthy” either due to too little money or cause too high of a risk, or because there is a flaw in the system such as discrimination that excluded otherwise “credit-worthy” individuals.22 They must pay more for credit and financial services because the market determines the price of the service and credit and those costs reflect the added risk. In order to achieve “financial inclusion,” lenders must either charge more to respond to higher risk (i.e. check-cashing), rely on subsidies to overcome market failure or the lack of information by consumers, rely on philanthropy or legislative gap-filling.23

This article proposes a new theoretical approach to financial inclusion that recognizes financial inclusion as an a priori design decision as opposed to an after-the fact remedy tacked on to a “normal credit system.” To use a tangible analogy, imagine a house contains those with access to credit and banking services inside the house and those who do not have access outside the house. The predominant financial inclusion model proposes that someone—either a charity or an entrepreneur approach the people outside of the house with a financial product specifically designed for those outside the house or in the alternative to make sure the house isn’t discriminating against outsiders who should be in the house for a reason such as their race or gender. The other option,
which this article proposes, is to design a house that fits everybody. If that sounds simplistic, it is. There are of course caveats and complexities, but not enough to invalidate the analogy. The design of the credit and financial marketplace determines who has access to credit and financial services. The current design was not an organic development, but a result of a series of policy and institutional decisions. In other words, the house of credit was built by a designer who decided who would fit inside and who would not. These foundational decisions have had distributional effects. Instead of filling gaps and offering new and different products to increase access to credit and services, we must change the design to ensure democratic access. In other words, the “democratization of credit” cannot be achieved through market products, but through democracy itself.

This article proposes a structural perspective on credit markets that relies on a theory of money as a democratic medium. This theory draws on pivotal Progressive-era political debates over the nature and structure of US currency premised on the connection of monetary choices and distributional effects. The many charged debates about the monetary standard—either the gold standard, bimetallism (gold and silver) or fiat currency—were decisions about how much money and credit would be available and to whom. Gold was intrinsically limited and scarce while fiat currency was flexible and expansionary. The choice to maintain the gold standard or abandon it for fiat currency or silver had distributional effects and was made democratically though not without dispute. Those debates were resolved over several decades and several elections, but the fact that the monetary system is a matter for debate was lost. In other words, the body populace can choose and has chosen the formula for its monetary system yet having made the choice has taken its formulation for granted.

In rejecting the current model of financial inclusion, this article advocates a renewed academic and debate in the political economy of money and credit. The article will advocate a public and democratic process of decision-making towards a theory of financial expansion instead of financial inclusion. It advocates a revived focus on the legal design decisions at the center of the money and credit markets as opposed to a market-centric focus on the excluded outside the normal credit system. This theory of money and credit has vast implications on money and credit system design and economic regulation, but it is not without historic precedent or theoretical support, which will be outlined below. Indeed, credit and money are more fungible and abstract the higher up one looks in the financial system. For the Fed’s balance sheets and their accounts with JP Morgan, money creation is a credit on a balance sheet rather than a real constraint on spending. The lower down one goes in the financial system, money becomes much more real. For a nurse or taxi driver paying her rent, utilities, and food prices with limited wages, every cent of money must go toward a tangible object. When average people take out credit, their interest payments remove money real spending money from their wages that they cannot use for food or rent. When the Fed pays JP Morgan millions of dollars of interest on their reserves, it barely makes a dent. The comparison between individuals with banks falls apart when we consider the role banks play in the economy, but if the focus is just on credit and money forms, it is helpful to keep in mind the stark contrasts. Access to credit is a decision made by policymakers.

25 See William Graham Summer, A History of Banking in All the Leading Nations 413 (1896).
26 Id.
27 Id.
Returning to the problem of inclusion and access, this article will make the case that insofar as the financial system is the product of legal design emanating from the democratic process, it cannot be justified if it results in the exclusion of such a large segment of the populace. Especially if those excluded are the poor and vulnerable. The article then proposes a democratic design that relies on public finance and an inclusionary credit market.

In Part I, I will propose a taxonomy to understand the various models of financial inclusion, including the product model, the gap-filling model, and subsidy model and demonstrate their common theoretical foundations in neoliberal views of credit markets. Part II will describe the modern financial markets in both transactional accounts (the payments system) as well as the credit markets. This Part shows that the core of both payment and credit systems are each public whereas those who fall outside of them must rely on private products. Incidentally, those who are excluded pay much more than those who receive subsidized public products. Part III introduces a new theoretical understanding of money and credit production, which integrates the emerging literature on money as a democratic medium and progressive era debates about gold and silver to demonstrate the lost concept of money as a legal decision. This Part also demonstrates how the concept of financial redesign differs from the concept of financial inclusion and how a new foundational theory of inclusion can lead to more accurate policymaking. The concept of financial redesign views the question of access through the lens of money and credit design that is a foundational decision at the core of the credit system. This article concludes with a discussion of the normative implications of this new theoretical framework.

PART I

This part describes the current rhetoric on financial inclusion used by the industry, regulators, academics, and media. When discussing financial inclusion, regulators and private actors use the terms “access to credit,” “the democratization of credit,” “filling gaps,” or offering new technology or innovative products.29 In order to depict the problem two-dimensionally, I have represented the “house” of financial inclusion below (Figure A) as circles with an inner circle of credit access and an outer ring of lack of access this is the space for financial inclusion efforts. (Figure B places the different models of inclusion in the circle.) Credit is represented as a finite good at the center with access diminishing the further out a consumer gets from the center. Proximity to access usually correlates with wealth and income. Financial inclusion is usually a problem for LMI individuals left out of the central credit markets.30 Those with access are more creditworthy than

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those without access with the exception of certain groups who have been discriminated against even despite their creditworthiness.31

This misleading conceptualization of access creates several problems. First, this model of credit and financial inclusions views access to credit as a sliding scale—merely a matter of more credit or less credit. To increase access and inclusion necessarily requires more credit. Access to credit measures have had a ratcheting up effect.32 Payday lenders, title lenders, subprime lenders, and other high cost lenders use “access to credit” to justify their services.33 Access to credit discourse usually does too little to discern between the quality of credit available, usually focusing primarily on the quantity available. Second and more fundamentally, this model takes for granted the credit at the center. Instead, it shifts focus to the outer rings. It presupposes those at the center of the credit market deserve credit and access. As the next section illustrates, access to credit is a decision made by policymakers. In fact, as we move further away from the core toward the periphery, the federal subsidies diminish. It is therefore misleading to focus regulatory efforts at financial inclusion as an ancillary product supplementing the normal credit markets without examining the entirety of the system as an integrated whole, all of which is a result of public policy. The rest of this section categorizes the three domains in which access to credit is discusses and explains the common theoretical underpinning of their vision of credit.

Figure A

31 Id. at 1, 20;
32 See Generally LENDOL CALDER, FINANCING THE AMERICAN DREAM: A CULTURAL HISTORY OF CONSUMER CREDIT (1999); LUIS HUMAN, DEBTOR NATION: THE HISTORY OF AMERICA IN RED INK (2012); Harrell, supra note 8; Moran, supra note 8.
33 See Neil Bhutta et al., Consumer Borrowing After Payday Loan Bans, 59 J.L. & ECON. 225, 226 (2016) (noting that supporters of payday lending emphasize its value to low-income households because it provides access to credit); Michael Kenneth, Payday Lending: Can "Reputable" Banks End Cycles of Debt?, 42 U.S.F. L. REV. 659, 710 (2008) (arguing that properly regulated payday lending expands credit and “should be [viewed as] a positive business practice under the CRA.”).
Three Types of Access to Credit

i) The Innovative Credit Product: Fintech
In this model, financial inclusion envisions a product or new innovative design that promises inclusion or access to credit. The provider of the new product can be a bank, a technology company, or non-profit. These products either focus on a fee model in the case of PayPal, a network connecting borrowers and lenders in the case of P2P or a newly designed system such as blockchain or other alternative methods of access. Getting the right product requires either technical innovation, marketing, or financial education. These models and products assume that those who fall outside the inner circle of credit have special or different needs and these products are meant specifically to match those needs. Broadly, these services are usually referred to as “fintech.” Fintech includes but is not limited to blockchain technology, mobile banking, internet mediated peer to peer lending, and algorithmic lending products. This is currently the most popular model for increasing access.

When banking regulators and policymakers refer to access to credit, they often discuss fintech as the primary solution. Likewise, when fintech providers discuss their new products, they justify them as increasing access to credit or furthering financial inclusion. In 2018, the OCC offered a banking charter to fintech providers for the first time and justified their controversial decision using the rhetoric of financial inclusion. Comptroller Otting said that fintech firms would

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34 NIKI COHEN ET AL., REIMAGINING FINANCIAL INCLUSION 13 (2015) (arguing that proper product design will lead to greater financial inclusion).
35 Anton Didenko, Regulating Fintech: Lessons from Africa, 19 SAN DIEGO INT’L L.J. 311, 318 (2018) (“FinTech is commonly used today to refer to the more recent technological advancements in finance, such as online peer-to-peer lending platforms or automated robo-advisory.”); John Schindler, FinTech and Financial Innovation: Drivers and Depth 2 (Bd. of Governors of the Federal Reserve Sys. Fin. & Econs.’ Discussion Series, Working Paper No. 2017-081, 2017) (defining fintech as including “online marketplace lending (called peer-to-peer lending by some), equity crowdfunding, robo-advice, financial applications of distributed ledger technology, and financial applications of machine learning (also referred to as artificial intelligence and machine intelligence.”).
38 See COHEN, supra note 28 and accompanying text.
39 See OFFICE OF THE COMPTROLLER OF THE CURRENCY, supra note 31; see also OFFICE OF THE COMPTROLLER OF CURRENCY, OCC BEGINS ACCEPTING NATIONAL BANK CHARTER APPLICATIONS FROM FINANCIAL TECHNOLOGY COMPANIES (2018) (explaining the OCC’s decision to consider charter applications from financial technology companies in part, because of the OCC’s commitment to financial inclusion).
provide “consumers greater choice, can promote financial inclusion, and creates a more level playing field for financial services competition.” In their policy decision, the OCC said that they expected the fintech companies seeking a banking charter “to demonstrate a commitment to financial inclusion.”

Industry experts, regulators, and academics often link financial inclusion with product design. In study after study, consultants, regulators, and industry experts study the problem of financial inclusion through the lens of financial technology and product design. These studies often point to the distinct behavior of the unbanked and underbanked and how financial inclusion efforts must be based on recognizing these differences. Experts instruct entrepreneurs to bring the insights of behavioral economics to bear in designing new products. “Instead of trying to make LMI consumers fit the products financial institutions already offer,” the report instructs, “we need to ask how new products could fit the needs of LMI consumers while also being profitable enough for financial institutions to offer broadly.” These reports often focus on financial education and literacy as a means of financial inclusion. In 2019, the head of the CFPB, Kathleen Kraninger explained that the agency’s primary goal would be financial education.

Financial literacy and innovative design are usually tied to a behavioral economics understanding of financial inclusion. These models rely on behavioral economics both to describe the problem of financial access and to overcome it. Analysts promise that by “drawing on the wealth of research on the financial lives of LMI consumers and insights from behavioral science,” they can create “an innovative product design that holds the promise of financial stability for consumers and significant profitability for institutions.” Specifically, a fintech product must help LMI customers to “manage their cash flow volatility and the behavioral issues this volatility drives.” Fintech products with “behavioral “nudges” like well-timed reminders can help institutions manage default risk and

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41 OFFICE OF THE COMPTROLLER OF CURRENCY, POLICY STATEMENT ON FINANCIAL TECHNOLOGY COMPANIES’ ELIGIBILITY TO APPLY FOR NATIONAL BANK CHARTERS (2018).
42 See COHEN, supra note 28, at 13.
43 Id. (arguing that proper product design will lead to greater financial inclusion); MCKINSEY & COMPANY, MOBILE MONEY IN EMERGING MARKETS: THE BUSINESS CASE FOR FINANCIAL INCLUSION 7 (2018) (explaining that “large scale digital finance promotes financial inclusion.”); MCKINSEY & COMPANY & MCKINSEY GLOBAL INSTITUTE, DIGITAL FINANCE FOR ALL: POWERING INCLUSIVE GROWTH IN EMERGING ECONOMIES 6 (2016) (explaining the ability for digital financial products to “enable broad-based financial inclusion.”); DAN RADCLIFFE & RODGER VOORHIES, A DIGITAL PATHWAY TO FINANCIAL INCLUSION 7 (2012) (“The expansion of digital payment platforms offers the opportunity to link poor people with providers of savings, credit, and insurance products.”);
44 See COHEN, supra note 28, at 13.
45 See Jonathan Bays et al., Global financial inclusion: Within Reach, MCKINSEY & CO. (Oct. 2010) (discussing that any financial products must be accompanied by financial education to be truly effective); Trina R. Williams Shanks et al., Financial Education and Financial Access: Lessons Learned from Child Development Account Research, 8 INNOVATIONS: TECH., GOVERNANCE, GLOBALIZATION 159, 170 (2013) (finding “the need for both financial education and access to financial products and services” for low income parents and children to be “truly inclusive” in order to achieve greater financial inclusion); Ryan Scott, Addressing Poverty Through Digital and Financial Literacy, FORBES (Jan. 7, 2016), https://www.forbes.com/sites/causeintegration/2016/01/07/addressing-poverty-through-digital-and-financial-literacy/#1b18de310b3 (“Financial literacy is critical to avoiding high levels of debt, excess fees for financial products, accessing credit and saving for retirement.”).
47 See COHEN, supra note 28, at 13.
48 Id. at 7.
reduce expected losses associated with these loans.”

The concept of nudges builds on Cass Sunstein and Richard Thaler’s ideas in their book and are meant to overcome behavioral tendencies creating “irrational behavior.”

The framework of behavioral economics further embeds neoliberalism because it centers the ideal of “homo-economicus.” Humans make rational economic choices, but with the exception of a few “bugs.” The aim of the project is to make us aware of these bugs or biases so that we can resume being rational economic actors. This framework offers the poor and disenfranchised “nudges” to spur better decision-making or financial literacy.

