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Challenges**

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The Public Banking Movement in the United States: Networks, Agenda, Initiatives, and Challenges

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Abstract

In this paper, we analyze the contemporary public banking initiatives in the US. We first provide a brief historical account of public-oriented banking in the US. We then map out the central nodes in the contemporary public banking advocacy networks. Based on an online questionnaire and semi-structured interviews we held with public banking organizers and experts across the country, we provide an overview of the achievements of this growing movement, describe the central socio-economic issues they organize around, and examine the challenges they face. We demonstrate that the interest in public banking is a reaction to a number of socio-economic and ecological issues the US faces, including the infrastructure crisis, ecological crisis, financial exclusion, and problems stemming from the management of state and local government resources. We argue that public banking can be an important tool in addressing these problems and suggest how the federal government, through the Treasury and the Federal Reserve, can support these initiatives.

Keywords: public banking; finance; survey analysis; Federal Reserve

1. Introduction

Public banking initiatives in the US have gained unprecedented momentum in recent years. The origins of the resurgence of interest in public banking go back to the Occupy Movement, which emerged in 2011 as a response to the economic and social injustices heightened by the Global Financial Crisis (GFC). The infrastructure crisis, the exclusion of millions of Americans from basic banking services, the Great Financial Crisis of 2007 and private banking's longstanding history of financing environmentally harmful projects have further fueled interest in public banking across the US.

As a response to these problems, public banking advocates have initiated state and local programs to establish public banking institutions in a number of localities. Alongside these initiatives, networks of organizations and advocacy groups have been created. The Public Banking Institute (PBI), the California Public Banking Alliance (CPBA), and the National Public Banking Alliance (NPBA) are among the major think tanks and organizations advocating for public banking. These organizations have forged connections with a panoply of non-governmental organizations and grassroots movements to help develop existing coalitions and mobilize support for legislation (Schneiberg, 2013). Thanks to these collective efforts, more than thirty states have proposed legislation to create public banks¹.

In this paper, we analyze the public banking movement. We describe the public banking initiatives and map out the central nodes in the public banking advocacy networks. We, discuss the fundamental socio-economic issues these groups organize around, provide an overview of their achievements, and, importantly, examine some of the challenges they face. These challenges are formidable, as evidenced by the fact that relatively few of these initiatives have succeeded thus far. We therefore also discuss institutional innovations that could enable the success of these initiatives. These include, for example, increased federal government support through the Treasury Department and the Federal Reserve (Fed).

A few factors have motivated us to pursue this study. First, despite the growing number of writings on public banking in popular media outlets, the public banking initiatives in the US have surprisingly not received much attention in the academic literature². We aim to contribute to this under-researched area by presenting a survey of the contemporary public banking movement. To better understand this movement and the organizations driving it, we conducted an online questionnaire with thirty-five participants affiliated with thirty-three different public banking

¹ <https://www.publicbankinginstitute.org/legislation-local-groups-by-state/>.

² Schneiberg (2013) and Figart and Majd (2016) are two notable exceptions. As Marshall and Rochon (2019) note, the academic literature on public banking is limited in general.

organizations and initiatives across the country. We also held a series of semi-structured interviews with a number of public banking advocates throughout 2020. Our analysis is informed mainly by our survey analysis, the interviews, as well as reading of feasibility studies, reports, websites, and secondary literature. To our knowledge, this is the first academic study to provide an up-to-date examination of the public banking initiatives in the US, which reports first-hand information from the actors involved.

Another motivation for this paper comes from the increasing popularity of public banking in the wake of the economic crisis caused by the COVID-19 pandemic (McDonald *et al.*, 2020). The pandemic has quickly turned into a worldwide economic crisis as almost all countries had to introduce restrictions on work and leisure activities. The collapse of production and incomes indicates an unusual combination of a massive supply-side and a demand-side shock, making the current crisis among the most severe crisis in modern times. In the US, the pandemic revealed significant problems with the existing financial and fiscal architecture and illustrated the urgency of a public alternative in the country's banking system.

First, starting from March 2020, the Fed and the Treasury began to take a large number of actions to cushion the economic impacts of the pandemic. The banking system has been at the forefront of this response whereby the Fed has launched two major programs, namely the Paycheck Protection Program (PPP) and the Mainstreet Lending Program, to provide liquidity to businesses through the banking system (Uğurlu and Epstein, 2020). Soon after the enactment of these programs, a series of class-action lawsuits were filed against three big Wall Street banks (Bank of America, Wells Fargo, and JP Morgan Chase) for attempting to maximize the fees they earned from distributing loans. In the meantime, the Bank of North Dakota (BND), the only active public bank in the US, fared better than most private banks in allocating PPP funds to small businesses thanks to its efficient coordination with commercial banks in North Dakota (Tonkel and Cortez, 2020).

