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Payday Lenders and Credit Cards: A Hidden Driver of Income Inequality

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Payment's A Hidden Driver of Income Inequality

Aaron Klein

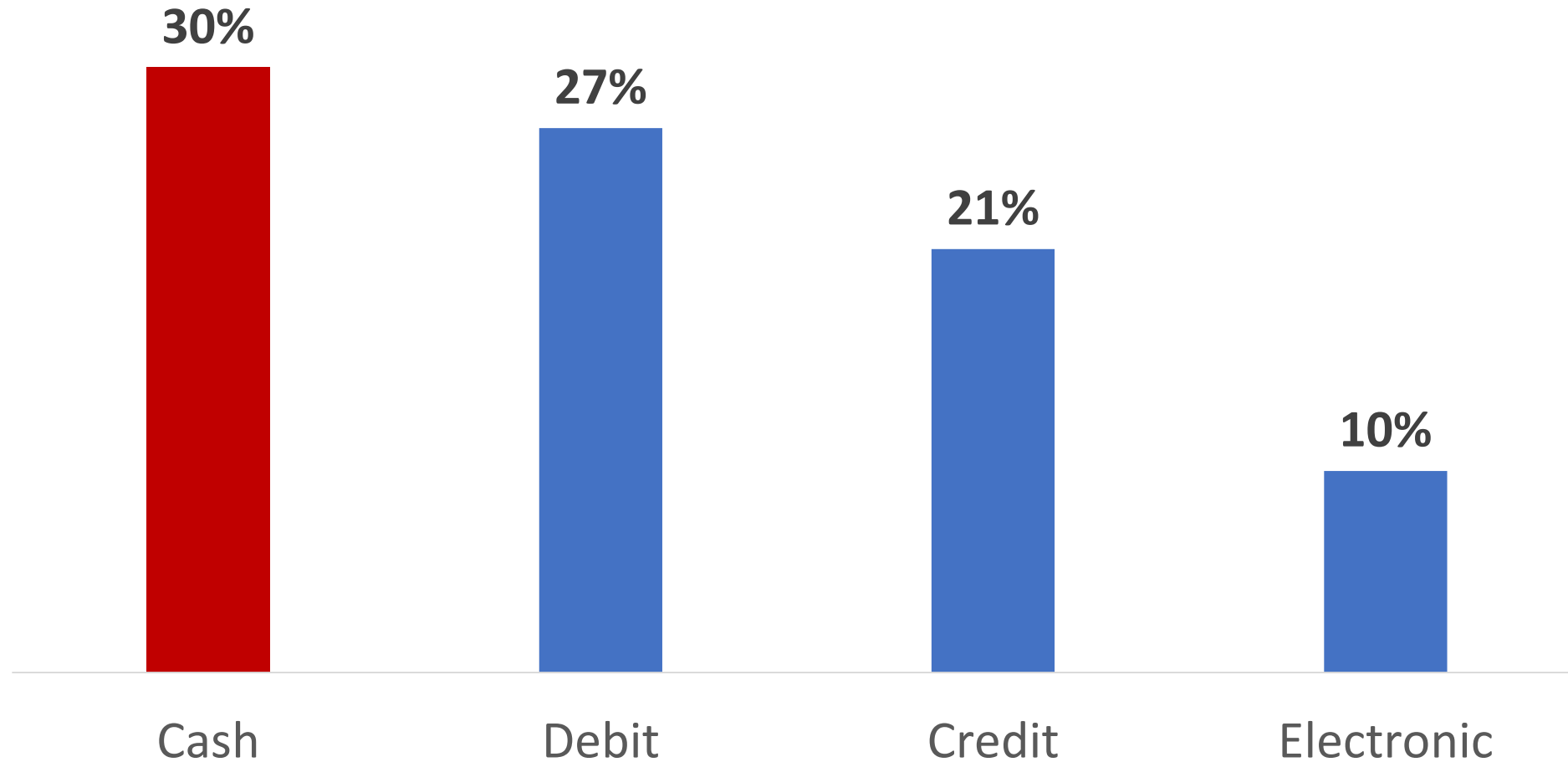
Fellow, Economic Studies, Brookings Institution

@AaronDKlein

Income Inequality



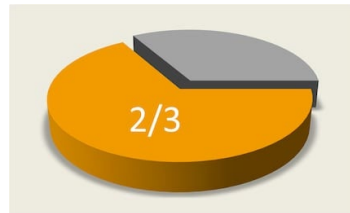
Share of instrument usage for payments, 2017



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.



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.