The product innovation model attempts to better understand LMI consumers and to design products to serve their needs. These products and services usually operate outside of or apart from the mainstream credit market. They are products or services that rely on creating a market or meeting a need in the market that is not otherwise served. Usually, the aim of this model is to make profits for the creators of the products, but there are several social entrepreneurs who are focused instead on modest profits through social good and helping LMI communities. Some of these enterprises, like blockchain, aim for bigger utopian aims such as the democratization of all finance. They aim to reach financial inclusion by decentering the banking sector.

To state the obvious, in order to make profits, these products must cost something. Or as an industry report quotes a bank executive, “the juice had better be worth the squeeze.” This is the largest obstacle fintech products have faced in serving LMI consumers. They are trying to squeeze profits out of an already cash-strapped consumer group. Some fintech lenders have been able to compete with banks by using algorithmic underwriting, AI, or using consumer to make lending decisions. These practices have

49 Id. at 45.
50 Behavioral economics has debunked the ideal of homo economicus, the rational market actor, and thus challenges mainstream economic thinking. Behavioral economics has been central to proposals for increased regulation and has become a pervasive topic in legal literature. Behavioral economics explains that people make irrational decisions based on several built-in biases. This rich and useful literature has been deployed to help refine and better legal decision-making. However, in the realm of financial decision-making, behavioral economics tends to focus only on the irrational decisionmaking of the poor. See generally John McMahon, Behavioral Economics as Neoliberalism: Producing and Governing Homo Economicus, 14 CONTEMPORARY POLITICAL THEORY 137 (2015); COHEN, supra note 23, at 45 (“Borrowers at a microlender in Uganda were more likely to pay on time if sent a monthly text message reminder that the payment was due, with an effect equivalent to a 25% interest rate reduction. A microlender in Texas found that a series of email and text reminders and redesigned monthly statements helped microloan borrowers avoid NSF fees. A consumer’s relationship with her financial institution is also important. 34% of unbanked consumers report dislike of or distrust in banks as a reason for being unbanked. Anecdotally, strong relationships between tellers and customers at a check-cashing facility in New York City were a primary driver of customer loyalty. Relationship-building techniques can reduce losses, and these techniques can be relatively cheap when delivered through phone calls or text messages.”).
51 See SALT LENDING, SALT: BLOCKCHAIN-BACKED LOANS (2017) (“SALT is a lending platform specifically designed for blockchain assets; operating as a second layer protocol which sits atop any public or permissioned blockchain, allowing the underlying asset to be used as collateral for access to credit.”); LBA FOUNDATION, LIBRA CREDIT WHITEPAPER (2018) (“Libra Credit is a decentralized lending ecosystem that facilitates open access to credit anywhere and anytime based on the Ethereum blockchain.”); Dirk Zetzsche et al., The ICO Gold Rush: It’s a Scam, It’s a Bubble, It’s a Super Challenge for Regulators (Univ. of New S. Wales L. Research Series, Working Paper No. 2017-011, 2018) (noting that although “the traditional banking sector has been reluctant to invest in ICOs,” they “have the potential to be more accessible to the public in their somewhat democratic nature”); Connor Blenkinsop, Blockchain Ecosystem to Give Unbanked Access to Financial Services in Developing Countries, Cointelegraph (June 28, 2018), https://cointelegraph.com/news/blockchain-ecosystem-to-give-unbanked-access-to-financial-services-in-developing-countries.
53 Robert P. Bartlett et al., Consumer Lending Discrimination in the FinTech Era, U.C. BERKELEY PUB. L. RES. PAPER 1 (2017) (“Recently, technology-enabled ‘FinTech’ loan companies have sought to drive significant cost reductions in the underwriting process by improving [credit] scoring precision with big-data algorithms.”).
come under intense scrutiny because of the embedded discrimination in their data. These fintech companies perpetuate racism and exclusion because they rely on discriminatory assumptions about their customers.\textsuperscript{54}

To the extent fintech companies have been profitable, they have sold their products to higher income consumers. Services like Venmo, paypal, square, and others have provided alternative products that add ease and efficiency for customers with bank accounts. Those fintech products that have successfully increased access to credit or finance are those that are based on the non-profit model such as Kiva or gofundme. The 2007 FDIC’s Small-Dollar Loan Pilot Program was a temporary program focused on providing new accounts and small loans to excluded populations.\textsuperscript{55} The two-year pilot began with 31 participant banks that were given regulatory latitude to design small dollar credit products to consumers to take the place of payday loans.\textsuperscript{56} The point of the pilot was to determine whether banks could successfully make these loans—success was determined by whether banks could make these loans profitably.\textsuperscript{57} The FDIC concluded that the pilot was a success and “demonstrated that banks can offer alternatives to high-cost, emergency credit products, such as payday loans or overdrafts.”\textsuperscript{58} The FDIC determined that the “pilot resulted in a Safe, Affordable, and Feasible Small-Dollar Loan Template that other banks can replicate” and that “loans originated under the program have a default risk similar to other types of unsecured credit.”\textsuperscript{59} The program was not continued or replicated in any other agencies. Since the small dollar programs, most efforts at access to credit emanating from the banking regulators has focused on fintech. In fact, the FDIC followed up this small dollar loan program with several reports on mobile banking as the most promising path toward financial inclusion.\textsuperscript{60} In outlining their financial inclusion programs, mobile banking for the FDIC has become basically synonymous with financial inclusion.\textsuperscript{61} The FDIC began measuring the amount of “unbanked” or “underbanked” Americans annually starting in 2009 and has issued many reports about potential technological solutions. The FDIC has released several white papers and reports on mobile banking with the repeated key finding that “MFS (Mobile Financial Services) is best positioned to have an economic inclusion impact through its ability to meet the day-to-day financial services needs of underbanked consumers as well as consumers at risk of account closure.”\textsuperscript{62}

\textsuperscript{54} Id. at 2-3 ("Algorithms could easily be implemented to predict default based on the exact college or high school one attended...We find that African-American and Hispanic applicants are 5% more likely to be rejected for a mortgage than other applicants."); see also Karen Petrou, Making “Responsible Innovation” a Reality: Big Tech, Small Money, and U.S. Economic Equality, FED. FIN. ANALYTICS 4 ("The power embedded in AI (artificial intelligence) also may combine with massive troves of data to enable seemingly-predictive methodologies that in fact target financial customers in ways that change availability, pricing, terms, and conditions in discriminatory ways.").

\textsuperscript{55} See generally FED. DEPOSIT INS. CORP., AN INTRODUCTION TO THE FDIC’S SMALL-DOLLAR LOAN PILOT PROGRAM 23 (2008).

\textsuperscript{56} Id. at 26.

\textsuperscript{57} Id. at 26-27.

\textsuperscript{58} Id. at 37.

\textsuperscript{59} Id.

\textsuperscript{60} SUSAN BURHOUSE ET AL., FED. DEPOSIT INS. CORP., OPPORTUNITIES FOR MOBILE FINANCIAL SERVICES TO ENGAGE UNDERSERVED CONSUMERS: QUALITATIVE RESEARCH FINDINGS 1 (2016) ("The results of this research show that great potential exists for MFS [mobile financial services] to improve account sustainability by helping underserved consumers obtain more control over their funds and better manage their bank accounts.").

\textsuperscript{61} FED. DEPOSIT INS. CORP., ASSESSING THE ECONOMIC INCLUSION POTENTIAL OF MOBILE FINANCIAL SERVICES (2014) (stating “MFS is best positioned to have an economic inclusion impact through its ability to meet the day-to-day financial services needs of underbanked consumers”).

\textsuperscript{62} Id.

Electronic copy available at: https://ssrn.com/abstract=3607461
There are several strands and categories of regulation and legislation aimed at financial inclusion and access to credit. These acts differ in their enforcement provisions and their focus, but they share, in broad strokes, an understanding of the problem of access to credit. These bills aim to fill gaps in the credit market—gaps due to discrimination—but solutions range from legal penalties for discrimination to inducements like tax credits for increased lending. Some of the legislation focused on financial inclusion aims to “unblock” the gap in access to credit by prohibiting discrimination while another strand intended to actively fill the gap with credit.

After the Civil Rights movement of the 1960s and the women’s movement of the 1970s, Congress passed legislation that prohibited credit discrimination based on race and gender. Two pivotal anti-discrimination bills were the 1968 Fair Housing Act outlawing discrimination in housing and mortgage lending and the 1974 Equal Credit Opportunity Act, which banned discrimination for all other credit products. These Acts created a constitutional right of equal access to credit. Credit itself was not a right, but a lender could not deprive an individual of credit based on

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63 See, e.g., Fair Housing Act of 1968 (FHA); the Equal Credit Opportunity Act of 1974 (ECOA).
64 See, e.g., the Community Reinvestment Act of 1977 (CRA) and the Home Mortgage Disclosure Act of 1975 (HMDA) which seeks to curb discriminatory lending practices by, respectively, mandating a certain level of lending in LMI neighborhoods and requiring public disclosure of mortgage data as it relates to ethnicity in order that the public can monitor for discriminatory patterns.
a protected trait. These acts were premised on *negative rights*, or *freedom from* discrimination. Yet these rights did nothing to remedy past patterns of credit discrimination or induce the provision of credit. Insofar as access was restricted due to discrimination, these laws increased access to credit, but in the event that access was restricted due to other causes, these laws did not increase access to credit. In the event of racial segregation and a history of credit discrimination, these laws did not offer a robust remedy. Due to historic segregation and racial exclusion, racial minorities had less wealth and lived in communities with concentrated poverty. Lenders could deny an applicant due to a lower credit score or for simply having too little money or income without running afoul of these laws and many did.

There was also legislation aimed at increasing access to credit through a *positive rights* or *freedom to* concept of credit. The 1977 Community Reinvestment Act requires banks to take affirmative steps to increase credit and financial services to the LMI communities in their area of service. The aim of the CRA was to remedy the historic effects of redlining. The CRA proceeds on the theory that banks have discriminated against redlined communities thereby cutting off credit to these communities. The CRA withholds certain regulatory approvals from banks that refuse to lend into these communities. The vision of the bill is to fill gaps created by past discrimination. The CRA is distinct from the anti-discrimination bills because it focuses on geographical zones of exclusion as opposed to discrimination of individuals. The CRA, like the anti-discrimination bills is focused on gap-filling, but it is a positive rights focus. It asks banks to fill the gap, the gap being defined as discriminated regions deprived of credit due to historic wrongs.

**Self-help and Subsidies**

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68 *Id.* at 19.

69 *Id.* at 20 (“Given the complex and proprietary nature of credit scoring systems and the difficulty of proving that any two applicants are similarly situated except for race, disparate treatment is hard to prove. Disparate impact analysis is often no easier.”).

70 See BARADARAN, supra note 67, at 150 (explaining lender’s use of zip codes to discriminate because segregation “had almost perfectly correlated geography and race.”).


73 *Id.*
The micro-credit/self-help model is the reigning model abroad when it comes to socially beneficial credit. The theory of microcredit is the motivating theory underlying the most prominent legislative and regulatory efforts at financial inclusion in the United States. Even as microcredit has fallen from its sanctified pedestal abroad, it is still the dominant answer to financial inclusion as expressed through the CDFI and minority banking programs in the United States. As I have written extensively elsewhere, these efforts were especially prominent to neoliberal models of markets in the Reagan and Clinton administrations.

There are various models for financial inclusion based on micro-credit lending that range from informal lending circles to formal non-profits. Informal lending circles have existed in many communities where mainstream banking was not accessible or among disenfranchised populations excluded from mainstream banking services. The typical lending circle, the supposed inspiration for formal micro-credit organizations, includes a small group of people who contribute funds into a collective and rotate a lump sum loan around the group of participants. When the loans are repaid, the funds go back into the collective. In the typical microcredit model, first popularized by Muhammad Yunus of Grameen bank, a group of indigenous poor women form a collective group and Grameen relies on the group’s social cohesion and sometimes pressure to return the loan.

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74 Olaf Weber, Social Banking: Products and Services, in SOC. BANKS AND THE FUTURE OF SUSTAINABLE FIN. 96 (2010) (stating that “micro-finance and especially microcredit became well known as a social-banking product that is able to fight poverty” and that “microfinance is probably one of the most popular social banking products and enjoys a very good reputation”).

75 See, e.g., BARADARAN, supra note 67.

76 Mary Ager Caplan, Communities Respond to Predatory Lending, 59 NAT’L ASS’N OF SOC. WORKERS 149, 153 (2014) (noting that “a ‘lending circle’ is a[n] … example of a community-based alternative to mainstream banks and predatory lenders.”).

77 Id. (explaining “a lending circle is composed of a group of unrelated people who contribute money to a common pot, which is then distributed on a regular or as-needed basis to a member of the group.”).

78 Id.

the Grameen model, the loans are for entrepreneurship.80 Yunus’s slogan was: “we are all entrepreneurs.”

The microcredit organizations that are highlighted in the United States and abroad are usually not grass-roots organizations, but non-profits that bring together impoverished individuals with microloans provided through external sources.82 In the Unites States, microlenders like ACCION and Mission Asset Fund are non-profits that offer small loans to be used for entrepreneurial activity and paid back over time.83 ACCION’s interest rates of are comparable or higher than bank loans, the difference being that they offer smaller loans to borrowers who would not qualify for typical bank loans.84 There are thousands of microcredit non-profits in the US and abroad that operate as non-profit organizations and other micro-lenders that offer small loans at a much higher interest than banks or credit cards.