Secondly, the pandemic has triggered a severe budgetary crisis for municipal governments. Since municipal governments are not allowed to run budget deficits, they have been forced to compensate for the decline in tax revenues and difficulties in raising funds through the bond market by cutting on staff, social programs, and investment projects. There is a widespread belief among the public banking advocates that the recovery efforts could have been more successful if public banks were more common (Poole and Girling, 2020; Brown, 2020). These beliefs are not unfounded. The empirical evidence indicates that public banks perform better than their private counterparts in counter-cyclical lending (Epstein and Dutt, 2018). The potential of public banks as a tool to help contain the economic fallout from the pandemic is also acknowledged by an IMF report, which argues that public banks can fill the gap from under-provision of credit by private banks in times of crisis and lending to local governments (Medas and Ture, 2020).

The American banking sector has been reporting robust profits amidst the long-standing reductions in average wages, increasing poverty rates, and the pressing problems in the provision of education and healthcare services (Beitel, 2016a). The predatory practices the banking sector relies on have been particularly damaging for low-income households, particularly in African American and Latino neighborhoods. Based on the history and political economy of banking in the US and elsewhere, there are no reasons to expect finance capital to voluntarily internalize social and environmental objectives into their business models and lending practices (*ibid.*). As Beitel puts it, “[i]ncentives inherent in our present regime of deregulated predatory finance represent the complete antithesis of what is needed to achieve more egalitarian forms of economic development” (p.3). Given this turmoil and widespread rethinking of the goals and roles of financial institutions, we thought this would be a good time to take stock of the Public Banking movement in the US.

Before proceeding further, it is important to clarify what we mean by ‘public banking.’ Much of the literature on public banks distinguishes between public and private banks based on the ownership structure. However, public ownership is neither a necessary nor a sufficient condition for a bank to be ‘public’ or have a ‘public orientation.’ Some government-owned banks might support self-serving and even corrupt activities by government representatives. Similarly, a privately-owned bank might have a social/stakeholder orientation. Therefore, in the rest of the paper, we use the terms ‘public banking’ and ‘public oriented banking’ to refer to financial institutions guided by a public mandate that can either be owned by the government and/or are ‘stakeholder’ financial institutions that are not solely guided by profit maximization. (Marois, 2021).

We should also note that public banks, by themselves, will not solve the full spectrum of economic and social challenges facing the US. As Barrowclough *et al.* (2020) state, “there is no innate purpose or essential policy orientations that is common to all public banks.” This is because what public banks do and how they evolve depends on the power struggles among and between contending public and private interests within capitalism (Marois and Gungen, 2016). Nevertheless, based on our analysis of public banking initiatives in the US, we argue that public banks can, among other important tasks, take a critical step towards providing support for low-income earners, communities of color, environmental transition, unorthodox business models such as cooperatives, and democratizing finance.

The rest of this paper is organized as follows. The second section presents a brief history of public-oriented banking in the US. The third section gives an overview of the public banking movement. In this section, we map out public banking advocacy groups, summarize their achievements, describe the challenges they face. The fourth section discusses how public banking initiatives can be supported. The final section concludes.

2. A Brief History of Public Banking in the US

The US has a long history of initiatives to provide public-oriented banking services, targeted particularly at communities on the economic margins (Rosenthal, 2018). Notable examples include Benjamin Franklin’s revolving loan funds (established to provide funds to poor artisans starting businesses), Abraham Lincoln’s ‘Freedman’s Savings and Trust Company’ (established to help African American war veterans), credit unions, savings and loan associations (established to offer affordable mortgage loans to low and middle-income earners), the Reconstruction Finance Corporation (RFC), United States Postal Savings System (1911-1967), and the Bank of North Dakota (BND) (Baradaran, 2014; Rosenthal, 2018). Most of these institutions were built on grassroots efforts. They aimed to make financial services accessible to people on the economic margins, and many of them were supported and subsidized by the federal government through targeted regulation and deposit insurance protection (Baradaran, 2014). Two of the most important initiatives that currently serve as inspirations and models for activists are: The Bank of North Dakota and the US Postal Banking System.³