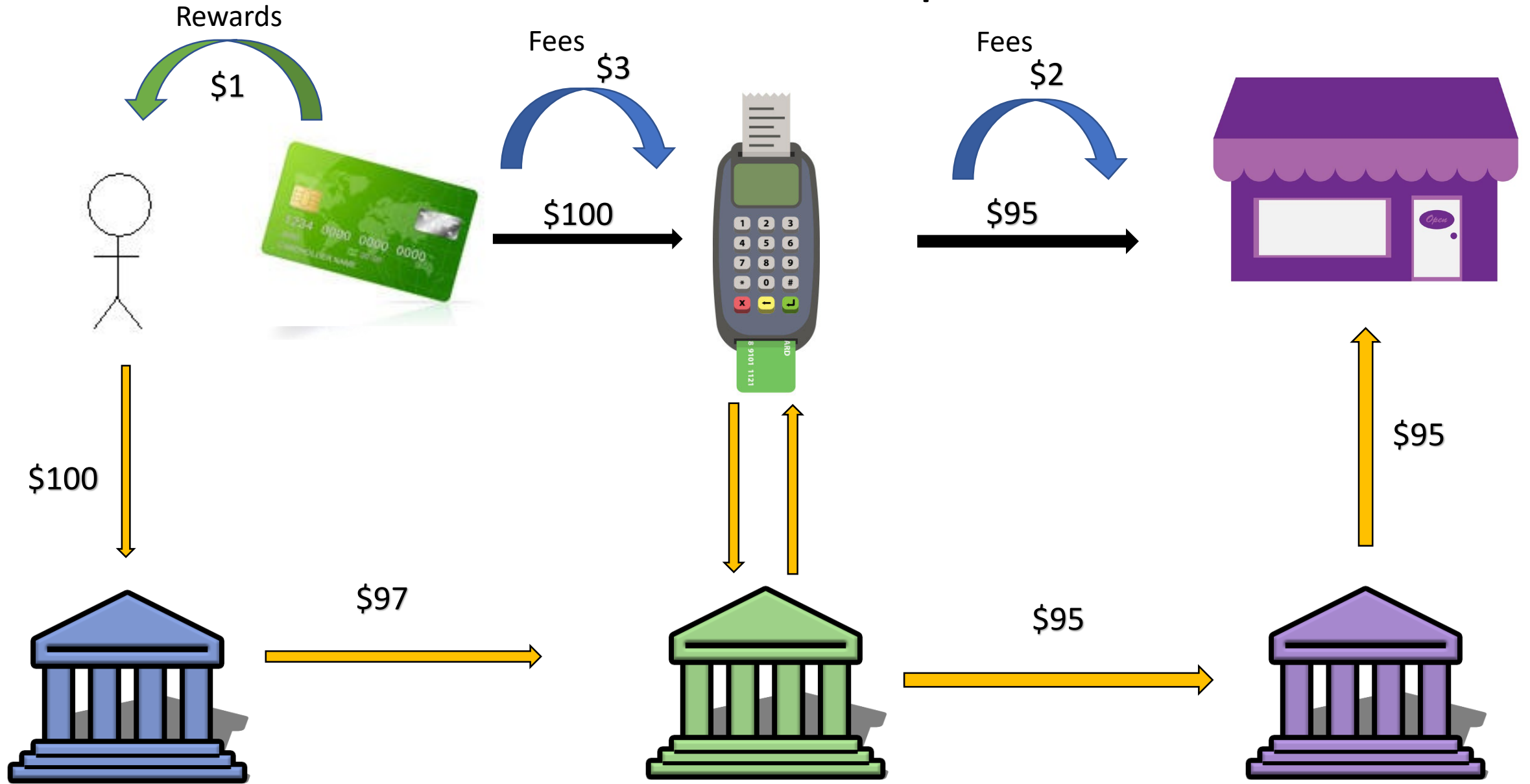
I'm therefore thrilled to announce the recipients of the 2019-2020 FAST Fund award...