The United States does not have a robust microcredit market referred to as such. Rather, in the United States, the micro-credit model was embedded into legislation. The Community Development Financial Institution Act (CDFIA) introduced by President Clinton to achieve financial inclusion and access to credit was inspired by the micro-credit model.86 The President claimed to be inspired by Yunus and Shorebank in Chicago based on community lending and he created the legislation in order to foster and subsidize more of these “development banks” to increase credit in communities.87 The CDFI bill was primarily focused on financial inclusion

81 Id.
83 Id.
85 Pimentel, supra note 79 (conceding “microloans have limitations”).
86 Lois J.D. Wacquant & William Julius Wilson, Poverty, Joblessness, and the Social Transformation of the Inner City, in WELFARE POLICY FOR THE 1990s (1989); James Post & Fiona Wilson, Too Good to Fail, STAN, SOC. INNOVATION REV. 66 (2011); see also Interview with Bill Clinton, President of the U.S., in N.Y.C. (Dec. 15, 2007) (Bill Clinton: “First, it is almost universally effective where it's done based on the same model that he and other big givers in Bangladesh have used. That is, where you realize you may be dealing with people who never have a balance sheet, but they have a good reputation in the community, you know they have a skill, and there is clearly a market for what they want to do. In the early '80s, the South Shore Bank in Chicago, now called Shore Bank started loaning -- make microcredit loans by American standards to black carpenters and Croatian electricians to work together to retrieve the South Side. Hillary found out about this and talked to me, and she went out and raised some money to create a rural microcredit bank in Arkansas, do the same thing with the same results. It's still in place. Then when I became president, we gave two million microcredit loans a year overseas, and gave the first microcredit programs funding in America. It always works. Now, can it make a difference? It depends on whether they're concentrated enough. I think in Bangladesh, the Grameen Bank and others have been giving money now for 30 years so that the volume of loans is so great now, I think it's making a measurable contribution to the economy.”).
87 The micro-credit model thrives abroad. When the World Bank conducted a comprehensive report about financial inclusion worldwide, they concluded that: Despite best efforts, it seems likely that provision of some financial services to the very poor may require subsidies. Generally speaking, the use of subsidies in microcredit can dull the incentive for innovative new technologies in expanding access, with counterproductive long-term repercussions for the poor. Besides, evidence suggests that for poor households credit is not the only—or in many cases, the principal—financial service they need. For example, in order to participate in the modern market economy even the poor need—but often cannot access—reliable, inexpensive, and suitable savings and payments products. Subsidies may sometimes be better spent on establishing savings and payment products appropriate to the poor. See WORLD BANK, FINANCE FOR ALL?: POLICIES
provides subsidies and tax credits for “development banks” and to lend in “underdeveloped” regions and communities. The Fund has suffered severe cuts, but there are currently 950 CDFIs in the United States that operate in rural and urban communities.88 The CDFI coalition describes their banks as “private-sector, financial intermediaries with community development as their primary mission.”89 Though there are several models of development banks “all are market-driven, locally-controlled, private-sector organizations.” The banks focus on a “double bottom line: economic gains and contributions to [the] local communities.”90 What distinguishes CDFIs from mainstream banks is their focus on financial inclusion, which the coalition describes as “rebuilding disinvested communities and making loans to people with limited or poor credit histories.” The method these banks use to increase access to credit is to “adapt lending guidelines to the needs of borrowers; to accept unconventional collateral for loans; and to provide education, training, and assistance to potential borrowers.”91

There are several other subsidy-based financial inclusion models, including the BankOn initiative administered through community partnerships.92 Historically, there were charitable organizations and churches that provided credit to the poor. Pawn shops had charitable origins both in the United States and in Europe.93 Today, there are some churches and community groups that offer small loans to members of the community.94 These loans are low interest and subsidized by the community or donations.95 Kiva is a large internet-based micro-credit organization that runs on charitable donations that make microloans.96

Another iteration of the subsidy model includes regulatory attempts to cajole banks to lend to these communities at a loss. This is not a direct act of charity, but an implicit subsidy. The subsidy is not apparent, but the regulator is relying on the bank’s inherent subsidies and persuading bankers to pass them on to customers they would not otherwise approach. The CRA, The FDIC Small Dollar Pilot, and the BankOn initiatives can fit into this model.97 The CRA is decried as an unjust

AND PITFALLS IN EXPANDING ACCESS (2008); see also OFFICE OF THE COMPTROLLER OF THE CURRENCY, supra note 31; Post & Wilson, supra note 83.

89 Id.
90 Id.
91 Id.
92 See generally BANKON, http://joinbankon.org/about/ (“The CFE Fund’s National Bank On platform supports local coalition and financial institution efforts to connect consumers to safe, affordable bank accounts.”). BankOn initiatives are financial access programs that focus on providing free or low-cost banking products, as well as financial education and financial counseling, to unbanked and underbanked residents in local cities. Id. These initiatives partner with other mainstream financial institutions and programs to embed financial empowerment strategies into local government infrastructure. Id.
93 Marieke Bos et al., The Pawn Industry and Its Customers: The United States and Europe (Vand. L. and Econ., Working Paper No. 12-26, 2012) (“As humankind’s oldest financial institution, pawnbroking has served the financial needs of low-income families for centuries.”).
94 Caplan, supra note 73 (noting the San Francisco-based Low Income Investment Fund (“LIIF”) “makes over $100 million in loans and grants . . . to build infrastructure and finance projects in four areas: child care, education, housing, and policy.”); see also Jon McNamara, Churches Issue Low Cost Loans and Assist With Predatory Lenders, FAITH FOR JUST LENDING, https://www.needhelppayingbills.com/html/loans_from_churches.html (describing Faith for Just Lending organization made up of several churches that provide loans and financial counseling to community members).
95 McNamara, supra note 91.
97 See Jonathan R. Macey & Geoffrey P. Miller, America’s Banking System: The Origins and Future of the Current Crisis, 69 WASH. U. L. REV. 769, 775 (1991) (explaining that the cheaper, federally insured deposits can be used to fund increasingly risky investments); Michael S. Barr, Modes of Credit Market Regulation, in BUILDING ASSETS, BUILDING
subsidy by its opponents. This is a charge that the bill’s sponsors and proponents would likely agree with—the difference between the two camps is whether the subsidy is justified or not.

Common Traits

Though advocates for each of these financial inclusion methods believe that they differ significantly from each other, these three different models of providing access to credit are built on similar theoretical understandings of financial markets and the people that fall outside of them. The shared assumptions are the following:

First, they assume that the poor require different products and services that those that are already “financially included.” These models assume that there are natural barriers that separate the financially excluded from normal credit markets. These initiatives are often coupled with financial education or literacy or the products are designed to help their users overcome behavioral quirks that are assumed to create barriers to the “normal credit market.” Indeed, financial inclusion is practically synonymous with financial education or financial literacy. In nearly every method discussed above, the new product or micro-loan is coupled with financial education to help the borrower. These products either pathologize the poor—and assume that their poverty was created by individual choices—or they at least treat their state of poverty or financial exclusion as a trait inherent in the excluded borrower. In other words, the problem of the gap is inherent in those outside the circle or at least the gap is created by a different trait of the excluded that makes them distinct from the norm.

Second, the product or subsidy providing credit is based on a different credit product or model than the credit products internal to the mainstream credit system. Financial inclusion includes products or services that are innovative, unique, or different from those inside the circle. Based in part on the assumption outlined above, financial products aimed at inclusion are different in form, function and purpose than “normal credit mechanisms.” Microcredit, for example, is a much smaller loan than regular loans intended to start a small businesses. Peer to Peer lending and other fintech products like mobile banking are intended to overcome different barriers than those presented by regular consumers. If the inside of the credit markets are business loans, home loans, student loans, the credit outside are microloans for businesses, payday loans for emergencies, or consumer loans. Of course, fintech products are also marketed to the population at large, but to the extent fintech firms focus on financial inclusion the product is usually seen as new or different from historic credit markets. The new product or loan attempts to increase access to credit because it is distinct from the traditional credit market.


98 Kenneth Jones & Barry Koltach, The Federal Safety Net, Banking Subsidies, and Implications for Financial Modernization, 12 FDIC BANKING REV. 1, 15 (1999) (suggesting if banks receive any net subsidy at all from federal safety net, it is small); Macey & Miller, supra note 94 (suggesting the goal of subsidizing poor or disadvantaged citizens can be better accomplished by direct subsidy programs).

99 Compare Macy & Miller, supra note 94, with Michael S. Barr, supra note 11, at 521. Senator William Proxmire, the sponsor of both the CRA and the ECOA, believed that banks had public obligations and thus he was comfortable asking them to extend their services to the excluded even if it came as a cost. See WARREN L. DENNIS, THE COMMUNITY RE-INVESTMENT ACT OF 1977 (1978).
Finally, except for the gap-filling model, these inclusion products do little to probe, change, or even examine the inner core of credit system. It is simply assumed that they are not part of the “normal” credit system. The gap-filling model come closest to an examination of core credit markets, but only on the surface by patching up discrimination. The inner circle of credit is hardly even discussed when policymakers focus on financial inclusion. Microcredit is not credit that emanates from or has anything to do with the inner circle. It operates outside of and apart from the core. Likewise, fintech, P2P lending and blockchain are purposefully non-bank credit. It is taken for granted that some consumers are simply not being served by the mainstream credit market and a different market is created for these customers. In sum, when we talk about financial services outside of the central core, we talk about financial inclusion and increasing access to credit through products or subsidies that are apart from the dominant credit system.

This article focuses on this last point as the central problem with the rhetoric of financial inclusion. As Part II shows, the mainstream credit market, the central circle from which the poor are excluded, is operated essentially by the federal government.

PART II

This section looks at the credit at the center of the circle, or the “dominant,” “mainstream,” or “normal” credit market. There are two distinct services that banks provide: payments and credit. When discussing financial inclusion, regulators, industry advocates and commentators often lump both services together. This section will describe the two components of financial inclusion—payments and credit—and demonstrate their differences and similarities. Those excluded from the payments portion of the financial sector are those who are unbanked or “underbanked” and must use AFS products for transactions include cashing checks or the exchange and transmission of money. Access to credit usually means being eligible for and receiving credit from the banking system. Access to credit is a nebulous term because there are many forms of credit with varying degrees of accessibility. Surely, the ability to qualify for a standard mortgage loan differs from high-priced subprime credit or a payday loan. The inner circle of credit, referenced above, usually covers the standard loans of the middle class—these are loans that banks provide including mortgage loans, student loans, and revolving credit offered by credit cards. These two separate branches of financial inclusion will be discussed below.

The bulk of payments and credit services and resources are managed and designed by federal government agencies or laws. Drawing on the concentric circle representations in Part I, the inner circle of payments and credit services are those provided by banks to the middle class. Because banks are heavily subsidized and supported by federal agencies and credit programs, the services at the top of the chart are the least costly for customers. Outside the circle is the domains of markets, subsidies, or of charity. The below chart depicts the trajectory from the core of the circle of mainstream credit to the outside. As illustrated, the credit and payments services at the top (which are the inner core of the circle) are usually less costly (as measured by fees and interest) than those at the bottom. More crucially, those at the top are more connected to public entities than those at the bottom. In other words, the public provisioning and subsidy decreases from top to bottom—or from mainstream credit to the periphery (the realm of financial inclusion.)

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The Federal Reserve is the primary regulator of the payments system and also operates the largest payments processing system. Historically, the federal reserve created and operated a check clearing system where banks would settle their balances of transfer. If a bank in Connecticut owed a bank in New York $300 and the New York bank owed the Connecticut bank $200, the Connecticut bank would simply transfer $100 through the central bank clearinghouses where the accounts would be settled. According to the textbook, *Payments Systems in the U.S.: A Guide for the Payments Professional*, “the Federal Reserve Bank system, formed in the early 20th century, played an important role by requiring its member banks throughout the country to accept checks for deposit at par. This meant that the deposit bank would credit its customer with ‘one hundred cents on the dollar’ rather than some lesser percentage. The Fed’s requirement, coupled with the development of clearing houses across the country, transformed checking into a true national payments system.”

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**Financial Inclusion**

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100 BENSON, *supra* note 99 (“In the United States, the primary issuer of payments regulations is the Federal Reserve Board.”); Adam J. Levitin, *Public-Private Competition in Payments: The Role of the Federal Reserve* 3 (Geo. L. & Econ., Working Paper No. 1420061) (noting that the Federal Reserve system “occupies a central place in the nation’s payment systems, both as a regulator and as a market participant.”).


Today, checks are not literally exchanged in a central location. These exchanges can be executed through an electronic central clearing system. Money is still sent and exchanged through the electronic network operated and overseen by the Federal Reserve. Even as money is no longer tangible and the majority of transactions are digital, every time money is sent or received in the economy, it must pass through a central clearinghouse. Only an officially chartered bank or credit card company has access to this payments system. In other words, though the majority of transactions are processed by a public agency, only private banks and credit card issuers are given a charter to use it. This protects the payments processing system from risks and frauds, but it also presents barriers for the unbanked.

