

Financial Capabilities: Better Avenues toward Financial Inclusion
Project Description (3 pages)

During my only sabbatical during Fall 2002-Spring 2003, I finished two edited books and submitted them to the publisher: *Women and the Economy: A Reader* and *Living Wage Movements: Global Perspectives*. Then I returned to the Economics Program for almost one semester before being asked to serve as graduate dean. I was dean until March 2010, when I returned to the faculty. I did not receive the customary sabbatical after serving in administration per then-Dean Kesselman's request that I open up the Stockton Center for Economic & Financial Literacy. It is exciting to apply for my next sabbatical, one that will mostly likely be the final sabbatical of my career. I expect to retire before I am eligible again.

For a one-semester sabbatical, I will draft two book chapters (and portions of two others) for a book on financial exclusion, coauthored with Professor Sherry Davis Kasper from Maryville College in Tennessee. The term "financial exclusion" was coined in 1995 by British geographers, Andrew Leyshon and Nigel Thrift, who were concerned about limited access to banking services. Since then, the body of research on financial exclusion has focused on the growing difficulties faced by some groups in society in gaining access to modern payment, credit, and other banking services.

According to World Bank statistics, half of the world is "unbanked"—they do not have a bank account. In the U.S., 1 in 13 households is unbanked (Federal Deposit Insurance Corporation data). A far higher percent of households are "underbanked." They may have a bank account but they rely on alternative financial services at least once a year. Driving down the main commercial thoroughfare of Atlantic Avenue in Atlantic City, for example, one easily counts more check-cashing outlets than banks. At these stores, you can cash your paycheck or government check, send a wire transfer to a relative or friend overseas, pay some bills, and, in most U.S. states, take out a short-term loan (at exorbitant interest rates!). Many poor census tracts do not have a single bank nearby. Empirical research by economists, sociologists, and geographers supports a spatial void hypothesis: alternative financial services providers (AFSPs) will step in where mainstream financial services are not readily available.

Since the mid-1990s, the number of AFSPs—sometimes called fringe banks—grew 10 percent annually. They now amount to a \$100 billion-plus business in the U.S. The national trade association Financial Services Centers of America (FiSCA) counts about 13,000 outlets in the United States, a number on par with banks and credit unions. Unbanked and underbanked households utilize these services. The rise of economic inequality—the spread between the top 1% and the bottom, as well as the declining share of the middle class—has contributed to the increased number of unbanked and underbanked, that is, financial exclusion. In short, the banking system, especially in the U.S., is working for well-heeled customers. It isn't working for poor people.

Contrary to some financial literacy emphases on "educating" the unbanked to use banks, I argue that mainstream banks are not the answer for everyone. As I have written in a *Journal of Economic Issues* article on the subject, some cultures do not even trust mainstream banks and rely on community-based and familial-based "lending circles" to meet their financial needs. Scholars and regulators must be sensitive to customs and norms and not assume a "one size fits all" approach. Merely encouraging people to open bank accounts and/or become more financially literate will not solve the problem across the globe. Instead, my coauthor and I draw upon a theoretical framework that synthesizes institutional economics and the capabilities approach pioneered by economics Nobel Laureate Amartya Sen. Capabilities theory focuses on the institutional context that enables diverse human flourishing.

The U.S. Consumer Financial Protection Bureau (CFPB), created as part of the Dodd-Frank Wall Street and Financial Reform Act of 2010, intends to draft rules to regulate transactions in this industry on a national level, taking away the very uneven supervision from individual state governments. My recent work in financial literacy and capabilities has motivated me to weigh in on proposed regulations. It may be that check-cashing places have a role to play, but within a strict regulatory environment. In fact, New Jersey is at one end of the current regulatory spectrum in the U.S., serving as a model. New Jersey outlaws payday lending outright and caps the fees charged by check cashers.

1. Statement of the aims and objectives of the project.

I am applying for a sabbatical to complete two chapters (and contribute to two others) of a coauthored book. My coauthor and I have signed a book contract with Lexington Press (see attachment), a division of Rowman & Littlefield. The book is due to the publisher on August 7, 2017. The Kasper and Figart book, *Financial Capabilities: Better Avenues toward Financial Inclusion*, aims to take stock of the booming industry of alternative financial services and to aid in assessing policy options. The book covers financial exclusion issues across the globe, but with a primary focus on the U.S. The book will also be unique in applying the United Nations Millennium Development Goals related to financial inclusion as the standard for assessing the appropriate role of AFSPs in the financial system. Our approach respects the financial strategies used by low-income households given the constraints they face within their communities. We do not blame the victim. The book will be written for an audience of students, scholars, and policy makers. Still, we make few assumptions about prior knowledge and write without jargon. The objective is a book on that is "readable" by an educated public of adult readers.