Thefastfund.org
[Show this thread](#)



10:10 PM · Sep 2, 2019 from Alexandria, VA · [Twitter for iPhone](#)

Credit Card Example



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



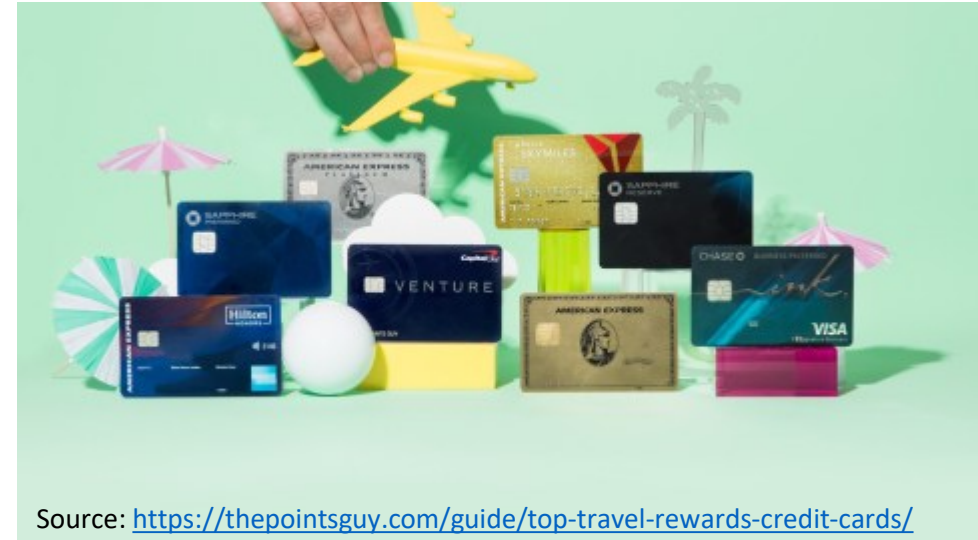
America's payment system has become a silent reverse Robin Hood system:

Rewards come in all flavors, but they aren't free.



The Points Guy

Source: Wall Street Journal, <https://www.wsj.com/articles/the-credit-card-kingmaker-11553436000>

