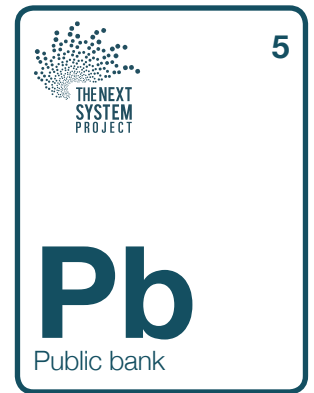


Elements of the democratic economy

PUBLIC BANKS



A public bank is a financial institution owned by and accountable to the people through their representative government (e.g. a municipality, state or country).

Public banks receive their revenue through mechanisms set by the jurisdictions that run them. They invest, lend, and provide banking services, often at below-market rates and sometimes in partnership with community banks. Their “return on investment” is measured less in financial returns and more in their success in supporting such social goods as affordable housing, neighborhood

development, infrastructure, small business development, education, and job creation. In modern economies, it is lending by large commercial banks, rather than actions by the state, that creates the majority of the money supply. Public banks are a way to democratize the money-creation process and ensure that the process is used for public purposes.

Potential Impact

While private financial institutions prioritize their own bottom line, public banks are inherently different in their incentive structures, pay scales, interest rates, and investment mandates. Public banks, for example, can allow cities and states to finance critical public projects at much lower interest rates than commercial banks or on the bond market, ensuring the growth of the real economy and the stabilization of our communities. Public banks can also support smaller, community-oriented banks and credit unions that help diversify local financial ecosystems. Several states and municipalities have in recent years commissioned feasibility studies on public banks, and a few are considering legislation to create them. One such study for New Jersey in 2018 estimated that a state-owned bank, for every \$10 million invested, would yield \$16 million to \$21 million in economic output, raise state income from \$3.8 million to \$5.2 million, and add 60 to 93 jobs. Public banks can be key to a decentralized and democratized financial system defined by stability rather than the boom and bust of speculation.



Big bank

vs.

Public bank



Large commercial banks get billions of dollars from state and local governments annually, including interest payments on bonds and fees on depository accounts.

Who profits?
Wall Street banks and CEOs.

A public bank takes the same government funds now deposited in private banks, saves money on interest and fees, and uses those funds for a range of public benefits.

Who profits?
The entire community.



Transformative Characteristics

Traditional commercial banks generally extract resources from local economies. Public banking institutions can reinvest public resources in infrastructure, public works, education (such as student loans), renewable energy, local businesses ventures, and more. Investment decisions formerly made in far-off boardrooms could be returned to the local level with participatory processes that identify local priorities. Public banks could also offer basic financial services to preyed upon “underbanked” populations, either directly or through supporting local community banks. Other possibilities for public banks range from prioritizing small business development to providing seed money for elder care cooperatives to creating a sector for community solar. A public bank need not be concerned primarily with profit maximization but can instead prioritize the long-term economic and ecological health of its service area.

Challenges

Designing and managing a public bank requires special expertise and a significant amount of capital. A government capitalizing a public bank with deposits from public sources will have to determine how to disentangle themselves from contracts they have with large, mainstream banks. These banks wield tremendous power and will leverage it against public banking efforts. The public bank’s ability to be responsive to community needs depends on the democratic and participatory mechanisms incorporated into its design.

More resources

- The Public Banking Institute
publicbankinginstitute.org/mission
- “The Benefits of a Public Bank for Cities and Municipalities,”
Hub Public Banking
hubpublicbanking.org/?s=Benefits+Of+a+Public+Bank

Examples

Bank of North Dakota Established 1919

The Bank of North Dakota (BND) is the oldest public bank in the United States. (The Territorial Bank of American Samoa is the newest.) BND offers loans for businesses, mortgages, and college in addition to basic banking services. However, BND’s lending tends to have a broader scope than that of commercial banks. It has been highly successful in supporting community lending by local banks and serves as a reliable and affordable source of capital to community banks and credit unions across the state. The BND has added more than \$300 million to public revenues over the past 10 years. It even turned a profit during the years following the 2008 Great Recession, helping North Dakota be the only state reporting major surpluses during that period.

Sparkassen (Germany) Established 1778

The German public savings banks (Sparkassen) serve as a highly successful example of public banks working both independently and cooperatively. They were established more than 200 years ago to ensure that everyone, including the very poor, had access to banking services. The Sparkasse now hold 40 percent of total banking assets in Germany, managing public funds while investing bank profits back into their communities. Each of the more than 380 Sparkasse is legally and financially independent but is also part of a supportive network that works to ensure the success of each bank. They operate according to commercial principles, but without the focus on maximizing shareholder profit. This focus on investing back into the community and working together has helped support a resilient, stable economy.



Authored by Adam Simpson

The Next System Project’s **Elements of the Democratic Economy** is an ongoing series introducing the basic institutional designs for a transformed political economy. Learn more at thenextsystem.org/elements