

Public Banks to the Rescue

by Ruth Caplan

As the corona-fueled, economic wildfire rages across the country devastating small businesses, closing desperately needed child care facilities, and leaving 44.7 million people with student loan debt adding up to \$1.56 trillion — all while the Fed bails out Wall Street with zero interest loans — it is time to restructure the economy, with public banks as an essential pillar.

Public banks have the potential to:

- Finance essential infrastructure;
- Ensure clean affordable water for all residents;
- Get people to work with minimum carbon expenditure;
- Create solar and wind farms;
- Provide affordable housing;
- Support local organic agriculture;
- Create cooperatives.

Much has been written about the Bank of North Dakota (BND), the only public bank in the US. But in this Republican stronghold, which takes great pride in its public bank, little is said about its history spearheaded by Arthur C. Townley, former organizer for the Socialist Party of America.

On May 15, the *Washington Post* reported that BND was key to small business success in securing loans through the federal Paycheck Protection Program (PPP). They pointed out that, “Small businesses there secured more PPP funds, relative to the state’s workforce, than their competitors in any other state — more than \$5,000 per private-sector worker.

“In the program’s troubled first round, the state put business lenders in the rest of the country to shame.

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The ABC’s of Public Banks

- Created by law as repository for government funds.
- Require a government charter to operate.
- Require initial investment to capitalize the bank.
- Government deposits plus capitalization allow bank to make loans.
- Loans are assets of the bank because they are owed to the bank.
- Deposits are liabilities of the bank because they have to be paid back on demand, eg, when state workers need to be paid.
- Loans are made to finance local needs like infrastructure, affordable housing, expanding local businesses, modernizing farms.

Interest paid by borrowers funds bank operations, with excess returned to the government treasury to lower taxes or fund much needed programs.

“Much credit goes to the century-old Bank of North Dakota, which — even before the PPP officially rolled out — coordinated and educated local bankers in weekly conference calls and flurries of calls and emails.

“They’re behind the scenes, supporting us,” said Christie Obenauer, president and CEO of Union State Bank in Hazen, ND. When a client needs a loan above her



graphic: Massachusetts Public Banking

lending limit, for example, she can cover the full value needed by selling BND a slice of the loan. If she did the same with a major private lender, she would have to worry about the competitor using that relationship to lure away the client. But BND is a public institution, not a competitor.”

The modern public banking movement got its start with the Occupy Movement after the 2008/09 crash. Many local campaigns have sprung up across the country and the Public Banking Institute (www.publicbankinginstitute.org) was created to connect these efforts and provide resources. Here is a sampling:

- In New Jersey, Governor Phil Murphy created a task force to create a public bank. See www.bankinonnewjersey.org/
- In California, a highly energized statewide organizing campaign passed state legislation enabling cities and regions to create public banks. Los Angeles, San Francisco, Oakland and many other cities are preparing to apply for state approval to establish public banks. See californiapublicbankingalliance.org/
- In Massachusetts, a campaign, co-chaired by AfD’s Barbara Clancy and the author of this article, is promoting a bill to create a state public infrastructure bank to work with municipalities. See masspublicbanking.org/
- In DC, public bank advocates, joined by the DC Reinvest movement, got a feasibility study funded, but the Mayor has refused to release it. See www.DCpublicbanking.org
- Santa Fe and New Mexico have active campaigns at afep.org/what-is-a-public-bank/ So does Colorado. See coloradopublicbankingcoalition.org/
- Other states, including Oregon and Washington, are campaigning for public banking.

The National Public Banking Alliance (publicbanking.us) recently formed to advocate for more radical reform in line with the Green New Deal and to promote use of funding from the Federal Reserve to capitalize public banks.

Finally, the campaign for public banks needs to be complemented by a campaign for postal banks to liberate the unbanked from payday lenders and to make banking convenient no matter where you live. These were once very common in the US. Their time has come again.