The Bank of North Dakota is the only state-level public bank in the US. The origins of the BND go back to the populist Nonpartisan League, which was a political party formed by farmers, reformers, and radicals fighting against the monopoly power of the large financial and business institutions dominating the North Dakotan economy in the early twentieth century. The original aim of the League was to establish a system of rural credit unions, farm cooperatives, state-run mills, and packing houses (Hatzenbuehler, 2020). In 1919, the North Dakota legislative session took inspiration from the League’s industrial program and established the BND to provide low-cost rural credits financing state departments and enterprises and serve as a clearinghouse agency for banks through the state (*ibid.*).

To this date, the BND implements the so-called ‘partner bank’ (also known as the ‘partnership’) model. Under this model, the state of North Dakota deposits public funds in the BND. The BND partners with local banks, credit unions, and other financial service providers to purchase loans distributed to agricultural producers, small businesses, and residential mortgages. Under this model, the BND acts as a ‘banker’s bank,’ supporting certain lending types by cooperating with community banks.

The partner bank model has a few advantages. Firstly, partnering with BND allows local banks to distribute loans beyond their legal or internal lending limits (Kodrzycki and Elmatad, 2011). This way, the BND supports the viability of small banks and empowers them in competing with large

³ For a more comprehensive summary of public-oriented finance in the US, see Benjamin *et al.* (2004), Brown (2013), Rosenthal (2018), and Herndon and Paul (2020). For global examples of public banking, see Marois (2021). For an overview of public ownership in the US in general, see Hanna (2018).

out-of-state banks. This model can also support local lenders' lending capacity, particularly in areas that align with the public bank's mission (Brennan and Keliher, 2020).

Secondly, the partnership model brings together local lenders' decentralized knowledge of their community and the scaled resources of the state (*ibid.*). This way, it creates virtuous cycles in the local economy in which capital is circulated within the state rather than being extracted by out-of-state financiers. Unlike big Wall Street banks, the BND does not invest in derivatives or any other speculative and risky financial instruments in national or global financial markets (Schneiberg, 2013). As such, the BND model represents a regionally based circuit of capital benefitting small businesses, farmers, local governments, and students. The funds collected by the bank are largely used to support economic development (*ibid.*).

Another advantage of the partnership model is that it minimizes costs by outsourcing the administrative costs associated with loan provision to local lenders. The BND maintains working relations with local lenders from their only existing physical location in the state's capital. Given that it does not have to compete with private banks for retail deposits, the BND does not have any other branches across North Dakota. (Brennan and Keliher, 2020)

The performance of BND during the GFC and the Covid-19 Pandemic has triggered a renewed interest in the bank. Several studies demonstrated that BND increased its loans and letters of credit to its partner banks requiring liquidity during the GFC while remaining profitable and achieving better credit ratings than most private banks (Schneiberg, 2013). Besides, as mentioned above, the BND demonstrated a superior performance during the Pandemic in the distribution of PPP funds.

Some critics argue that BND's resilience during the GFC was due to the loans it made to profitable state industries, particularly oil. While it is true that oil is an important sector of the North Dakotan economy (Schneiberg, 2013), it is also essential to acknowledge that the critiques often try to undermine the public banking efforts by highlighting the 'particularities' of the North Dakotan economy and project the BND as a unique institution that cannot be replicated in other contexts. The BND's role in financing the oil industry certainly contradicts the demands of contemporary public banking advocates. In fact, the BND's lack of social and environmental focus, which is built into the bank's mission, is acknowledged by the public banking advocates (e.g., Simpson *et al.*, 2018; Hanna, 2018; Brennan and Keliher, 2020). Nevertheless, the BND's 'partner bank model' provides an example of how a public bank could be incorporated into the US financial system. Furthermore, it illustrates the capacity of public banks to represent local interests. While in North Dakota, it could be the oil industry whose interests are represented by the BND, the public banks' funding can be channeled towards green energy and green jobs in other states through publicly agreed-upon charters (Anzilotti, 2019).

Whereas our first example is a state level organization, our second, the Postal Banking System, was a federal level system. The Postal Banking system (the USPSS) operated between 1911 and 1967 and its main purpose was to provide basic banking services to low-income and immigrant households. The funds deposited at the USPSS was under the government's protection (Baradaran, 2014). Due to the opposition from the private banking industry, there were some important restrictions on the functioning of the postal system, such as low interest rates paid on deposits and low deposit limits. As a result, the postal banking system could not compete with the private banking sector (Herndon and Paul, 2020). Although no longer operational in the US, postal banking structures are in use in over sixty countries, including Japan, Great Britain, and Germany. As we will discuss in section four, the idea of recreating the PSBS is gaining political momentum in the US.