The payments systems operate behind the scenes of daily consumer transactions. A customer will swipe a credit or debit card, write a check, or even use an app like Venmo or Square without realizing that she is using the bank-mediated payments system that is processing the transaction. Though certain fintech apps present themselves as non-banks, their payments transactions still operate through a bank. When a consumer downloads the Venmo app on their smartphone and before the app enables them to do "mobile banking," they must link their bank account to the service. The bank service is hidden in this process and the central bank clearing

103 Id. (largest of these is the ACH clearing house); Levitin, supra note 97, at 5 (“The Fed is the dominant clearinghouse operation, with over 70% of the domestic market share as recently as 2002.”).
104 BASON, supra note 99.
105 Id.
106 Anatoli Kuprianov, The Monetary Control Act and the Role of the Federal Reserve in the Interbank Clearing Market, 71 ECON. L. REV. 23, 26 (1985) (noting “banks that were not members of the Federal Reserve System were required to maintain accounts with member banks for purposes of settlement.”).
107 The Federal Reserve operates the Automated Clearinghouse (“ACH”), which provides an electronic means to exchange debit and credit entries between depository institutions to settle customer transactions and is the Federal Reserve’s primary electronic payment system. The ACH processes approximately three-quarters of all electronic payments in the U.S., including recurring mortgage payments, utility bills, payroll direct deposits, Social Security disbursements, and large inter-bank transfers. See generally FED. RES. BANK OF S.F., https://www.frbsf.org/education/teacher-resources/what-is-the-fed/payment-services/ (last visited Feb. 2, 2020).
108 Internet platforms like Venmo and PayPal are most commonly used for person-to-person, business-to-customer, and business-to-business transactions. Venmo and PayPal users initiate payments or charges with other users whose balances are either credited or debited on the platform ledger (the user’s Venmo or PayPal profile balance). PayPal/Venmo delivers the transaction information to the users’ banks through the ACH system and the bank delivers the same information to the ACH network operator—the Federal Reserve. The Federal Reserve electronically processes the transaction and both the banks and PayPal/Venmo users are notified of the transaction clearance. As of December 2013, Venmo has operated as a subsidiary of PayPal. See Christopher K. Odinet, Consumer Bitcredit and Fintech Lending, 69 ALA. L. REV. 781 (2018); PAYPAL, https://www.paypalobjects.com/en_US/vhelp/paypalmanager_help/about_ach_payments.htm (last visited Feb. 2, 2020).
109 In fact, most of these services use a few specialty banks called ILCs that have access to the payments system due to a legislative loophole. ILCs, or Industrial Loan Companies, operate similarly to banks and have access to the Federal Reserve ACH payments system, but are not subject to oversight by Fed examiners. ILCs also benefit from federal deposit insurance and the Federal Reserve’s discount window and in exchange, ILCs must conform to federal safety and soundness and consumer protection laws. However, unlike traditional banks, ILCs have no limits on their size or the activities they may conduct, which, in cases like WebBank, can include general commercial activities. Julie Stackhouse, Fintech Interest in Industrial Loan Company Charters: Spurring the Growth of a New Shadow Banking System?, FED. RES. BANK OF ST. LOUIS (Oct. 24, 2017), https://www.stlouisfed.org/on-the-economy/2017/october/fintech-interest-industrial-loan-company-charters-spurring-new-shadow-banking-system. Non-bank payments system providers like PayPal are able to avoid federal regulation because they only provide a medium through which payments and charges originate, but they do not actually process transactions. After a PayPal user originates a transaction, PayPal delivers the transaction information to the user’s bank where the transaction is actually processed. PayPal and similar non-bank platforms thereby avoid
system is rendered invisible. Most people are not aware this is happening—such that the entrepreneurs of these services often mistakenly boast that they are making banks obsolete. Yet the traditional banking system that the edgy new apps are meant to supplant is actually providing the background access, the rails on which the fintech train can run.

The ubiquity of the central bank’s payments system only becomes apparent when you consider how people outside of the banking system engage with the economy. In the case of individuals without bank accounts, they must pay fees to cash checks or purchase debit cards and without bank accounts, mobile apps are unavailable. Perhaps a better illustration of the costs of being left out of the payments system is in the case of an entire industry that is unable to access the payments system: marijuana distribution.

The Marijuana businesses makes the prominence and centrality of the federal payments system clear because it is the only business sanctioned by a few states but not by the Federal government. Marijuana businesses operate legally in several states, but banks all operate on a federal reserve payment system and with FDIC insurance. All banks and payments providers rely on the federal systems for payments processing. In the case of marijuana dispensaries, the federal government has not legalized marijuana and thus banking regulators have not allowed banks to deal with those “illegal businesses.” Banks cannot interact with marijuana businesses and maintain their FDIC insurance coverage. Thus, marijuana dispensaries must deal in cash. They cannot process credit cards, debit cards or checks from customers or pay for goods, rent, or do any transactions whatsoever, without dealing with the banking system. Cash is costly and dangerous federal regulation under the BSCA. Christopher Paridon, New Changes and Challenges: Non-banks in the Payments System, A.B.A. BANKING L. COMM. J. 2-3 (2007).


11 Unbanked or underbanked customers who use alternative financial services for basic banking services incur substantial fees, including check cashing at a 1.5% to 3.5% face value charge. To access short-term, low value credit, underserved customers often turn to payday lenders for paycheck or tax return anticipation loans with effective APRs over 470%. JULIA S. CHENEY, FED. RES. BANK OF PHILA., PAYMENT CARDS AND THE UNBANKED: PROSPECTS AND CHALLENGES- CONFERENCE SUMMARY (2005).


16 It is still illegal to use a credit card to purchase marijuana directly because credit card carriers are intertwined with federally insured bank accounts and the Federal Reserve payments system. However, some marijuana vendors have developed work-arounds that enable customers to use their credit cards to purchase digital credits, coins, or tokens that can then be exchanged as value for marijuana products—imagine cashing in game tokens or tickets at the arcade for a giant teddy bear—without breaking federal drug laws or implicating their banks in drug-related money laundering violations. Jenny Bloom, New App Makes Paying for Weed With Credit Cards a Reality, OR. CANNABIS CONNECTION (Sept. 25, 2017), https://www.occnewspaper.com/new-app-makes-paying-for-weed-with-credit-cards-a-reality/; Nathaniel
and many dispensaries have hired armed guards and purchased expensive safes.\textsuperscript{117} In contrast, businesses and individuals with a bank account can use credit cards, debit cards, and mobile apps without cost.

Only banks and their customers have access to the payments systems, but banks are private businesses seeking profits and thus will not provide bank accounts at a cost. Maintaining simple checking or savings accounts cost banks money. They must hire staff, pay for buildings, update technology, build ATM’s, send monthly statements. A simple bank account costs a bank around $250 every year.\textsuperscript{118} If there is too little money in an account, the profits are low or non-existent. Simple business math suggests that if a product (like a small account) is not profitable, it should be avoided—which is exactly what banks do. Consumers that are deemed unprofitable are either rejected by the bank outright or repelled by punishing fees. The most prevalent fee on small accounts are overdraft fees, which make up 75\% of all bank fees.\textsuperscript{119} These costs are born primarily by the poor—90\% of the fees are paid by 10\% of the customers. A 2014 report studied the annual costs of checking accounts at large banks among five categories of spenders and found that by far, the people in the lowest category, or the “cash strapped” category, paid the most to use a checking account.\textsuperscript{120} The FDIC has noted that overdraft fees, service charges, and minimum balance requirements are among the top reasons people do not open bank accounts.\textsuperscript{121} Those with small means are hearing the banks’ message loud and clear. There are approximately [ ] million Americans who do not have a bank account or access to traditional financial services.\textsuperscript{122}

Those without a bank account pay the most for payments services. Cashing a paycheck alone costs between 5 to 10\% of her paycheck.\textsuperscript{123} Not having a bank account reduces take-home pay and


\textsuperscript{118} Marcie Geffner, \textit{Bank Account Costs $250}, BANKRATE (Jul. 26, 2010), http://www.bankrate.com/financing/banking/bank-account-costs-250/ (“In fact, the ABA says, the annual cost of a checking account is actually $250 to $300.”). The American Bankers Association claims that the cost of opening an account runs between $150 and $200 and the annual cost of maintaining an account runs between $250 and $300. The American Bankers Association catalogues the costs of maintaining an account: “these costs reflect the expense of processing transactions, providing monthly statements, investing in payment system technology and software, paying the cost of tellers, ATMs, and online banking, staffing call centers, complying with countless regulations, ensuring privacy and data protection, and preventing fraud and covering fraud losses.” Ibid.


\textsuperscript{121} \textit{FED. DEPOSIT INS. CORP.}, \textit{ADDENDUM TO THE 2011 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS: USE OF ALTERNATIVE FINANCIAL SERVICE} (2013). Michael Barr’s survey results from his book, \textit{No Slack} shows that when the unbanked are asked what changes to bank accounts would induce them to open an account, 29\% of respondents said lower fees, 20\% convenience, 10\% get money faster, 14\% lower minimum balance, 16\% less confusing fees, and 11\% nothing. \textit{BARR, supra note 2}, at 32.

\textsuperscript{122} \textit{FED. DEPOSIT INS. CORP.}, \textit{2017 FDIC SURVEY OF UNBANKED AND UNDERBANKED EXECUTIVE SUMMARY} (2018) (estimating the number of unbanked and underbanked individuals in the U.S.).

\textsuperscript{123} \textit{BARR, supra note 2}, at 3.
makes it difficult for families to save and establish a credit history. In 2017, the unbanked spent a total of $173 billion on financial transactions alone. It is this group of people, left out of the banks’ payment infrastructure, that are the target of financial inclusion efforts.

Credit:

In the credit market, the public/private continuum is much more pronounced. The credit market is heavily subsidized by the federal government and the private non-bank market is very expensive. Each aspect of banking: deposits, loans, and simple financial transactions relies on a robust network of government support. Banks can take and lend customer deposits and engage in fractional reserve lending and money creation because customer deposits are insured by the FDIC. Unlike all other corporations, banks pay virtually nothing for their funding (customer deposits) because of this federal government. Federal deposit insurance provided by the FDIC reduces the risk and costs associated with fractional reserve lending with the use of “other people’s money.” Before the days of FDIC insurance, any real or perceived sign of bank failure would spook depositors who would “run” the bank leading to its quick at catastrophic failure. Today, banks can safely operate using liquidity from customer deposits (among other sources of funds) without a threat of a run thanks to the FDIC guarantees. Banks pay virtually nothing for customer deposits (a source of bank credit) and thus enjoy the lowest cost liquidity option available on the market—all thanks to federal programs. And when the FDIC fund goes into the red—as it did in 2008—these deposits are backstopped by the full faith and credit of the US Treasury. These explicit guarantees calmed markets even during a system-wide loss of trust. Even with guaranteed deposits, banks still

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126 See Mehrsa Baradaran, How the Poor Got Cut Out of Banking, 62 EMORY L. J. 483, 494 (2013) (“This tendency has created two banking systems in America: a government subsidized, mainstream banking system for the rich and an unregulated, alternative banking system for the poor.”).
127 Banks do pay into the FDIC insurance fund through premiums, but most scholars agree that the premiums are underpriced. Furthermore, it is not just the actual funds that are paid out in the event of a failure that is of importance here. It is the fact that bank deposits are backed by the full faith and credit of the federal government making them a safe repository for their customers’ funds. “Until the early 1990s, the FDIC levied flat-rate insurance premiums on banks as a function of deposits, but not the banks’ risk. In 1991 the FDICIA required that the FDIC introduce risk-based premiums. However, to date, the range of premiums is much narrower than the range of risk exposures of the FDIC to individual bank failures. Under the Deposit Insurance Funding Act of 1996, when the FDIC reserve fund exceeds 1.25 percent of deposits, the “safer” of banks pay no deposit insurance premium meaning that recently more than 90% of banks holding over 90% of total bank assets paid NO premiums.” Joe Peek & James A. Wilcox, The Fall and Rise of Banking Safety Net Subsidies, in TOO BIG TO FAIL: POLICIES AND PRACTICES IN GOVERNMENT BAILOUTS 177-78 (Benton E. Gup ed., 2004).
129 Wolf Ritcher, Banks are vying for deposits — and the fight could mark a shifting industry, Business Insider (Apr. 30, 2019), https://www.businessinsider.com/banks-are-vying-for-deposits-and-the-fight-marks-a-shifting-industry-2018-4 (“Deposits are a crucial and very cheap source of funding for banks, which make money by lending to their customers at higher rates than their cost of funding.”)
face liquidity crises. In those scenarios, the Fed’s discount window provides banks emergency loans at 0.5% higher than the Federal Funds rate, which is below market rate.131

On the asset side, most mortgages and student loans are guaranteed, bundled, or subsidized by the FHA or the Government Sponsored Entities (GSE’s) Fannie Mae, Freddie Mac, Ginnie Mae, and Sallie Mae.132 The majority of home loans133 and student loans134 are insured by and sold to the federal government. The Department of Education issues most student loans—$1.2 Trillion of a total of $1.6 Trillion student loan market are direct loans from the U.S. government.135 The Dept. of Education originates the loans, holds the note, and then contracts with third party servicers who collect on the contracts. The Treasury collects the payments from borrowers and is involved in some collection practices such as tax refund offsets and wage garnishments. This type of lending, unlike mortgage lending, is a direct budget line item on the Treasury’s balance sheet. The credit line is created by the federal government, lent to students, and then repayments flow back into the Federal Government’s coffers.136

These GSE’s purchase almost every mortgage and student loan in the country and resell them to investors. Before 2008, GSEs enjoyed the implicit backing of the Federal Government, but since 2008 they have been under direct conservatorship and thus all standard student and mortgage loans are guaranteed by the Federal government.137 Thus, the majority of mortgage and student


132 Sallie Mae ceased being a GSE, and became fully privatized, when Congress terminated its charter on December 29, 2004. At that point, the GSE became SLM Corporation, “a fully private sector corporation.” PHILLIP QUINN ET AL., U.S. DEP’T OF TREAS., OFFICE OF SALLIE MAE OVERSIGHT, LESSONS LEARNED FROM THE PRIVATIZATION OF SALLIE MAE 1 (2006). A table on page 3 of the above Treasury report distinguishes the former GSE-Sallie Mae from the fully privatized SLM corporation. Notable differences include: (1) the GSE’s charter was created by an act of Congress; (2) the President appointed the GSE’s board members; (3) the GSE could borrow up to $1billion from the Treasury, whereas the SLM corporation cannot borrow from the Treasury; (4) the GSE’s debt was eligible for federal open market purchases; (5) the GSE was exempt from SEC registration and financial and other filings with the SEC; and (6) the GSE was exempted from federal, state, and local income taxes. Id. at 3.

133 CONGRESSIONAL BUDGET OFFICE, FANNIE MAE, FREDDIE MAC, AND THE FEDERAL ROLE IN THE SECONDARY MORTGAGE MARKET ix (2010). (“[T]wo GSEs owned or guaranteed roughly half of all outstanding mortgages in the United States . . . .”).


135 Student Borrower Protection Center, Presentation at the UC Irvine School of Law Student Loan Law Initiative’s Colloquium on Student Loan Law (Oct. 4, 2019) (on file with author).


