

Public Banks: Creating Public Money for the Public Good

by Ruth Caplan

After the 2009 financial meltdown, we published an issue of *Justice Rising* with our analysis of the crisis. This was followed by an issue pointing to positive solutions. Now, several years later, with the global financial risk greater than ever, we are focusing on public banking as a positive, systemic response.

Our vision is for a network of public banks at the municipal, county, state and eventually national levels, where our tax dollars and other government revenues are used to create vibrant, healthy communities. This includes growing local businesses, creating local jobs, investing in environmentally sustainable initiatives, and meeting social needs like affordable housing.

This should be done in tandem with creating a consumer/retail postal bank to meet the needs of the unbanked, who are being exploited by payday lenders. Over time, this postal bank could expand to meet a broader range of retail banking needs, following in the footsteps of the Kiwi Bank in New Zealand.

To round out the democratization of finance, we need local currencies and barter systems like LETS (Local Exchange Trading System) and a truly public Federal Reserve at the national level so our federal government is no longer weighed down by debt to the private banks. We might even want to follow the road blazed by President Lincoln's "greenbacks" during the Civil War and implement the Constitutional prerogative of the federal government, "To coin Money, regulate the Value thereof" by having the government issue its own money.

Nineteenth century Populists understood the power of the Eastern Bankers. In addition to creating cooperatives across the western half of the country, they also tried, but failed, to create an alternative national currency. However, in our early history, the Colony of Pennsylvania set up its own banking system promoted by Ben Franklin to pump needed money into the colony and avoid the noose of England's banks. When Franklin had the temerity to let England know how well the system was working, the English bankers saw to it that the system was shut down. Later, the bankers managed to do away with Greenbacks after the Civil War. So we should anticipate that Wall Street will use every means available to maintain their hegemony over the global gambling casino, aka the modern financial system. This means a strong broad-based movement for public banking is essential.

Today we can look to the Bank of North Dakota for inspiration. Created in 1919 as a public bank, BND's success today is the result of decades of growth and setbacks until the current highly successful institution has emerged. We can also look at public banks around the world, representing about 40% of all banks. As reported by Ellen Brown in *The Public Bank Solution*, public banks top the list of many banking criteria:

- Japan Post Bank has the most deposits;
- Royal Bank of Scotland has the most assets;
- State Bank of India has the most branches;
- KfW in Germany is the world's safest bank.

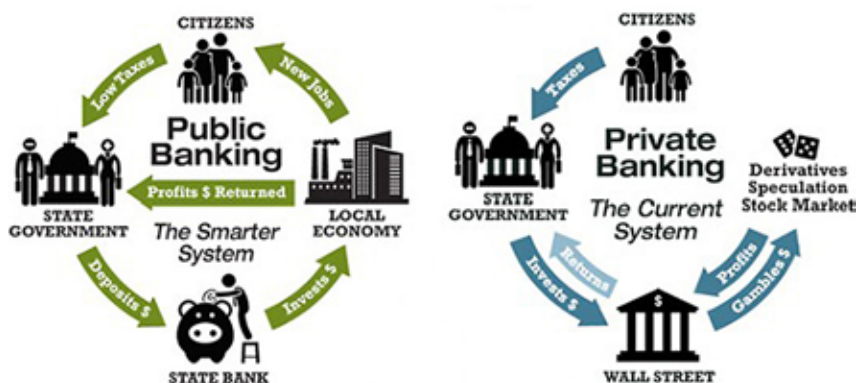
This issue of *Justice Rising* is dedicated to the campaigns around the country which are organizing for public banking and to Ellen Brown and the Public Banking Institute for leading the way.

How do banks create money?

When a bank makes a loan, it doesn't actually loan out depositors' money. The bank just makes accounting entries. Then these loans are deposited in other banks, first by the loan recipient and then by those to whom they pay for goods and services. These banks, in turn, make more loans. Money is made available by these accounting entries all along the way. The bank retains a cash reserve for when the depositors withdraw their money. As long as there is not a "bank run" by nervous depositors, the system appears to work fine. This is the hocus-pocus of the banking system.

What about the Federal Reserve? When banks need cash to pay depositors withdrawing money, they turn to the Fed which creates the money for the loan. More importantly, the Fed has engaged in massive "quantitative easing" policies where it has been buying \$85 billion of government and mortgage bonds every month, using no more than accounting entries on its financial books to create more new money. This has served to buoy up the Wall Street banking system leaving it free to continue to engage in the global gambling casino.

And public banks? They can create money in the same way, by making loans. But while Wall Street banks rarely invest in local communities, even when local governments deposit their revenues in these banks, public banks make their loans to serve the community and the money created is more likely to stay in the community helping to create jobs and other local benefits.



graphic: Public Banking Institute