2. Background work already accomplished.

In order to better understand the work accomplished, I provide below an outline of the book. The name of the lead author responsible for drafting the majority of the chapter is listed, although it is important to say that each coauthor will be contributing to every chapter and the manuscript will go back-and-forth with edits dozens of times so that it will be written with "one voice."

Chapter 1: Stories from the Excluded (Figart and Kasper are coauthors, with Figart at 75%)

Chapter 2: Financial Exclusion Around the World (Figart lead author)

Chapter 3: Transactions Needs: Check Cashing Stories (Figart lead author)

Chapter 4: Credit Needs: Payday Lending and Short-term Loans (Kasper lead author)

Chapter 5: Policies for Financial Inclusion (Kasper and Figart are equal coauthors)

Chapter 6: A Call for Financial Capabilities (Kasper and Figart are equal coauthors)

Work Completed. I have background knowledge to complete the work. Two related papers thus far have been published. The Figart article contains some information for chapters 2 and 3, but needs significant updating and expansion. The Kasper article contains some information for chapter 4.

- Deborah M. Figart, "Institutionalist Policies for Financial Inclusion," *Journal of Economic Issues*, Vol. 47, No. 4 (2013), pp. 873-893. DOI: 10.2753/JEI0021-3624470404.
- Sherry Davis Kasper, "Payday Lending: The Case of Tennessee," *Journal of Economic Issues*, Vol. 48, No. 4 (2014), pp. 905-925. DOI: 10.2753/JEI0021-3624480402.

During the spring and summer of 2016, I will not have any time to work on this book. I need the concentrated day-to-day time of a sabbatical in the fall 2016 semester. I am President-Elect of the Association for Evolutionary Economics (AFEE), a large international economics association. I assume the presidency in January of 2016. This presidency will consume much time, as AFEE has many committees and needs updated bylaws and strategic planning. Further, during the summer of 2016, I need to write my presidential address for the January 2017 national economics meetings/conference, delivered at the

conclusion of my presidency. As my colleagues can see from both my C.V. and my track record (annual reports) with grants and contracts, I complete high-quality work on time.

3. Statement of the Procedures/Methodology.

The methodology for this project is typical for a study in the social sciences. It includes:

- Statistical analysis (descriptive statistics) of already-published data;
- Analysis of secondary scholarly articles, news and magazine articles, studies by “think tanks,” government and policy websites; and
- Application of Nobel Laureate Amartya Sen’s capabilities approach as the theoretical framework supporting policy initiatives.

Timeline for the sabbatical semester:

- Find news and magazine stories about “real people” to help tell the stories of the financially excluded in chapter 1 and draft chapter 1 (3 – 4 weeks);
- Analyze the latest data from the U.S. and other countries about the extent of financial exclusion and create tables and charts (2 – 3 weeks);
- Draft chapter 2 (2 – 3 weeks);
- Find and synthesize academic studies from a variety of disciplines (e.g. economics, finance, sociology, social work) on how people utilize check cashing outlets (CCOs) and draft chapter 3 (4 – 5 weeks); and
- Review studies about policies to increase financial inclusion and evaluate their efficacy; and begin to work on chapter 5 (3 – 4 weeks).

4. Importance or Value.

The study will have policy implications for New Jersey, other states, the federal government (e.g., Consumer Financial Protection Bureau, U.S. Treasury Department), the European Union, and the World Bank. Each of these entities is grappling with how to best respond to the transactions and credit needs of the near-poor and working poor. Anticipated contributions to scholarly literature include: (1) Contributing to the underdeveloped scholarship on how the poor and working poor meet their financial needs; and (2) Contributing to the current policy discussions by the Consumer Financial Protection Bureau (CFPB) in the U.S. on how to regulate the burgeoning industry in alternative financial services providers (AFSPs). On the local level and aligning with Stockton’s **Engagement** efforts, with the study’s results, I will be able to work with regional communities and the State of New Jersey to improve both services and regulations for the unbanked and underbanked. Finally, this work will be integrated into my teaching, including my courses on Economic Well-Being (GSS 3604) and Economics of Social Welfare (ECON 1120), supporting Stockton’s participation in the AASC&U’s Economic Inequality Initiative.

5. Further research or study.

Financial Capabilities: Better Avenues toward Financial Inclusion will be my 20th book or monograph. I hope to use it as a springboard to further develop a reputation as an academic resource for the local press and others. I anticipate disseminating the research in other forums, e.g. opinion pieces and blogs.

6. Outcome.

Sherry Davis Kasper and I have signed a book contract with Lexington Books. We aim to write a “hybrid” book, a blend of a scholarly book and a trade book, akin to my previous book, *Just One More Hand: Life in the Casino Economy*. We see potential for this project to generate interest beyond academic circles.