137 Fannie Mae and Freddie Mac were spun off of the federal government and privatized, which meant that they were run by a board of shareholders. It did not mean that they operated in normal markets. The market still treated them like
loans issued by banks are essentially risk free. The banks and investors are paid interest rates by borrowers even though GSEs protect lenders from default. GSEs enable banks to lend exponentially more loans than what their customer deposits would allow. At the crux of our banking system, then, is a state-enabled credit system.

Deposits, loans—assets and liabilities—all supported by the Federal Government. And that’s just the tip of the iceberg. None of this takes into account the government bailout, the staggering magnitude of which went on full display after the 2008 financial crisis. Using its 13(3) emergency lending powers, the federal government bailed out a failing banking industry with over a trillion dollars of equity infusions, loans, guarantees, asset purchases, and other forms of financial support. The help came on very favorable terms with interest rates not available on the market. The arrangement was so good that the CEO of one of the largest bailed out banks, upon seeing the terms of the deal, remarked, “This is very cheap credit!”

Even the last decade of monetary policy has been designed to “prime the pump” and flood bank balance sheets with cheap funds in order to induce more lending on their part. In other words, the Federal Reserve’s stimulus programs are premised on the model of banks as credit intermediaries. The money, created through the Federal Reserve programs, are supposed to pass through banks and to be used to lend to the market. Yet there is no requirement that the banks must lend these funds and there is evidence that the main result of these extraordinary measures has been to boost bank profitability. After three rounds of QE, the Fed is still holding over four trillion dollars in bank assets.

Another less well-known example of monetary policy is Interest On Excess Reserves (“IOER”). In a payment that seems to violate what people may assume to be the laws of the market and basic common sense, the Federal Reserve pays billions of dollars in interest to banks on their reserves. In just one year, the Federal Reserve paid about $7 billion in interest to commercial banks, including more than $100 million to Goldman Sachs and more than $900 million to JPMorgan Chase.” The point of this payment is that it will “pass through” the banks to the depositor, but the IOER is in fact not being passed on but being absorbed by the bank as profits.

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138 The actual amount of the bailout is difficult to determine because much of it was in guarantees. The special inspector general for TARP estimated a total potential support package of $23.7 trillion, or over 150 percent of the U.S. GDP. However, many of these guarantees were never used. See Simon Johnson & James Kwak, 13 BANKERS: THE WALL STREET TAKEOVER AND THE NEXT FINANCIAL MELTDOWN, 174 (2010).
139 Vikram Pandit, CEO of Citigroup, Quoted in DAVID WESSEL, IN FED WE TRUST: BEN BERNANKE’S WAR ON THE GREAT PANIC 239 (2009).
141 Due to the massive amounts of money created by QE, bank reserves swelled to over $1.7 trillion as of October 2018. This overage is called excess reserves and even though it was created by the federal reserve, banks earn interest on these reserves. These reserves comprise a substantial portion of the nation’s monetary base. The Federal Reserve is using this payment, called an “administered rate” as its primary monetary policy tool post QE. See FED. RES. BANK OF ST. LOUIS, REQUIRED RESERVES OF DEPOSITORY INSTITUTIONS (Nov. 8, 2018), https://fred.stlouisfed.org/series/REQRESNS. Banks are required to hold roughly 10% of their deposits in reserves at the central bank. The required reserves on just customer deposits would equal roughly $189 billion. See Walker F. Todd, The Problem of Excess Reserves, Then and Now, (Levy Econ. Inst. Of Bard C., Working Paper No. 763, 2013) (Put another way, before August 2007, the Fed’s reserve account was 5.1% of the monetary base, and in mid-2013.

Electronic copy available at: https://ssrn.com/abstract=3607461
and thereby increasing inequality.\textsuperscript{142} Because excess reserves pay higher interest than Treasury bills, there is no reason banks would pass up a risk-free, high-interest opportunity. Each dollar held on reserve is a dollar not lent for real estate, infrastructure, or business operations in the American economy.\textsuperscript{143}

It has been called monetary policy, but it can more accurately be described as credit policy. Through asset purchases, credit, guarantees, and reserves, the Federal Reserve controls the amount of money circulating in the economy. The Federal Reserve can and has increased the supply of money and credit as it has done through QE.\textsuperscript{144} It has done so by flushing banks with money with the hope that they will lend the surplus. Trillions of dollars of investments and loans have been pumped into the banking system over the last decade.\textsuperscript{145}

Thus, money, like credit, is a public good and its creation, supply, and stability is a function of the US Treasury in coordination with the Federal Reserve.\textsuperscript{146} In an abstract sense, money is a

\begin{itemize}
  \item This policy, which was meant to encourage lending by banks has turned into a subsidy that in fact discourages lending because banks can earn more by “lending” customer deposits to the Federal Reserve than they can pursuing consumer or business loans. Excess funds can be rolled over at no cost and liquidated on the same day, making excess reserves more attractive than lending. Darrell Duffie & Arvind Krishnamurthy, \textit{Passthrough Efficiency in the Fed’s New Monetary Policy Setting}, KAN. CITY FED. RES. SYMP. (Sept. 2016); Morgan Ricks, \textit{Money as Infrastructure} 25-36, COLUM. BUS. L. REV. (2018).
  \item Todd suggests that the Federal Reserve sell about $180 billion in mortgage-backed securities or longer maturity Treasury securities per year in order to prevent future inflation. See Todd, supra note 138, at 15-16.
  \item After reducing interest rates to virtually 0\% did not spur a revival of the banking sector, the Federal Reserve began to pump money into the economy through three rounds of Quantitative Easing (“QE”). The Federal Reserve created money by buying securities, like government bonds, from banks. The purpose was to spur bank lending by increasing the supply of money (even at the risk of inflation) and by the reduction of risk that was making banks overly cautious. These purchases were made with electronic cash that did not exist before and once created, increased the total bank reserves by the quantity of assets purchased—thus “quantitative” easing. The Federal Reserve began QE in 2008 with the purchase of $800 billion in bank debt, Treasury notes, and mortgage-backed securities (MBS) from Reserve member banks. QE was essentially a transfer of risk from bank balance sheets to the central bank’s balance sheets. In December 2013, the Federal Reserve announced it would wind down its QE purchases because the unemployment rate was at 7\%, inflation had not risen above 2\%, and national GDP growth was nearly 3\%. After three rounds of QE, the Federal Reserve’s balance sheet grew to over $4.473 trillion in May 2017. The Fed still holds over $3.98 trillion in assets on its balance sheets due to its QE purchases. Moreover, QE generated around $700 billion in profits for the Federal Reserve.
  \item Quantitative Easing is essentially the central bank’s purchase of public debt—the central bank is lending to the federal government. However, the goal of QE is not to help aid government spending, but the goal has been described as pushing bank lending. In other words, the federal reserve bought public debt in order to lower the costs of credit by private lenders to private borrowers. See Federal Reserve Bank of St. Louis, \textit{What is Quantitative Easing, and How Has It Been Used?}, ON THE ECON. BLOG (Nov. 27, 2017), https://www.stlouisfed.org/on-the-economy/2017/november/quantitative-easing-how-used. Remarkably, the current Fed balance sheet total of $3.98 trillion is down a high of over $4.5 trillion in January 2015. See Board of Governors of the Federal Reserve System, Credit and Liquidity Programs and the Balance Sheet (Feb. 18, 2019), https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm; Jon Sindrew, \textit{Central-Bank Rescues Prove Profitable}, WALL ST. J. (Sept. 20, 2016), https://www.wsj.com/articles/central-bank-rescues-prove-profitable-1474380387; Mike Konzcal & J.W. Mason, \textit{The Roosevelt Inst., A New Direction for the Federal Reserve: Expanding the Monetary Policy ToolKit} (2017).
  \item Morgan Ricks et al., \textit{A Public Option for Bank Accounts (Or Central Banking for All)} (UC Hastings, Research Paper No. 287, 2018); James Tobin, \textit{The Case for Preserving Regulatory Distinctions}, in \textit{Restructuring the Financial System} 167, 172 (1987) (“I think the government should make available to the public a medium with the convenience of deposits and the safety of currency on deposit, transferable in any amount by check or other order . . . . The Federal Reserve Banks themselves could offer such deposits.”); See also Kenneth J. Arrow, \textit{The Organization of Economic Activity: Issues Pertinent to the Choice of Market versus Non-market Allocations}, in \textit{Analysis and Evaluation of Public Activity.
\end{itemize}
credit instrument from the central bank to the holders of money. The Federal Reserve’s monetary policy can increase or decrease the monetary supply, which affects the amount of credit available.\textsuperscript{147} When the Federal Reserve pays banks on their reserves or buys their assets through QE, they are creating new money that did not exist previously.

Viewed from this lens, it was the policies and actions of public agencies like the Treasury and the Federal Reserve that determined the scope and shape of the circle of credit, including who was left outside. The lending determinations of the government sponsored entities and the legislatures that create their mandates determine the amount of available credit, its costs and availability. In my simplistic diagram, policy determines the size of the circle. These credit products are not just abetted by government agencies; they are created by them. The credit market at the center of the circle is guaranteed by government agencies. Even more crucially, the types of loans the government will guarantee and the kinds of borrowers that are eligible for the loan are determined through public policy. The federal government has $1.24 trillion in direct loan programs and $2.37 trillion in loans it guarantees—all in mortgage and student loans.\textsuperscript{148} These major credit programs are centered around both student loans and mortgages through the Federal Housing Administration (FHA), each representing more than a trillion dollars of loans.\textsuperscript{149} Through democratic decision-making and legislative action, several types of loans have been promoted by public policy, including student loans, home loans, and certain small business loans. Republicans and Democrats over the last Century have championed a variety of policies promoting and subsidizing home ownership and college education. Beginning with President Hoover up to President Trump with notable programs by FDR and George Bush along the way, coordinated efforts by legislatures and federal agencies have set out to achieve these outcomes. It is difficult to overstate the effect of these longstanding programs and their effects on American society, including their pernicious side-effects like the ongoing effects of racial segregation.

The laws and policies of FHA mortgage financing provide an illustrative example of how policy decisions about what types of loans to guarantee can shape markets. The FHA mortgage guarantee fund created the modern mortgage market, created the American suburb, and a pattern of race-based segregation through a program of mortgage guarantees.\textsuperscript{150} The FHA was created as part of the National Housing Act of 1934 and was supplemented and expanded through the 1944 through the Servicemen’s Readjustment Act (the GI Bill) administered by the VA.\textsuperscript{151} The FHA’s mortgage guarantee fund, which was backed by the US Treasury, shifted the risk of loan default

\textsuperscript{147} MICHAEL MCLEAY ET AL., MONEY CREATION IN THE MODERN ECONOMY (2014).
\textsuperscript{150} Richard K. Green & Susan M. Wachter, The American Mortgage in Historical and International Context, 19 J. ECON. OF PERSPECTIVES 93, 95 (footnote omitted) ("The government established the Federal Housing Administration (FHA) to provide the mortgage insurance necessary for investors to purchase mortgages with confidence.").
\textsuperscript{151} Id. at 96 (discussing the creation and effect of the Servicemen’s Readjustment Act).
from private bank lenders to the federal government. By creating a buffer to absorb default risks, this new government infrastructure opened the floodgates for an unprecedented amount of private capital to flood mortgage markets. Virtually overnight, mortgage loans became easy, risk-free, and abundant. “New home construction doubled from 1936 to 1941. In 1936, the FHA had lent half a billion dollars in guaranteed mortgages. By 1939, they had already issued $4 billion in mortgages and home improvement loans. Housing starts were 332,000 in 1936 and 619,000 in 1941.” The federal guarantee fueled a world-wide market in mortgages, created the middle class, and produced a stable and profitable banking sector. The FHA did not lend money itself, but it created a large insurance fund backed by the United States Treasury that would guarantee all approved mortgage loans, shifting the bulk of the risk of loan default from banks to the government. This transformation was aided along by the new 1938 creation of the Federal National Mortgage Association (FNMA or “Fannie Mae”), also referred to as a Government Sponsored Entities (GSE), which created a securitized secondary market in mortgage loans.

These public credit programs created the modern mortgage market. Federal interventions unleashed unprecedented levels of private capital investment because they took the risk out of mortgage lending. Before the interventions of the FHA and the GSE’s, mortgages were hard to come by, but even when they were available, they were short-term loans of around 5 years and the home buyer needed up to 50% of a down payment. After the federal government programs, the mortgage market boomed. Hundreds of thousands of new private banks, thrifts, credit unions and private non-bank lenders entered the market due to these programs. Private banks issued the mortgages and private funds invested in secondary mortgage markets and private lenders made credit decisions and private market shareholders made profits and thus the credit market appeared to be a private market, but the truth is that without the government programs, the market would not have existed. This truth was apparent when one focused on the Black neighborhoods where the FHA refused to guarantee mortgages, as described below. Banks increasingly relied on the protocol and standards provided by the government agencies that were insuring the mortgages and managing their resale. Interest rates and terms converged as did the types of borrowers. Banks were much less likely to take risks on borrowers that did not fit the gold standard, which was white, middle-class, and male. Yet to call those who qualified for these loans “the middle class” is an evasive and circular description. Many were blue collar wage workers, but it was precisely through these mortgages that they became the much-heralded American middle class. These borrowers would not have been able to buy homes before these reforms; over half of mortgage borrowers earned less than $2,500 per year. After these programs, mortgage loans became far more accessible than they had ever been.