3. Public Banking Movement

There has been a revival in public banking initiatives in recent years. As we will discuss in this section these initiatives have taken place in multiple states and have taken multiple form.

3.1. Public Banking Networks⁴

The public banking initiatives have been helped by the creation of several national public banking organizations. Public Banking Institute (PBI), Public Banking Associates (PBA), Demos, the Next

⁴ **A Note on our methodology:** To better understand the contemporary public banking movement and the organizations driving it, we conducted an online questionnaire with thirty-five participants. Most participants are affiliated with more than one public banking organizations, with thirty-three different organizations in total. We asked the participants to answer the questions only for one organization. The participants answered the questions in their individual capacities. Therefore, the answers they provided may not necessarily reflect the official opinions of the organizations that they are affiliated with. The list of organizations that survey participants are affiliated with are provided in appendix A.

Most participants work voluntarily in various capacities, including member, organizer, advisor, treasurer, (co)director, and (co)chair. The participants remain anonymous for purposes of confidentiality. The organizations represented in the questionnaire are spread throughout the country, including Colorado, Massachusetts, New York, and New Jersey, while a majority is concentrated in California. Besides, we had five participants affiliated with country-wide public banking initiatives and organizations, namely Public Banking Institute (PBI), Public Banking Associates (PBA), Public Banking and Justice (PBJ), National Public Banking Alliance (NPBA), and Democracy Policy Network. We attempted to increase the outreach of our questionnaire by circulating it in various major public banking listservs, including PBI, CPBA, and NPBA. The questionnaire consists of 22 questions. The complete list of questions is provided in appendix B. The participants' geographical breakdown is provided in appendix C.

As per the interviews, we circulated a set of 17 questions with the interviewees, listed in appendix D. The interviews were semi-structured. This provided room for spontaneity both for us and interviewees, particularly when certain questions were not applicable and when there were contextual details the interviewees wanted to add, which were not covered by our questions. Most interviews lasted between 30 to 60 minutes.

System Project, and National Public Banking Alliance (NPBA) are central nodes in the public banking advocacy networks.

PBI is a think tank and education organization formed in 2011 by a small group of dedicated advocates, including Ellen Brown. Its main aims are to spread awareness about the transformative potential of public banking and support efforts to create public banks at different government levels. Besides being one of the co-founders of the PBI, Ellen Brown is widely known in public banking advocacy networks for popularizing public banking through her numerous writings, including her 2013 book *Public Bank Solution*. Since its establishment, PBI has supported numerous initiatives, organized two major nation-wide conferences, and established alliances across the political and economic spectrum. PBI advocates the BND's 'partner bank' model. It cooperates with advocacy groups across the country towards establishing public banks that would be modeled after the BND and be mandated to act in the interests of their communities.

PBA provides analysis, advice, and consulting services for public banking initiatives around the country. CTI, a nonprofit and non-partisan organization, similarly supports public banking efforts by collaborating with state legislators and advocacy groups to provide technical assistance. Demos, a public policy and a research organization, produces policy briefs and organizes conferences on public banking. NPBA is a recent initiative that aims to mobilize communities to advance socially and environmentally responsible public banks throughout the US.

These organizations have established ties with a wide array of policy groups and nonpartisan advocacy organizations to tap into existing coalitions and mobilize support around legislations (Schneiberg, 2013). They provide a wide range of services, including producing policy briefs and model laws to state officials and legislatures. They sometimes work with elected officials and treasurers, testify at hearings, and monitor the progress of legislation. As Schneiberg (2013) puts it, these organizations function as a clearinghouse for information on public banking across the country.

3.2. The Public Banking Agenda

To understand the main agenda items of different advocacy groups, we asked the following question in our questionnaire: "What are the main issues that your public banking initiative aims to address?". The question was designed as a multiple-choice question where participants were allowed to choose multiple answers. Among the choices we provided, infrastructure investment, affordable housing, environmental justice, and small business lending came out as the most pressing issues (table 1). We also asked the participants what other issues they would like to address that were not listed among the choices we provided. The answers they provided are summarized in table 2. The answers reveal that public banking initiatives aim to address a diverse set of issues ranging from supporting businesses amidst the Covid crisis to democratizing finance

and enhancing community participation in government financing. We will expand on how public banks can address some of these problems in the proceeding paragraphs.

