Payment’s A Hidden Driver of Income Inequality

Aaron Klein
Fellow, Economic Studies, Brookings Institution

@AaronDKlein
Income Inequality
Share of instrument usage for payments, 2017

- Cash: 30%
- Debit: 27%
- Credit: 21%
- Electronic: 10%

Source: 2018 Diary of Consumer Payment Choice, Federal Reserve
About half of all payments under $10 are cash

It is used two-thirds of the time for items including food, personal care supplies, items related to automobiles, and general merchandise.

Sources: Diary of Consumer Finances, Federal Reserve
1 Out of 10 Swipes is a Prepaid Card
Tell me what’s in your wallet and I’ll know how much money you make
Credit cards are not available to all
Let Them Eat Credit

Can they not get a credit card?

Dr. Sara Goldrick-Rab @saragoldrickrab · Sep 2
Every day #RealCollege students drop out of college because they can’t afford an unexpected bill of even $200.

I’m therefore thrilled to announce the recipients of the 2019-2020 FAST Fund award...

Thefastfund.org
Show this thread

10:10 PM · Sep 2, 2019 from Alexandria, VA · Twitter for iPhone
Credit Card Example

Rewards Fees Fees
$1 $3 $2

$100 $97 $95

$100 $95 $95
Richie Rich

Spends $100,000 on a luxury credit card
Earns 1.5% cashback → $1,500

Pays no taxes on that

Pre-tax earnings: $2,500--$3,000

Joe 6 Pack

Spends $10,000 a year on a debit card

Gets 4 overdrafts a year: $35 each = $150
America’s payment system has become a silent reverse Robin Hood system:
Rewards come in all flavors, but they aren’t free.

The Points Guy

Source: https://thepointsguy.com/guide/top-travel-rewards-credit-cards/

The [Un]Banking of America

- Fully banked, 67%
- Unbanked 7%
- Underbanked 20-25%
  - Have Bank Account
  - But Use Check Casher
  - Payday Lender
  - Wire Transmitter
How People Get Around the System

Payday Loans  $48,000,000,000 in loans
              $7,000,000,000 in fees

Check Cashers  $60,000,000,000 in checks
              $1,500,000,000 in fees

Overdrafts     $34,300,000,000

Pawn          $8,100,000,000
Solution: Real Time Payments
The Adoption of Real-Time Payments Continues Globally

Image sourced from Celent, [https://www.celent.com/insights/934259672](https://www.celent.com/insights/934259672)