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152 Id. at 97.
153 Id.
154 MELVIN L. OLIVER & THOMAS SHAPIRO, BLACK WEALTH/WHITE WEALTH: A NEW PERSPECTIVE ON RACIAL INEQUALITY 17 (2nd ed. 2006).
155 HYMAN, supra note 26, at 53.
156 The federal guarantee revolutionized mortgages because the fund insured 90% of individual home mortgages. According to Julian Zimmerman, FHA commissioner in the 1950s, when the scheme was first proposed, “it was such an innovation that many considered it radical and unworkable.” According to Zimmerman, “it was the last hope of private enterprise. The alternative was socialization of the housing industry.” Id. (citing FHA, THE FHA STORY IN SUMMARY, 1934–1959 (1959)).
157 According to Louis Hyman, the FHA program “completely reversed…the conventional justification for government intrusions.” FHA money was “not the dole” and “not taxpayer money.” Id.
158 HYMAN, supra note 26, at 71.
159 Id.
160 Id.
been as banks significantly reduced down payment requirements, lengthened loan terms, and slashed interest rates.\textsuperscript{161} “In the transformed mortgage market, they could pay less in mortgage payments than they were paying in rent. A borrower who moved from renting a small apartment in the city to owning a large home in the suburbs was actually saving money.”\textsuperscript{162}

The FHA developed discriminatory credit guidelines, which reflected the widespread racial discrimination of the era. Government analysts decided that lending to Black borrowers was too risky and thus coded Black neighborhoods as uncreditworthy. This turned out to be a self-fulfilling prophesy. By not insuring home mortgages to Black communities, the FHA programs cut off the credit supply to these families and blocked the only route to building middle class wealth and equity available at the time. The lack of wealth thus led to higher cost credit, which cyclically led back to lower wealth, a segregated and self-perpetuating economic system, which I’ve called “Jim Crow Credit.”\textsuperscript{163} These subsidies and loan guarantees allowed eligible borrowers (mostly restricted to white men) to build wealth while paying less of their wages for housing costs. They built and overdeveloped the country through suburbs through suburbanization and white flight and they led to segregated communities, schools and credit markets.

The FHA is an example of a government credit program with the power to redesign the entire credit landscape. By nature of these mortgages, many Americans built intergenerational wealth and gained social capital and access to other low-cost credit and services that have continued to enhance the lives of their progeny. While those left out of these wealth-building subsidies were pushed into alternative and higher cost credit markets. In fact, many of the legal structures and private market efforts aimed at financial inclusion and access to credit have these historically redlined communities in mind. Black Americans are disproportionately unbanked and underbanked and are more likely to have to resort to high interest credit products like payday loans.\textsuperscript{164} Black communities were also more likely to be sold subprime mortgages, contract sales, and other wealth-stripping mortgage products when the underlying nature of the credit markets shifted.\textsuperscript{165} These predatory high cost subprime mortgages and payday loans were justified by the industry and the regulators that allowed them through the rhetoric of financial inclusion and increased access to credit. In other words, it was believed that the private market could fix disparities created by public policy, but the gaps that led to financial exclusion were the result of government credit and banking policies and not “natural market forces.” Even well-meaning financial inclusion programs, including robust anti-redlining measures like the CRA, remain firmly rooted in neoliberal logic that centers the private banking market in remediying the historic exclusion of Black communities.\textsuperscript{166}

The FHA and GSE enabled federal mortgage markets were not an added product that provided credit to those outside the circle. It expanded, or created, a circle by changing the entire credit market. The FHA did not simply “increase access to credit.” Rather, it redesigned the modern mortgage credit market. Today, these programs are ongoing economic programs that are self-sustaining though they have changed in significant ways. They have become the background

\textsuperscript{161} See KENNETH T. JACKSON, CRABGRASS FRONTIER, 204–205, (1985); HYMAN, supra note 26, at 56–57 (2011).
\textsuperscript{162} See OLIVER & SHAPIRO, supra note 152.
\textsuperscript{163} Mehrsa Baradaran, Jim Crow Credit, 9 U.C. IRVINE L. REV. 101, 105 (2019).
\textsuperscript{164} See BARADARAN, supra note 67, at 14; See general FED. DEPOSIT INS. CORP., FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 2-3 (2017).
\textsuperscript{165} BARADARAN, supra note 67, at 212-14.
\textsuperscript{166} Baradaran, supra note 161; KEEANGA-YAMAHTTA TAYLOR, RACE FOR PROFIT: HOW BANKS AND THE REAL ESTATE INDUSTRY UNDERMINED BLACK HOMEOWNERSHIP (2019); JACKSON, supra note 159.
economic engine that most Americans rely on to attend school or buy a home. The invisibility of these ongoing programs and supports hide the true nature of the credit markets as a byproduct of legal and regulatory design.

The point of cataloguing the public nature of credit and payments is to show that the banking system at its root and branches is shaped by public policy, subsidized by public funds, and built on a public monopoly. With this view of the mainstream banking system, we can turn our attention back out to the periphery and propose a new way of articulating the nature of financial inclusion and access to credit.

PART III

If public policy determines the nature and the shape of credit markets, what is the meaning of financial inclusion? By focusing on the nature of credit at the center of the concentric circles of inclusion and contrasting that credit with what lies outside, it becomes clear why the prevailing view of financial inclusion is flawed. Who has access to credit and at what price is often a policy decision or is a result of a former policy determination. Likewise, access to the payment system is also an outcome of institutional design and policy. Yet in discussions about financial inclusion, the role of public policy is often evaded. As described in Part I, the rhetoric around financial inclusion and the programs and products proposed as remedies erase the role of the public provisioning of the financial system. Each model of financial inclusion relies on private or charitable services apart from the “normal” banking system. Financial inclusion is discussed as a separate and supplementary project disconnected to the central machinery of finance. Access to credit is the provision of credit that is more or different than what is provided in mainstream “markets.” Yet to speak of markets at all is misleading. Lending is a profitable venture for those engaged in it and market competition among the various banks and credit issuers, but the basic structure of the market is policy. Therefore, financial inclusion, must be reconceptualized within a framework of policy-created credit and monetary policy. Credit policies like the FHA programs or lending supports mentioned above are different than monetary policy, but they are linked and inter-related in significant ways. This Part will talk about the political economy of money and credit because decisions regarding monetary policy determine credit availability and vice versa. Moreover, even at the basic level, money is a form of credit and vice versa. There are distinctions, but for the purpose of the financial design proposed in this Article, they are both a result of legal design. This Part thus aims to connect the “democratization of credit” to democratic functions.

Any discussion of financial inclusion and access to credit that is detached from political power and democratic governance is incomplete. Conversation about financial inclusion should not be relegated to the fringes of finance; rather it should be discussed within the domain of policymaking. Regardless of intent or even awareness, financial regulators are making decisions about credit and financial inclusion whenever they pull on their various monetary policy tools. These decisions affect the core of the economy and lead to the expansion or contraction of credit availability, interest rates, investment opportunities, wages, and other prices. The connection is not always direct and often monetary policy actions do not lead to desired or intended outcomes. The economy is complicated and the role of individual policies to effect systemwide outcomes is weak and indirect. Yet, there are tangible effects to monetary policy decisions. Today, credit policy and monetary policy are not a regular part of democratic debate even though these policy decisions
affect prices, the rate of unemployment, and the cost and availability of credit in fundamental ways. This was not always the case.

At certain moments in American history, decisions about the nature and quantity of money and credit in the economy were viewed as a matter of fierce political and legal debate. The debates about money were key issues around which the parties coalesced. Gold vs. silver, specie vs. fiat money, national currencies vs. state currencies were matters decided by the polity usually during elections. Political factions defined their ideology based on monetary policy. They understood that the type of money in circulation had effects on market prices, employment rates, credit availability, and even inequality levels.

**Progressive, Populists, and Access to Credit**

The era of rising progressive politics between 1890s until the 1940s marked a time of unprecedented economic growth and American power as well as a protracted debate about the nature of democracy and capitalism. Many of these progressive theories are embedded in today’s financial system, including the creation of the federal reserve, federal lending programs, FDIC insurance, and fiat (or paper) money.

Central to the progressive and populist movement were issues of money and credit. Progressives introduced public platforms advocating “access to credit” and looser monetary standards as a matter of policy. To these reformers, access to credit was not about the outer rungs of system; they had in mind a complete re-writing of the financial code and the design of banking. Some of these movement coalitions were even dubbed by the money standard they were advocating. Groups called the “free silverites” and “the greenbackers” were part of the base of the progressive party and were one-issue voters. It was amidst this era of upheaval and public debate that terms like “access to credit” and the “democratization of credit” entered the political lexicon.

To progressive reformers, credit accessibility was a binary choice—gold or silver. Similarly, credit was not a product that was distinct from the monetary and banking system, but a direct outgrowth of it. If money was based on the gold standard, credit would be scarce. Gold was essentially restrictive and only the wealthy would have access to this type of money. Silver was more accessible. Paper money was even more flexible.

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171 Corpus Linguistic search of “Access to Credit” and “Democratization of Credit” from Brigham Young University database (Feb. 18, 2019) (on file with author).
The Progressive era money tradition pushed for an expansionary money system, a demand rooted in largely unstated by revolutionary ideas about money, specifically the flexibility of money forms, the connection between money and politics, and the distributional effects of monetary standards. Several crucial presidential elections featured monetary policy as a central issue of debate. The populist party platform of 1892 expressed the issue as follows: “

“We demand a national currency, safe, sound, and flexible, issued by the general government only, a full legal tender for all debts, public and private, and that without the use of banking corporations, a just, equitable, and efficient means of distribution direct to the people….We demand free and unlimited coinage of silver and gold at the present legal ratio of 16 to 1…We demand that the amount of circulating medium be speedily increased to not less than $50 per capita….We believe that the money of the country should be kept as much as possible in the hands of the people, and hence we demand that all State and national revenues shall be limited to the necessary expenses of the government, economically and honestly administered….We demand that postal savings banks be established by the government for the safe deposit of the earnings of the people and to facilitate exchange.”

This, plus a provision on taxation, was the entire platform. Things came to a head in the 1896 Presidential election when William Jennings Bryan became the Democratic candidate after a rousing polemic on behalf of the common man against the bankers. “You shall not crucify mankind on a cross of gold,” he demanded on behalf of the small farmers he represented. This was the first time in American history that the Gold standard became a political lightning rod. This is a result of an act of legislation called “The Crime Act of 1873,” that created a minor change in codification

172 MURRY N. ROTHBARD, A HISTORY OF MONEY AND BANKING IN THE UNITED STATES: THE COLONIAL ERA TO WORLD WAR II 183-234 (2002); See also, MICHAEL O’MALLEY, FACE VALUE: THE ENTWINED HISTORIES OF MONEY AND RACE IN AMERICA (2012).
173 SCOTT J. HAMMOND ET AL., CAMPAIGNING FOR PRESIDENT IN AMERICA 1788-2016 563, 574-75, 585 (2016).
with large political effects. Throughout American history, money could be backed by both gold and silver depending on the price and availability of each—and the nation toggled between the two. Officially, the United States began with a bimetallic money standard in which both gold and silver were used to define the monetary unit, as recommended by Treasury Secretary Alexander Hamilton in the first coinage act. Silver was more readily available from 1792 to 1834 and thus was the unofficial money standard. Silver was the cheaper metal and more convenient to mint and exchange. From 1834 until 1862, Congress tipped the scales toward gold by changing the ratio. New gold discoveries in the west also led to gold being the dominant standard during this era. After the brief experiment with fiat currency was over, the Treasury went back to a gold standard in 1879 with two important changes: “(1) the government now was an issuer of paper money redeemable on demand and (2) the paper money was legal tender.” Congress ended fiat currency by legislation, but without debate, they chose only gold and not bimetallism as was the custom.

One of Bryan’s chief political issue was money. Bryan explained, “We say in our platform that we believe that the right to coin money and issue money is a function of government. We believe it. We believe it is a part of sovereignty and can no more with safety be delegated to private individuals than can the power to make penal statutes or levy laws for taxation.” He linked his platform, not erroneously, to Thomas Jefferson and Andrew Jackson. “I stand with Jefferson rather than with them,” referring to the class of bankers, “and tell them, as he did, that the issue of money is a function of the government and that the banks should go out of the governing business.” Despite his passion, Bryan lost the debate. Congress reaffirmed its commitment to gold by passing the “Gold Standard Act” in 1900, which fixed the standard of value to gold for all forms of money issued or coined by the United States, to refund the public debt, and all other purposes.

The choice between the gold standard, silver, bimetallism (gold and silver), or fiat currency was a choice made by the legislature that affected how much credit would be available and ultimately to whom. The choice to move from gold to silver expanded the circle of credit available and the move from silver to fiat currency expanded it even more. These expansions were not without cost.

177 Elwell, supra note 174, at 2.
178 Id. at 2-5.
179 Id. at 4 n.18.
180 ALBERT J. BEVERIDGE ET AL., GREAT POLITICAL ISSUES AND LEADERS OF THE CAMPAIGN OF 1900 422 (1900).
182 Gold Standard Act 301 Stat. 45 (1900).
183 George Selgin, The Rise and Fall of the Gold Standard in the United States, CATO INST. POL’Y ANALYSIS NO. 729 (2013). John Maynard Keynes addressed this type of contract absolutism: “There is a respectable and influential body of opinion which… fulminates alike against devaluations and levies, on the ground that they infringe the untouchable sacredness of contract…. Yet such persons, by overlooking one of the greatest of all social principles, namely the fundamental distinction between the right of the individual to repudiate contract and the right of the State to control vested interest, are the worst enemies of what they seek to preserve. For nothing can preserve the integrity of contract between individuals except a discretionary authority in the State to revise what has become intolerable. The powers of uninterrupted usury are great. If the accretions of vested interest were to grow without mitigation for many generations, half the population would be no better than slaves to the other half…. The absolutists of contract… are the real parents of revolution.”
In fact, with each expansion, the currency was devalued. This was the point. Increasing the amount of money meant that those who held money would have less of it in proportion to the whole. Changes in the monetary standard, like inflation today, affected property rights and contract rights by diminishing the value of fortunes held or to be received. If money was seen as a contract or property right by the holder of the money and enforced by the sovereign, many argued that a legislative change in the basis of the currency was a breach of contract or a violation of a property right. These contractual arguments were used against the legal tender acts as well as the bimetallism proposals of the populists and progressives.