Table 1: Main Public Banking Agenda Items

- Management of local resources (23)
- Infrastructure investment (32)
- Affordable housing (32)
- Supporting small business lending (31)
- Environmental justice (31)
- Financial exclusion (23)
- Racial justice (29)
- Gender inequalities (14)

Source: Authors' summary based on the questionnaire results

Management of Local Resources

Most advocates we engaged with through the survey and interviews expressed an awareness of systemic problems associated with the financing of government expenditures at the local and state level. Therefore, mobilizing more financial resources for social needs was a key concern noted by many public banking initiatives. The potential opportunity arises from the liquid funds held by almost all state and local governments. Almost every state and local governments deposit their funds in private banks due to a lack of alternatives (Brennan and Keliher, 2020). One of the problems with this practice is that private banks charge substantial fees for their services.⁵ Besides, private banks often use these funds for practices that are incompatible with the values of many communities, such as discriminatory and predatory lending practices, funding private prisons and detention centers, and investing in environmentally harmful projects (Epstein and Ugurlu, 2020).

Since the 1980s, municipalities and public districts have been relying increasingly on the bond market to finance their expenditures. For relatively wealthy cities, the recourse to the bond market has enhanced the funding opportunities for infrastructure investment. However, for cities suffering from protracted disinvestment, this turn has brought about deleterious costs given that unfavorable credit ratings, partly resulting from systemic biases in assessing the likelihood of borrower default, resulted in higher borrowing costs (Beitel, 2016a). There are other problems that result from heavy reliance on the municipal bond market. The financial flows taking place in these markets possess a largely regressive character given that municipal debt instruments are often held by institutional fund managers and wealthy households. As such, local governments, irrespective of credit ratings, end up transferring tax dollars to wealthy individuals. (*ibid.*)

⁵ For instance, according to Public Bank LA, Los Angeles pays about \$100 million a year in banking fees and interest.

Public banking advocates believe that public banks can transform local governments' fiscal management in important ways. Most importantly, public banks can allow public funds used in inequalitarian and unproductive ways to be recaptured and redirected into socially beneficial investments. For instance, the municipal cash reserves currently invested in money market instruments can be used to undertake major investments in affordable housing and infrastructure – two of the most pressing issues public banking advocates aim to address, according to our questionnaire. The advocates believe that these resources can also be redirected into providing funds for land trusts, cooperative rental housing, and worker-owned cooperatives. In California, the advocates argue that these funds can be channeled into community housing, which would help address astronomical housing prices and the homelessness epidemic (Simpson *et al.*, 2018).

Table 2: Other Issues Public Banking Initiatives Aim to Address

<ul style="list-style-type: none"> - Democratization of finance - Reducing the size of too-big-to-fail banks through obviating the secondary mortgage market - Public control of assets for public interest(s) - Community participation in government financing - Reversing the privatization of money as a utility - Divestment from institutions that support the fossil fuel industry, prisons, detention centers, arms - Covid Relief for small businesses and economy in general - Wildfire disaster relief for affected communities - Local state & municipal fund risk management and financial security - Native people's rights - Re-storing, stabilizing, and expanding local & regional food systems - Supporting agriculture and local farming - Lending to worker-owned cooperatives - Creating more jobs - Debt consolidation and refinancing

Source: Authors' summary based on the questionnaire results

Public banks can help states save money by reducing fees and interest payments typically paid to private banks. Furthermore, they can provide additional funding resources that are not available to local governments due to their inability to accept and lend out deposits. Banks can utilize various tools, such as certificates of deposit and bankers' acceptances, to raise funds to support projects that fit with the social and economic policy objectives of the communities they serve (Beitel, 2016b). Besides giving direct loans, public banks can purchase municipal bonds directly from local and state governments at a low interest rate. The experiences of BND provide support to these arguments. The BND has been consistently contributing to state revenues by transferring profits

and providing loans at reduced interest rates for local government borrowing⁶ (Schneiberg, 2013, p.287).

To summarize, public banks can serve two important functions in public financing: they can serve as (1) public depositories for government funds and (2) public lenders for government projects. This way, they can help local and state governments to save money and enable public funds to be recirculated in local and state economies for socially and economically productive purposes rather than being gambled on financial markets for private gains.

