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The Public Bank Solution

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For thousands of years, two banking models – one public and one private – have competed for dominance in the way societies create and distribute wealth. The public model sees interest and profits from banking as belonging *to the community*, and the wealth they generate is re-invested in the community. The private model hoards interest and profit for the sake of shareholders who are often completely removed from the communities where the banks are located, and it does so at higher interest rates than public banks provide. The movement for public banking re-conceptualizes banking as a public utility rather than a private interest. The availability of inexpensive credit issued by publicly-owned banks enables resources to flow to industries, enterprises, and public services that promote social goods and economic security for all.

Currently, 35% to 40% of the money we pay for goods and services goes to interest, paid out to bankers, financiers, and bondholders, which explain how wealth is systematically transferred from Main Street to Wall Street. The rich get progressively richer at the expense of the poor, not merely from "Wall Street greed," but from the inexorable mathematics of our private banking system. Exponential growth in financial sector profits has occurred at the expense of the non-financial sectors, where incomes have at best grown linearly. That helps explain why, by 2010, 1% of the population owned 42% of US financial wealth. Those in the bottom 80% pay hidden interest that those on top collect.

Further, banking is heavily subsidized by the government and practically monopolized by Wall Street, which has effectively "bought" Congress. The government continues to bail out banks that would have gone bankrupt in a truly "free market." The Federal Reserve manipulates interest rates to serve Wall Street, lending trillions at near-zero interest and pushing rates so artificially low that local governments have lost billions in interest-rate swaps.

The banks do not return the favor. When private banks stop lending money, or lend only at massively high interest or only to massively big entities, our cities, counties, and states lose valuable public services. The economy shrinks and new jobs are not created. Big private banks have induced municipalities, schools, and other public entities to gamble their public funds on the direction of the market, often resulting in debts that far exceeded their budgets and the original cost estimates for the projects they were seeking to fund.

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Consider a story reported last year by Trey Bundy and Shane Shifflett of California Watch involving American Canyon High School in the Napa Valley school district, a district so desperate for money to build a new high school without raising taxes that it took out a $22 million loan payable in 2049. The interest on that loan will make the total payback $154 million by that time, more than six times the amount of the principal. Bundy and Shifflett note that over 1,300 districts across the country are doing the same thing -- engaging in capital appreciation bond borrowing to finance their publicly necessary building projects.

In contrast to this never-ending cycle of debt and high interest, and as an alternative to the present system in which private banks take money out of communities and place it in the hands of often-distant shareholders, there stands the public bank – a bank owned and operated by the people through a state, county, or municipal government entity.

Banking in the public interest is not a new or untested idea. Making cheap credit available to public entities, businesses, and individuals was done by medieval Franciscan monks, in the tally system used in England for at least five centuries, in the no-interest arrangements in some forms of Islamic banking, and in Quaker banks in colonial America. The model is also found in the present age: in the postal banks of Japan, Switzerland, New Zealand, and the public banks in countries as diverse as Costa Rica, Germany, China, and elsewhere. The United States is unusual in having only one state-owned bank; but the success of the model and the accepted normalcy of its operation in other countries suggest that it could also work very well in the United States.

The Bank of North Dakota (BND) is the only state-owned bank (in a highly conservative state). It demonstrates how public banks can issue credit at low or even no cost to cities and states; offer bridges to residential, agricultural, and public works financing; partner with responsible private entities to encourage conscious entrepreneurship; provide liquidity for local banks; and open and maintain safe bond accounts when bond funding is necessary.

A public bank may be chartered with a particular social or policy mandate, and it is that mandate rather than returns to shareholders (of which public banks have none) that guides its mission and policy objectives. The profits of public banks are returned to the public, whereas privately owned banks increase taxpayer costs through compound interest and are compelled to return profits to shareholders. Public banks issue credit at low cost or no cost to cities and states. Public banks can offer "bridges" to residential, agricultural, and public works financing, as the BND did during the Great Depression. BND also partners with the private sector, encouraging entrepreneurial startups and providing check-clearing, liquidity, and bond account safekeeping to private banks.

Public banks are able to reduce taxes within their jurisdictions because their profits are returned to the general fund of the public entity. The costs of public projects undertaken by governmental bodies are also greatly reduced because public banks do not need to charge interest to themselves. Eliminating interest has been shown to reduce the cost of such projects, on average, by 40-50%.

Public banks on the BND model do not compete with private local banks. While the large "too-big-to-fail" banks might be rendered obsolete by a robust system of public banks, a state-owned bank can actually support and sustain smaller community banks and credit unions. The BND routes its public lending programs through community banks, aiding with capital and liquidity requirements, cooperating rather than competing with them. Its deposit base is almost entirely composed of the revenue of the state and state agencies. North Dakota has more banks per capita than any other state, because community banks have not been forced to sell to their Wall Street competitors. The North Dakota Bankers' Association endorses the Bank of North Dakota, which has a mandate to support the local economy. The North Dakota experience also demonstrates that a state bank can serve as a revenue center for the state, expanding the possibilities for substantial lending operations and serving as a reliable source of funding for state resources. The BND has increased North Dakota's general fund by over $350 million in a decade.

Banks that operate as public utilities can direct credit to where it best serves the needs of local economies. Such banks have no need to worry about maintaining their market shares, gambling with depositors' money, or going bankrupt. With the full faith and credit of the government and the people behind them, with transparent best practices enforced by democratic checks and balances, and with a complimentary relationship to sustainable community banks, public banks can serve all of the people, not merely a few shareholders. Globally, public banks have been found to be safer and more productive to economies than private banks. They lend countercyclically, providing credit when and where other banks won't. This does not crowd out private banks. Witness Germany and Taiwan, which have strong public banking sectors, yet they are among the most competitive banking markets in the world.

The introduction of public banks could substantially improve the quality of life of the nation's citizens, particularly those most vulnerable to fluctuations in the economy— fluctuations over which they have no control and for which they must pay the price of Wall Street's mistakes. Public banks can help feed and sustain local government budgets, which contain the life blood of communities: school districts, utility companies, waste services, and street repairs are all dependent on local public economies; local social services are often the first line of response for people in need; cities and counties fund soup kitchens, domestic violence shelters, and animal shelters.

The promise and possibilities provided by public banking demonstrate that financial scarcity in democratic societies is largely *artificial*. Scarcity of public funding is a construct of a particular economic ideology rather than a reflection of objective economic reality.

Public banking is not about government ownership of property, but about government oversight of the system of credits and debits necessary for a functioning economy. Banking, money and credit are not market goods, but economic infrastructure, just as roads and bridges are physical infrastructure. By providing inexpensive, accessible financing to the free enterprise sector of the economy, public banks make commerce more vital and stable.

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