Backers of gold often rejected the popular demands for bimetallism by stating that the gold standard was “natural” and “scientific.” In actuality, the gold standard was a result of a legal design. There was nothing inherently valuable or “money-like” to gold, but it became public policy that gold would be the money standard. The progressive era reformers were joined by several other factions, including Wall Street bankers, in pushing for more flexible monetary forms and a central bank in order to avoid constant financial panics and crises caused by limited gold supply. The gold standard proved to be overly restrictive and unstable with many scholars blaming the dogged insistence on gold for exacerbating the Great Depression. Along with passing many of the progressive reforms, Franklin Roosevelt essentially ended the gold standard in 1933 without public debate.

The crucial turn of the century debates about the monetary standard were a matter of public democratic debate. The monetary standard would be decided by law or policy and would lead to money expansion or contraction and would have significant effects on the availability of credit. Small farmers would not have access to credit under the gold standard, but they would under bimetallism. Holders of gold would lose the value of investments if the standard shifted to silver. Inclusion and access to credit were linked to how much money was available in the economy. As Christine Desan explains in her historic account about the creation of fiat money in the 1600s, Making Money, decisions regarding the nature and availability of money are always legal and political. This approach, which she has called the Constitutional Approach of Money challenges the prevailing story about money that describes money as a natural byproduct of the evolution of trade from barter to gold coins to fiat money. According to prevailing neoliberal theories of

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184 Id. at 19.
186 O’MALLEY, supra note 170, at 134-138.
187 Gold was not just the monetary standard in the United States, but across the world as well. This is likely due to the Roman Empire’s decision to use gold coins as currency and then the Bank of England’s decision to peg their currency to their supply of gold. For an excellent history of the gold standard, see CHRISTINE A. DESAN, MAKING MONEY (2014); BILL MAURER, PAID: TALES OF DONGLES, CHECKS, AND OTHER MONEY STUFF (Bill Maurer & Lana Swartz, eds. 2017).
190 See Desan, supra note 185, at 127-31 (describing the history of the monetary system in England and early America).
191 See id. at 113-18 (describing the constitutional approach to money); Julia Y. Lee, Money Norms, 49 LOYOLA CHI. L. J. 57, 62 (“Fiat money has no intrinsic value; it is ultimately a social construct whose value turns on beliefs, expectations, and social relations between its users.”); Simon H. Rifkind, Money as a Device for Measuring Value, 26 COL. L. REV. 559 (1926) (observing that “money is the measuring device and the medium of expression for value.”); RICHARD H.
money, money is a neutral medium of exchange. Desan explains that historically, money forms gained legitimacy and became currency when they were issued by the government, enforced by the legal system, and redeemed by public treasuries for payment. “Rather than coming at money from the outside,” Desan explains, “the constitutional approach comes at it from the inside.”

The crucial point is that “money has an internal design: societies produce it by structuring claims of value in ways that make those claims commensurable, transferable, and available for certain private as well as public uses.” Those design decisions have market-shaping consequences and more crucially for this project, policy decisions about money affect social inequality. Felix Martin compares the conventional view of money as a “fulcrum of the scales of political justice…just like the fulcrum on a physical pair of scales, it has to be fixed in place in order to be accurate.” Yet history does not support this view of money. Rather, economic value has not been a natural fact, but rather, determinations of value are socially created. Money is not a natural element that needs to be excavated or discovered. It is a system of agreed-upon value that must be designed to meet the needs of a particular society or economy. Money does not just measure value, but it creates it. As Martin explains about the creation of new monetary regimes, “There is therefore nothing intrinsically wrong with moving the fulcrum of the scales of justice, since their purpose is not to achieve accuracy—a notion without meaning in the social world—but fairness and prosperity.” In other words, when there are inequalities created by the monetary regime (such as was created during the gold standard, it is legitimate and perhaps necessary “to move the fulcrum to restore balance.”

The Creation of The Federal Reserve

The founding and establishment of the Federal Reserve was another pivotal policy that was debated on terms of access to credit. A crucial point of contention was whether to make the Federal Reserve a public institution or a private one with progressives and populists arguing the former and Wall Street bankers arguing the latter. These were political decisions and the various groups of populists, progressive reformers, and Wall Street bankers understood them as such. For example, what types of liquidity support and to whom would the Federal Reserve be authorized to support? The types of assets the Federal Reserve would guarantee would also affect different

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193 Id. at 3.
194 Id.
195 Id. note 189, 264-65 (2015).
198 See generally Jacob Hacker and Paul Pierson, Winner-Take-All Politics: How Washington Made the Rich Richer—and Turned Its Back on the Middle Class (2010). “The purpose of the Federal Reserve Act, which was established to provide more broadly distributed (democratic) access to business credit and to promote economic growth consistent with a stable money supply in support of stable prices.”; see also Ashford, supra note 194, at 1547. For a discussion on public/private compromise, see Peter Conti-Brown, The Twelve Federal Reserve Banks: Governance and Accountability in the 21st Century (Hutchins Ctr on Fiscal & Monetary Pol’y at Brookings, Working Paper No. 10, 2015)
types of borrowers differently. The legal definitions of asset that the Federal Reserve would guarantee created a property right with a market value. The legal determination embedded in the Fed’s mandate on this issue determined, according to Nadav Orian Peer, were about “what class of borrowers [would] enjoy preferred access to credit?”200 The institutional law-made architecture “was part of an agenda of replacing corporate concentration with competition and decentralization,” Peer explains. “They were not only attempts at preventing panics but a program to redistribute credit away from the corporate capital market and into smaller scale commercial activity.”201

In other words, the legal design of the Federal Reserve would determine who had “access to credit.” In fact, that moment of debate is when the term entered the political lexicon. A search of all public documents in the largest database made recently available through the Corpus Linguistics project shows that the term “access to credit” was used only 11 times between 1800 to 1900. By 1920, it was used 27 times and entered common usage by 1970. I researched every use of the term before 1900 and found that every instance of usage referred to foreign banks. In the American context, “access to credit” was first used in the debates about the federal reserve and increased thereafter.202

The Federal Reserve’s decision in 2008 to use its emergency powers to bail out the banks rather than underwater homeowners also had significant distributional consequences.203 Then, the Federal Reserve’s unprecedented monetary infusions through programs like QE created distributional effects that are yet to be fully accounted for and understood.204 These emergency

https://www.brookings.edu/wp-content/uploads/2016/06/PCB_WorkingPaper10_June24_Final.pdf; Binder & Spindel, supra note 195 (“Two key disputes emerged as the House and Senate worked on currency bills in 1913. First how should Congress balance the demands by eastern, primarily Republican, bankers for centralized authority against the demands by Populists and Democratic farmers for decentralized control of the flow of credit?”); ALAN M. MELTZER, 1 A HISTORY OF THE FEDERAL RESERVE 3 (2003) (quotation from President Woodrow Wilson) (“ . . . a currency which comes into existence in response to the call of every man who can show a going business and a concrete basis for extending credit to him, however obscure or prominent he may be . . . ”).  

201 Id.  
202 “…[T]he purpose of the Federal Reserve Act, which was established to provide more broadly distributed (democratic) access to business credit and to promote economic growth consistent with a stable money supply in support of stable prices. See Robert Ashford, Binary Economics, Fiduciary Duties, and Corporate Social Responsibility: Comprehending Corporate Wealth Maximization and Distribution for Stockholders, Stakeholders, and Society, 76 TUL. L. REV. 1531, 1547 (2002). “Two key disputes emerged as the House and Senate worked on currency bills in 1913. First how should Congress balance the demands by eastern, primarily Republican, bankers for centralized authority against the demands by Populists and Democratic farmers for decentralized control of the flow of credit?” See Sarah A. Binder & Mark Spindel, Monetary Politics: Origins of the Federal Reserve, 27 STUD. IN AM. POL. DEV. 1, 3 (2013); “a currency which comes into existence in response to the call of every man who can show a going business and a concrete basis for extending credit to him, however obscure or prominent he may be…” See also ALLAN H. MELTZER, 1 A HISTORY OF THE FEDERAL RESERVE 3 (2003)  
204 For Legal academy treatment of money, see DESAN, supra note 185; RICKS, supra note 143; Deborah D'Souza, Modern Monetary Theory, INVESTOPEDIA, https://www.investopedia.com/modern-monetary-theory-mmt-4588060, (last visited Feb. 4, 2019); McLeay et al., supra note 144.
credit programs and the monetary policy that followed were all a result of policymaking, legal structure, and institutional design.

The Federal Reserve’s role in the payments system was clearer than its evolving role in monetary policy. Congress instructed the Fed in the 1913 Federal Reserve Act to “increase the integrity, efficiency and equity of US payments.” It was structured as a public institution by legal design. According to its own charter, “the Federal Reserve was established to serve the public interest.” The Federal Reserve has interpreted its role in the payments system as a mandate “to bring to payments markets an overall concern for safety and soundness, promotion of operating efficiency, and equitable access.” The Fed states that “considerations relating to integrity, efficiency, and access to the payments system will remain at the core of the Federal Reserve’s role and responsibilities regarding the operation of the payments system.” The Fed also recognizes the need to adapt its mandate to changing conditions, stating, “given the size, speed, and interdependencies of payments, this mission is, and will likely continue to be, even more important than it was when the Federal Reserve was established in 1913.”

Congress did not mandate the Federal Reserve to provide an account for every individual, but rather to ensure “equitable” access. Since its inception, the Federal Reserve has chosen to use banks as intermediaries for credit allocation and for access to the payments system. The banks operate as intermediaries between the central bank’s credit and payments system and the broader economy, but banks do not have an obligation to provide every customer with an account or with access to credit. At the time the Federal Reserve was chartered, access to the payments system was not crucial to participation in the economy. So long as a merchant could use cash or bills, she could participate in commerce. Today, the majority of transactions have been digitized. Paying bills, being paid for work, purchasing food or supplies—all of these financial transactions are conducted using a credit or debit card, an online platform, a mobile app or a check. These all require access to the centralized payments system. As noted above, those without bank accounts pay a fee to make all of these transactions because the Federal Reserve does not allow individuals access to the payments system without a bank account. To the extent that this system is exclusionary, the Federal Reserve can and should meet its legal mandate by opening its payments system to individuals. The next section will explain how this can be done.

Financial Redesign

The current understanding of financial inclusion and access to credit is flawed and incomplete because it focuses on access, inclusion, and gap filling without describing the essential nature of money and credit. Defining “access” has everything to do with defining “credit.” The prevailing neoliberal view of credit markets, especially with regards to consumer credit markets, conceives of credit as a natural and finite product of the market. Its cost and availability is

207 See id.; see also CAROL COYE BENSON ET AL., PAYMENTS SYSTEMS IN THE U.S. (3rd ed. 2010).
The borrower’s “creditworthiness” is the essential determinative factor in whether a credit product is available and how much it costs.209

The prevailing model of finance hides the essential nature of credit—its availability and cost on a systemic level. At the micro level where a borrower seeks a loan from a lender, this basic description is accurate. An individual lender has a limited quantity of money. If she decides to lend it for a profit, she must calculate the odds of getting the money back. She will determine whether to lend, how much to lend, and at what cost depending on the risks she faces of losing her money. If the risk is high, she will require higher interest to compensate her. If the risk is too high, she will not lend. This model of credit availability and cost when it comes to most non-bank lenders. A payday lender, a pawn shop, credit card companies, and other consumer lenders are taking risks with their own funds or their investors’ funds when they lend. However, the modern credit markets do not work this way. As demonstrated in Part II, banks create money when they lend.210 The money they are lending does not have to come from their pocketbook or their investors’ accounts.211 The money is created through the loan or on a macro-level, the available money is created by monetary policy and public spending.212

Availability of and access to credit are directly linked to federal underwriting policy and the federal reserve’s monetary policy.213 The determination of creditworthiness and risk of repayment is usually being made through uniform standards and underwriting requirements without regard to the characteristics of individual borrowers.214 The federal government determines who qualifies for a mortgage—at least a mortgage that the GSE’s will purchase or insure.215 The determination of creditworthiness—the size of the credit circle and who can fit inside—is made by policymakers.216 Those who do not fit the requirements are on the outside of the circle. This was most starkly demonstrated through the FHA redlining program, which still determines the “creditworthiness” of the initially excluded households and communities.

Thus, the job of policymakers is to create a credit and monetary system that achieves justice and shared prosperity. The first step is a rejection of the current narrative about financial inclusion and “access to credit” that views lack of access as market failure that can be remedied through subsidies or market innovation. As wealth and income gaps have increased, so too have the products and promises from Silicon Valley and Wall Street that a new app, cryptocurrency, or financial

209 See Baradaran, supra note 123, at 493-94 (noting that banks do not lend to the poor because of higher credit risks and narrower profit margins).
210 See Mehrsa Baradaran, How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy, at 13 (2015) (“By lending, banks actually create money. To repeat, commercial banks create money by making new loans. For example, when a bank makes a mortgage loan, it does not just give someone $100,000 in cash to go purchase a house. Instead, it creates a credit, a deposit, in the borrower’s bank account for the size of the mortgage.”).
211 Id.
212 See McLeay et. al., supra note 144 (explaining how the majority of money in the economy is created by commercial banks making loans).
214 Id.
215 Id.
216 Id.
product will lead to financial inclusion. These communities do not need better blockchain design or mobile apps—they need simple access to a checking account and a debit card.217

Instead of financial inclusion, consumer advocates and policymakers should focus on financial redesign. Instead of looking to products, subsidies or innovations to include consumers, policymakers can design a more equitable and expansionary financial system. In both the realm of payments and credit, public policies are responsible for exclusion and can be changed to enable expansion. For example, the Fed’s monetary policy could bypass banks as an intermediary and directly stimulate the public through investments in education, healthcare, infrastructure, and housing.218 Credit programs with Treasury guarantees have already provided many people with the means to get career training, go to college, or buy a home, as government programs have done in the past.219 They can be used to promote policy goals, such as closing the racial wealth gap or reducing inequality in the future.

