

# Public Banking & Economic Democracy

by Gwendolyn Hallsmith

Private banks have not always been accepted institutions, fixtures of commerce, and purveyors of most of our economic transactions. Throughout US history, there have been robust public conversations about banks, largely due to their propensity to derail the economy when their business models fail. One example of this was in rural Vermont in 1806, when the state established their first public bank. Testimony on that bill, from Governor Tichenor lays out the problem:

*Banks, by facilitating enterprises both hazardous and unjustifiable, are natural sources of all that class of vices which arise from the gambling system and which cannot fail to act as sure and fatal, though slow, poisons to the republic in which they exist.*

The current public banking discussion revives this tradition after 100 years of a private central banking model that has failed us. Private banks are behind the rapidly growing disparity between the rich and the poor, due to their need for a boom and bust, bubble-making “growth” economy, which drives impoverishment and ecological devastation.

Income inequality in the US is the highest it has been since 1928 and has grown exponentially over the last 40 years. The concentrating force of the debt-based banking system used to be offset by progressive taxation, but with its demise in the Reagan years, the systemic extraction of wealth from nature and people, which is transferred to those at the top, has gone unchecked.

Ecologically, we are now in the midst of a human-made species extinction larger than any other in Earth’s history. Climate change threatens our food supply, as areas of drought and flooding change rapidly. The “growth” economy demands ever-increasing production and consumption to fuel the insatiable appetite of the money system.

An economic operating system that has these problematic side effects would not be chosen knowingly by the world’s population. People everywhere recognize that we need a healthy environment. People would not support rampant poverty either, if we only had a choice in the matter.

The Earth Charter Commission undertook something like a global poll about the principles we needed to adopt if we are to have any hope of peace and sustainability. The result was the Earth Charter, an internationally adopted document that outlines an ethical manifesto for our future. It recognized the inherent linkages between social justice and environmental health, which demand democratic governance and a deep sense of



graphic: Steve Breen

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respect and care for the whole community of life.

Public banking, which focuses on a transfer of taxpayer deposits into public control, for public benefit, is the engine of a more democratic economy. In Vermont this past month, 18 cities and towns voted to direct the state legislature to create a Public Bank. In Pennsylvania, the City of Reading is establishing a public bank, and Philadelphia is not far behind. Senator Elizabeth Warren just endorsed the idea of post office banks. Other variations include land banks in Ohio, Green Banks in New York, plus traditional public finance options from Community Development Corporations for local and regional economic development to state lending agencies designed to offset market gaps for business, home, student, and municipal finance.

Creating public banks can be the democratic camel’s nose under the tent of the privatized monetary system. We start with public control of public money – creating banks where deposits of taxpayer dollars are used to finance economic development, education, and infrastructure. Over the long term, these public banks can be used to catalyze real change that is needed to transform the money used to drive the economy. Public banks on their own do not accomplish this, they merely transfer profits made by economic development lending from the private banks to the public coffers. Public banks can, however, set up systems where a public monetary utility could be established, where Time Banks and commercial barter systems can be facilitated, and their units leveraged for tax payments.

Democracy works when all constituents feel they have a voice in the decisions that affect their lives; it fails when people believe their voices are overpowered by others. Corporate personhood, corporate media, and widespread economic inequality have hijacked our democracy. We need to reassert democratic control over the creation and circulation of money to restore the values of democracy our heritage demands. Public banking can help us do this, especially with the recognition that it is one step in building economic democracy through monetary reform.

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