The Daily Dish

The Folly of a Public Credit Registry

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Eakinomics: The Folly of a Public Credit Registry

By the time the Biden Administration passed the 100 day mark, Americans had become accustomed to enormous, bold proposals. As it turns out, however, there were also some policy initiatives, even some extremely misguided policies, that were lurking outside the public spotlight. Exhibit A of this phenomenon is a public credit registry (PCR).

You may be blissfully unaware of the idea of a PCR, as was I until AAF's Thomas Wade delved into it. As he usefully pointed out, "Perhaps the most crucial question banks and other lenders face is whether a prospective borrower, an individual or business, is likely to default on a loan." The need to make such judgments generated the demand for information on credit and the rating of borrowers.

For most people, credit rating is synonymous with a "FICO score." In fact, the Fair Isaac Corporation—aka FICO—was founded in 1956 to provide lenders a quantifiable measure of creditworthiness. FICO is only one possible credit score, and there is competition among credit-reporting agencies to package it with other valuable information. As Wade notes, "FICO assesses the likelihood a consumer will repay a credit obligation and provides a personalized credit score. That credit score is calculated for the three major credit-reporting agencies: Equifax, Experian, and Trans Union. These credit reporting agencies, also known as credit bureaus, assemble a wide-ranging credit report that incorporates a credit score in addition to other factors they deem to impact creditworthiness. Lenders then use these credit reports as a basis for lending decisions."

The idea of a PCR is to simply scrap this entire private investment in measuring creditworthiness and competing to supply essential credit information in favor of a single, public credit-reporting agency. (The idea was in the policy manifestos of several Democratic primary contenders, and the Biden campaign released proposals based on policy recommendations of the think tank Demos.) The real question is, why?

There is no compelling evidence of any sort of "market failure" that would justify government intervention. This proposal seems like pure government overreach for the sake of government overreach. That overreach would constitute a stunning government taking – tens of thousands of jobs, intellectual property, capital investment, and future profitability essentially confiscated in favor of an agency that the taxpayer would have to finance, staff, and operate from scratch. I can see no particular reason a public credit-reporting agency would have incentive to innovate or would be more subject to oversight and accountability. (The private sector has been regulated since the 1970 Fair Credit Reporting Act, and continues to face new requirements such as in the Comprehensive CREDIT Act of 2020).

So, the idea is to replace time-proven, accountable, nimble, and efficient private efforts with a PCR that will be none of those things. No thanks.