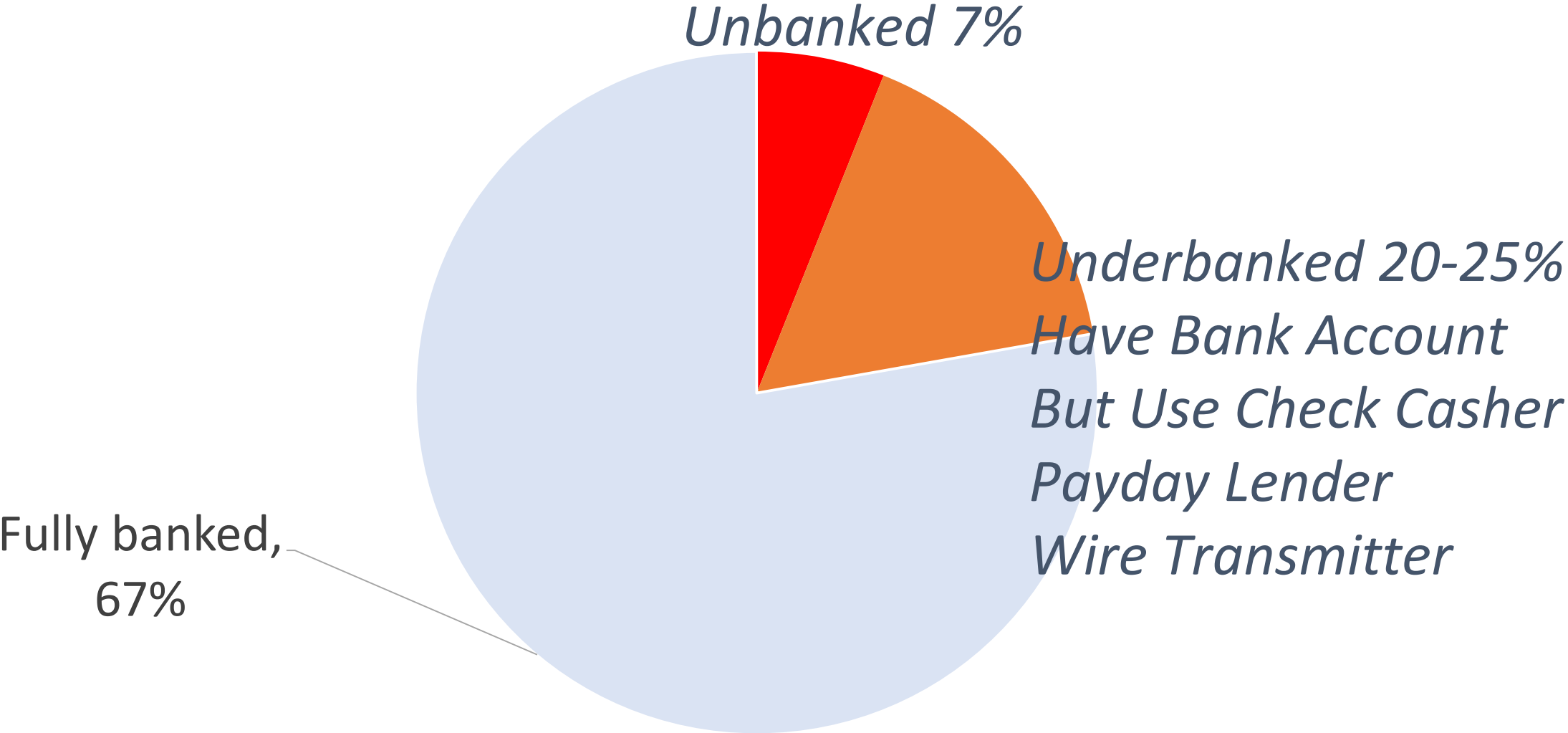


Source: <https://thepointsguy.com/guide/top-travel-rewards-credit-cards/>



Source: <https://www.businessinsider.com/maximize-chase-ultimate-rewards-points-with-multiple-cards>