We must recognize that many aspects of the financial system, including certain credit programs, payments, and access to safe deposits are essential services that must be provided for all. When confronting the power of banking trusts and monopoly power over credit, Justice Louis Brandeis proposed that certain industries to be especially suited for a public utility nature. Banking or railroads, for example, were considered service essential to full participation in commerce. In these cases, Brandeis offered an alternative to create a public utility. Such a utility could either compete with the market or offer an alternative. Brandeis believed banking to be among the industries that might be considered a public utility because, as he explained “that deposit banking should be recognized as one of the businesses ‘affected with a public interest.’”220 This was because banks gained their market power and their profits through the use of “other people’s money.”

In order to meaningfully participate in the economy, the excluded, unbanked, and communities living in banking deserts need access to the safe and subsidized payments system operated by the Fed. Financial redesign requires that the payments system operated by the Federal Reserve be opened to all. The central bank payments system already resembles a public utility, but it is currently only a public service open to banks who operate as an intermediary. Opening the payments system to the unbanked and underbanked would not cause any disruptions to the financial market, but would be a boon to LMI families who are currently paying to use a public resource.221 In previous work, I have suggested a public option through postal banking.222 Postal banks would offer a free savings and checking account that would enable the unbanked and underbanked to engage in simple financial transactions through the public payments system instead of high cost non-

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218 Konczal and Mason make just such a proposal. See generally Robert C. Hockett & Saule T. Omranova, White Paper: A National Investment Authority (Cornell Legal R. Paper No. 18-10, 2018); See also BARADARAN, supra note 208.
220 LOUIS D. BRANDEIS, OTHER PEOPLE’S MONEY AND HOW THE BANKERS USE IT (1914).
bank options like check-cashing or pre-paid debit cards. Such an option would put approximately $89 Billion per year back into the pockets—or bank accounts—of the unbanked. Other researchers have built on the postal banking suggestion and improved on its basic structure. Ricks, Crawford and Menand have proposed a Fed Accounts system, which would be an individual account offered by the Federal Reserve by way of the post office to all individuals.

On the credit side, the Federal Reserve could operate as a public bank. A public bank need not be linked to the Federal Reserve, but given the history, capacity and structure of the Federal Reserve, it is likely the institution best suited for such an endeavor. Public banking could remove banks as an intermediary in credit markets and offer direct services, including credit and transactional services directly. Policymakers already make decisions that affect the price of credit and the types of borrowers who are given subsidized loans. The federal government has decided to provide credit to the middle class for mortgages and student loans. And indeed, these programs have been ongoing since the establishment of the Federal home loan, farm loan, and student loan programs. Federal Reserve monetary policy has also provided unprecedented funds to banks through payments on reserves and QE and other programs. The Fed has done so under their legal mandate to boost the economy. Yet the banks have deferred to the banks to make lending decisions. Those who have fallen on the outside of the circle must therefore rely on the market for their credit needs. These credit markets will provide access to credit and will price the credit according to risk. A public bank can boost the economy directly by offering direct loans and direct accounts.

Public banking can take many forms. Like the public state bank of North Dakota, a Federal Public bank can finance large or targeted infrastructure projects. It can do so by offering public

228 See, e.g., BARADARAN, supra note 162, 67 (“After creating the Federal Reserve, President Wilson and the 64th Congress passed the Federal Farm Loan Act of 1916 for the express purpose of increasing credit to rural family farmers . . . . The bill reduced interest rates on farm loans across the South and made credit much more accessible. This bill was the first federal government loan program, and thanks to southern senators, it left black farmers out. The legislators created loopholes and provisions to exclude blacks and left the program to be administered in local offices in the South, with significant discretion given to local bureaucrats in lending, which effectively meant that blacks would not be given loans.”).
231 See BARADARAN, supra note 208, 14 (2015).
bonds or using its flexible monetary policy mandate. For example, in my proposal for a Twenty First Century Homestead Act, I have suggested that federal reserve financing can help close the racial wealth gap by purchasing abandoned and blighted properties in formerly redlined cities.\textsuperscript{233} Other target projects might include roads, hospitals, rehabilitation facilities, public housing, and environmental cleanup projects.

These projects can be funded with a combination of Federal Reserve financing and Treasury guarantees. These investments can be structured much like other government credit programs that make returns sufficient enough to make the program profitable such that the fund can continue to invest in other sectors. Many such programs already exist. Infrastructure investment funds can issue investment shares through a securitized bond, which will be structured as a fixed rate, and variable terms of between 5 to 20 years open to all investors. The bond can be guaranteed by the US Treasury and maintain a Triple A rating. These investment funds can be structured much like the Export-Import Bank and other New Deal Credit programs that became self-sustaining and even profitable. After a decade of initial funding through Congressional appropriation, the Import-Export Bank and other credit programs have been self-sustaining, operating based on their own revenues. These bonds will be guaranteed by the Treasury. These guarantees lower the risk of investment, attracting much more private capital.\textsuperscript{234}

The Federal Reserve can use a variety of methods modeled after existing stimulus programs. Over the past decade, the Federal Reserve has used its monetary policy tools and authority to boost economic activity. These programs, which included asset purchases, emergency loans, interest rate payments on bank reserves, and other unconventional and creative programs, have succeeded in their goals of economic recovery. However, while average real estate prices and stock market gains have recovered, the recovery has not been spread evenly. Specifically, the racial wealth gap and regional disparities have grown over the past decade. One reason for this inequality is that the Fed’s interventions have gone through banks as an intermediary. In order to spur development, lending and investment, the Federal Reserve should bypass the middlemen and fund the development directly.

The Federal Reserve can also use its 13(3) powers to extend emergency loans to municipalities facing acute financial pressure. When a city, state or municipality is in a state of crisis, it does not get the same treatment from the Federal Reserve as did the failing banks—and even non-banks like AIG. “It is hard to see why the failure of AIG or Bear Stearns was not acceptable, but the failure of financially-constrained governments to deliver basic public services to millions of Americans is,” asks economist Mike Konczal.\textsuperscript{235} The Federal Reserve has the tools to rescue cities in crisis, alleviate the toll of financial exclusion, mortgage foreclosures, and spur economic revitalization where needed by buying public debt. As one economist remarked, “Fed money is not exactly ‘free,’ but it has this great virtue for government: it doesn’t cost the taxpayers anything. Fed expenditures do not show up in the federal budget, nor do they add anything to the national


\textsuperscript{235} See Konczal & Mason, \textit{supra} note 141.
debt.” Konczal and Mason have suggested that the Fed can use its large portfolio of asset purchases acquired through their QE investments to buy student debt. This intervention would likely do more and do it more directly than investing in bank-held Mortgage Backed Securities that may or may not eventually lead banks to lend more.

For longer-term projects, the Fed establish a programs to purchase bonds to fund student debt relief, closing the racial wealth gap, dealing with the opioid crisis, or targeting environmental recovery. These can be modeled after its ongoing monetary policy actions. Providing the funds directly is thus a much more efficient way to meet the Fed’s goal of stimulating the economy. Two recent examples of Federal Reserve stimulus programs are the Term Asset-Backed Securities Loan Facility (TALF), which involved the purchase of $50 billion in securities and QE, the Fed’s purchase of public debt totaling around $4.5 trillion. Another example of monetary policy is Interest On Excess Reserves (“IOER”), discussed above. Each dollar held on reserve is a dollar not lent for real estate, infrastructure, or business operations in the American economy.

Such public financing through the Federal Reserve and Treasury programs are unconventional and will likely face political opposition. There is legal authority for Federal Reserve monetary policy, but the nature of this plan would be unprecedented. The Federal Reserve has used its monetary policy mandate to stimulate the economy in unprecedented ways, but those actions occurred in the aftermath of a recession. Though these cities are suffering more dire recession conditions than were present during the financial crisis, the cause of the slump was not an emergency, but a slow decline. Moreover, these public finance programs differ from the Federal Reserve’s past conduct because they require investment in public municipal funds or public banks whereas the prior programs have been conducted through private banks. Historically, the Federal Reserve’s role as “lender of last resort” was to operate through the banks and not directly with the economy. This plan would diverge from that historical norm. Legally, these actions can be justified

239 Due to the massive amounts of money created by QE, bank reserves swelled to over $1.7 trillion as of October 2018. This overage is called excess reserves and even though it was created by the federal reserve, banks earn interest on these reserves. These reserves comprise a substantial portion of the nation’s monetary base. The Federal Reserve is using this payment, called an “administered rate” as its primary monetary policy tool post QE. See FED. RES. BANK OF ST. LOUIS, supra note 138. Banks are required to hold roughly 10% of their deposits in reserves at the central bank. The required reserves on just customer deposits would equal roughly $189 billion. See Todd, supra note 138 (Put another way, before August 2007, the Fed’s reserve account was 5.1% of the monetary base, and in mid-2013, the reserve accounts
240 Economists worried about such a large buildup of funds reserve have suggested that it is time for the Federal Reserve to begin selling government securities in order to withdraw some money from the reserve balance. Former Fed officials and economists have suggested using these funds to invest in the existing mortgage and student loan markets. Though student and mortgage debt investments would be a boon to the economy and the middle class and both programs are vastly more egalitarian than providing subsidies to banks, mortgage and student loan borrowers are more likely to be members of the middle and upper class. Drawing down almost $200 billion in reserves by investing in the Homestead Act is much more likely to make a dent in the great divergence of wealth. See generally Todd, supra note 138. Todd suggests that the Federal Reserve sell about $180 billion in mortgage-backed securities or longer maturity Treasury securities per year in order to prevent future inflation. Id. 15-16.
given the Federal Reserve’s original legislation and if necessary, new authorizing legislation can be written, but these actions will likely face political backlash due to recent public distrust of the Federal Reserve and lobbying pressure. However, Federal Reserve spending is not subject to Congressional appropriations and thus these investments can be shielded from the partisanship, pork barrel spending, and industry lobbying that infect Congressional action.

Furthermore, the Federal Reserve’s participation is justified within its dual mandate as specified by Congress and authorized under the law. The Board of Governors of the Federal Reserve System and the Federal Open Market Committee is authorized to “maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates.” The Federal Reserve is also authorized, according to section 14(b) of the Act to buy and sell bonds issued by municipalities, states, or other instruments backed by the Treasury. 241 Moreover, Section 13(3) allows the Federal Reserve to lend at a discount in an emergency. 242 This is the authority the Federal Reserve relied on for its extraordinary bailout provisions during starting in 2008. Through longer term lending at a fixed rate, the Fed can tailor credit facilities to support public financing programs according to each communities’ residential and economic development needs. Due in part to the Fed’s credibility and market stabilizing presence, establishing community development credit facilities could result in benefits that greatly exceed the actual volume of loans extended by the federal government to new homeowners. 243


1. To buy and sell, at home or abroad, bonds and notes of the United States, bonds issued under the provisions of subsection (c) of section 4 of the Home Owners’ Loan Act of 1933, as amended, and having maturities from date of purchase of no exceeding six months, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, and obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof, such purchases to be made in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. Notwithstanding any other provision of this chapter, any bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed by the United States as to the principal and interest may be bought and sold without regard to maturities but only in the open market.

2. To buy and sell in the open market, under the direction and regulations of the Federal Open Market Committee, any obligation which is a direct obligation of, or fully guaranteed as to principal and interest by, any agency of the United States.

242 See Federal Reserve Act, 12 U.S.C. §343 (1913). 3. Discounts for individuals, partnerships, and corporations: In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System, by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d), of this Act, to discount for any participant in any program or facility with broad-based eligibility, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank: Provided, That before discounting any such note, draft, or bill of exchange, the Federal reserve bank shall obtain evidence that such participant in any program or facility with broad-based eligibility is unable to secure adequate credit accommodations from other banking institutions. All such discounts for any participant in any program or facility with broad-based eligibility shall be subject to such limitations, restrictions, and regulations as the Board of Governors of the Federal Reserve System may prescribe.

243 One obstacle is that the Fed is currently only authorized to purchase state and local government debt with a maturity date of less than six months. This law should be changed to enable the Fed to purchase long term debt as part of a land trust owned by the Fed, state, and city governments collectively. See Konzcal & Mason, supra note 144.
These are by no means an exhaustive list of financial redesign possibilities, which is not the aim of this article. Rather, the above programs are examples of what might be possible through creative financial redesign with a focus on equality and financial inclusion. The current model assumes that entrepreneurs or new products can remedy financial exclusion, but financial exclusion is a result of policy decisions that have centered bank credit as a principle means of access. Financial redesign can change the assumptions on which the current system relies. Like moving from gold to silver, a change in the legal foundations of credit and financial policy and create a much more egalitarian economy than our current system.

CONCLUSION

This article analyzes the modern rhetoric of financial inclusion and access to credit and explains that they are based on a flawed vantage of credit markets. Financial inclusion undertakings take several disparate forms, such as subsidies, products, and anti-discrimination legislation, each of these rests on an assumption that credit markets are a fixed market and that the role of financial inclusion and access to credit efforts is to meet the needs of those outside the market. In fact, the nature of credit markets, including their availability, is a result of public policy and monetary decisions. In both aspects of financial services, payments and credit, the federal government creates the market. Those who have access to banking and credit are usually the current or past beneficiaries of public credit programs and publicly provided bank accounts. This article draws attention to the legal infrastructure of financial markets and connects the discourse of financial inclusion to the policy underpinnings of the finance that determined the nature of credit availability. The design of money and credit markets have distributional consequences, which was a central insight of progressive reforms largely ignored by modern financial inclusion advocacy. Law and policy were embedded in the structure of the Federal Reserve, in the New Deal-era credit programs, and in the laws governing banks. These laws and policies were often a compromise between progressive reformers advocating greater access to credit against the interests protecting money holdings that stood to lose from the changes. The stakes were high—the legal choices determined whether the poor and the excluded would remain so or be given access to wealth-building credit to pole-vault into the middle class. The latter ended up being the case for most but not all. Regardless of the outcomes, the contours of the debate were mutually understood: that credit, money, and banking policy was a decision to be made through the democracy. This is the theory that has been obscured over time and that this article attempts to revive. Adopting a theory of financial redesign as opposed to the current model of financial inclusion has significant normative implications and can lead to a more egalitarian credit and financial system.