The [Un]Banking of America



PAYMENTS

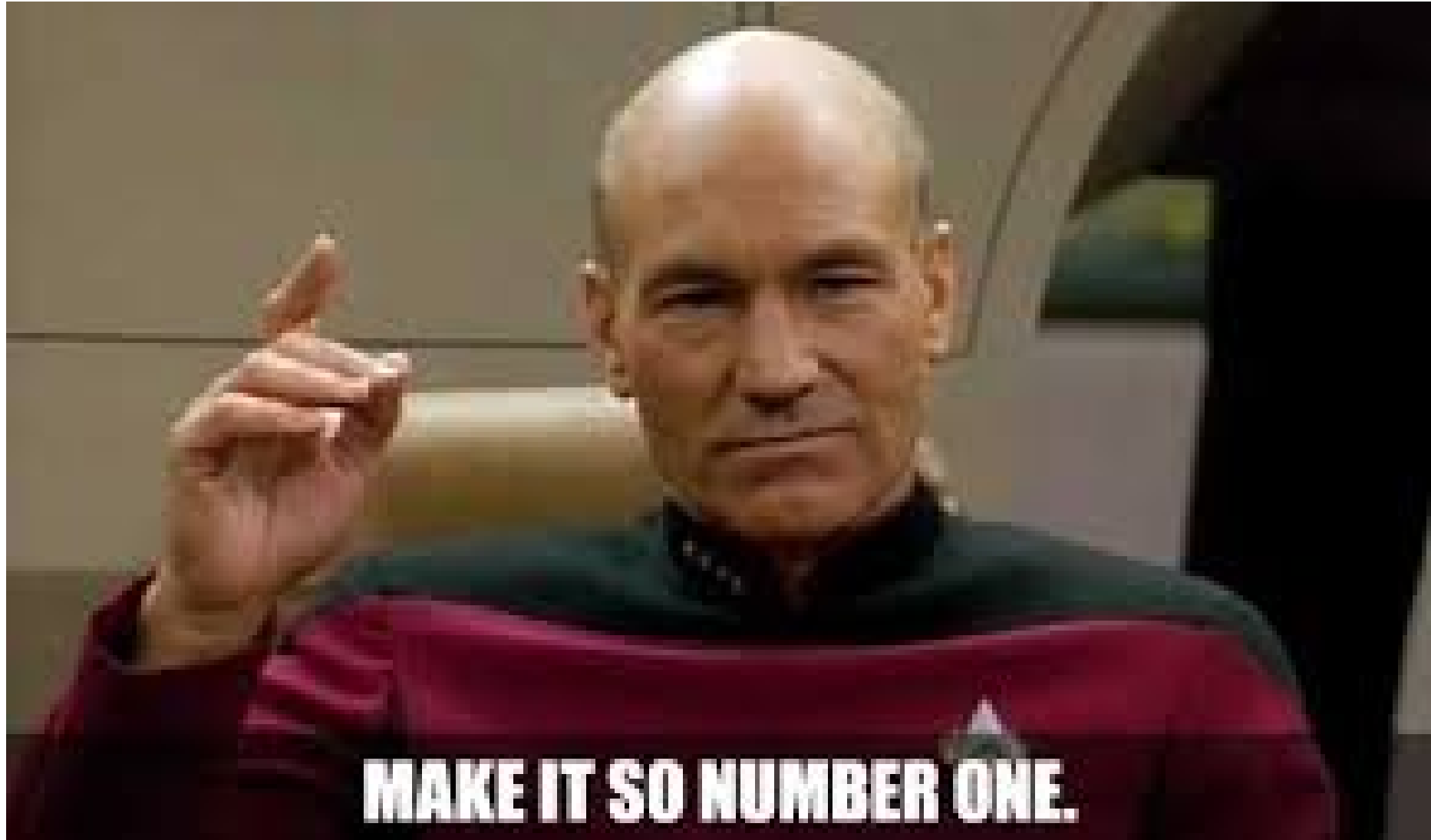


Y U SO SLOW

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

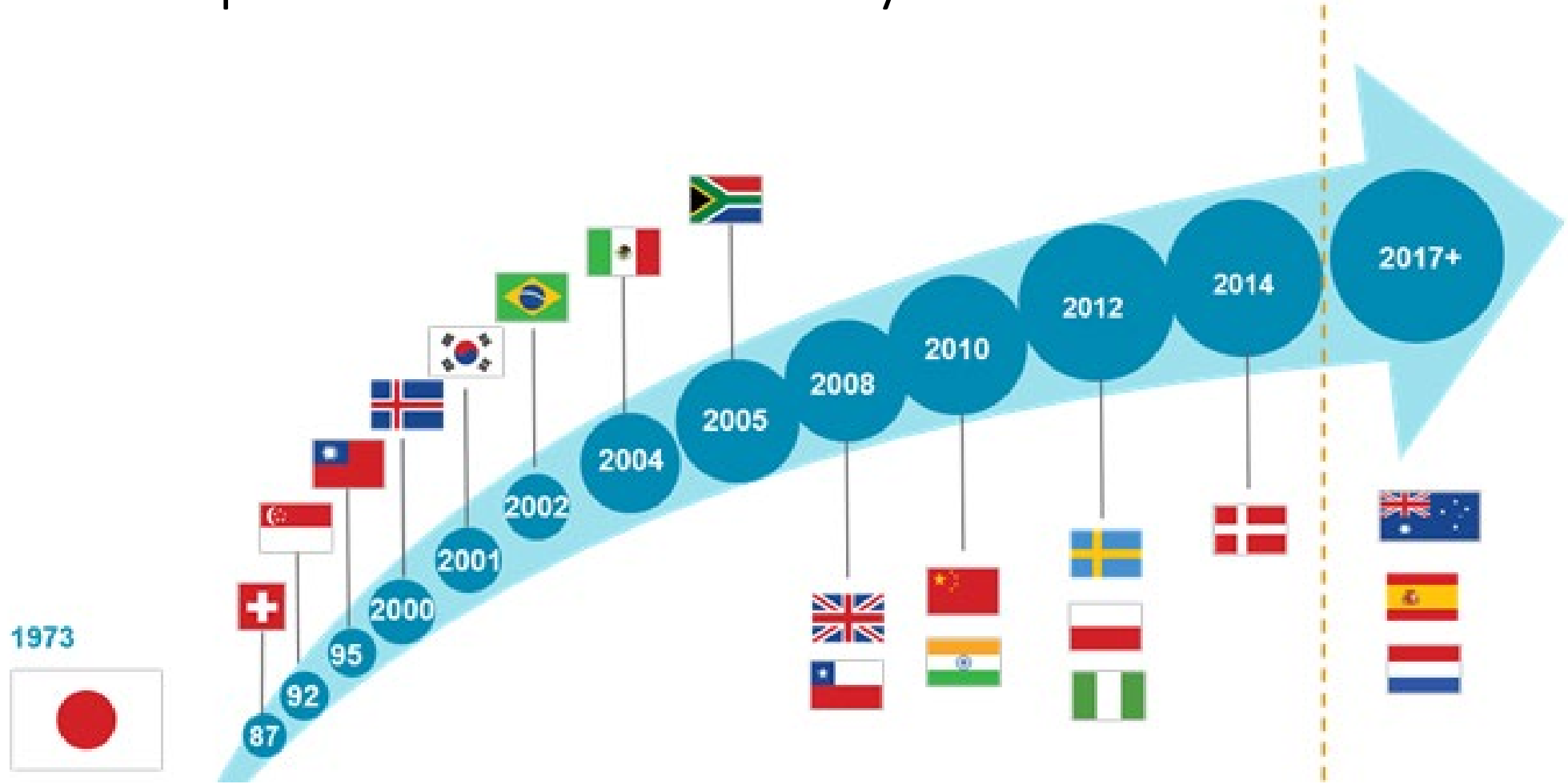


Image sourced from Celent, <https://www.celent.com/insights/934259672>