Environmental justice

Environmental justice is one of the core principles of almost all public banking advocacy groups. The advocates rightly point out the worldwide failure of private banks to respond to the financing needs to mitigate global warming and undertake environmental transition. For instance, despite having control over a far higher amount of assets than public banks, in 2016, public and private banks invested equal amounts in green investment (Marois and Gungen, 2019). Furthermore, public investments are the main reason renewable energy finance has grown after the GFC (Mazzucato and Semieniuk, 2018⁷).

In the context of the inability and reluctance of private banks to respond to the financing needs of a successful environmental transition, there is a growing sentiment that public banking should and can play a key role in financing green transitional infrastructure in the US. These views are further enhanced as most public banks worldwide have already integrated mandates about the decarbonization of their activities and environmental sustainability (Barrowclough *et al.*, 2020). The Green New Deal resolution drafted by Congresswoman Ocasio-Cortez and Senator Ed Markey cites public banking as an option in the financing of the Green New Deal. The possibility of public banking option in the context of financing of the Green New Deal is explored in the Next System Project's proposal for a Green Investment Bank by Marois and Gungen (2019).

Financial exclusion

The lack of access to basic and low-cost financial services by a large fraction of the US population is another major issue the public banking movement aims to address. Financial exclusion refers to households that are unbanked or underbanked (Herndon and Paul, 2020). Unbanked individuals

⁶ Since the mid-1970s, the BND has transferred an average of \$30 million to state revenues, including a \$25 million contribution to a \$43 million shortfall in the 2001-2003 state budget, which prevented major cuts in state spending during a recession (Schneiberg, 2013).

⁷ This study analyzes global investments in renewable energy power plants between 2004-2014. According to their results, public banks unambiguously show a significant capacity to provide long-term financial resources to increase renewable energy capacity.

are those that lack access to any bank account, while underbanked refers to individuals with access to a bank account but still depends on the use of high-cost alternative financial services, such as money orders, payday loans, pawnshop loans, and third-party payment services (*ibid.*) Approximately 88 million people in the US are unbanked or underbanked (Baradaran, 2014). In most cases, those who are un- and under-banked are forced to turn to predatory payday loan lenders who charge hefty interest rates – according to Baradaran (2020), unbanked and underbanked individuals spend on average 10 percent of their income on alternative financial services. The severity of this problem can be better understood in the context that half of the adult population in the US expressed that they would be unable to access \$2000 within thirty days in the case of an emergency (Baradaran, 2014).

Similar to other capitalist enterprises, banks operate under profit maximization objectives. They do so by devising strategies to maximize their revenues, minimizing costs, and managing risks. As such, they reject customers that are deemed too risky or unprofitable or repel them by charging hefty fees. For this reason, since the 1970s, many commercial banks closed branches in low-income communities on a large scale, which opened up a space for fringe lenders. Although advocacy groups and banking regulators attempted to encourage mainstream banks to move back to these neighborhoods, these efforts have faced major opposition from the banking industry. (*ibid.*)

Given its longstanding history, postal banking has been one of the focal points of public banking advocacy in the US. The evidence suggests that the postal banking systems help mitigate financial exclusion problems (Herndon and Paul, 2020). The advocates argue that the USPS can offer essential banking services to low-income households at a discount compared to fringe lenders, given that they operate with less overhead and can benefit from the postal office's economies of scale (Baradaran, 2014). They stress that Postal Banking would be exempt from a major infrastructure problem given that USPS already has an office in almost every ZIP code (*ibid.*). Besides Postal Banking, other types of public banks could also play a key role in extending services to underserved populations by partnering with existing community banks, credit unions, and CDFIs to undertake participation lending, risk-sharing, and targeted social equity investments (Beitel, 2016a).

Racial and gender justice

Many public banking advocacy groups share a vision of racial and gender justice and believe that public banking can address these forms of inequalities. The history of banking and credit markets in the US is filled with systemic exclusion and segmentation based on race and geography (Baradaran 2015, 2017). There has been a long history of redlining, whereby people in communities of color are denied loans, including mortgages. Despite the federal Community Reinvestment Act of 1977, the practice persists throughout the country (Niou and Genna, 2019).

Public banking advocates believe that public banks can be functional in addressing these issues by supporting businesses owned by people from marginalized communities and initiating a more equitable mortgage allocation. Some of the advocates we interviewed also mentioned that they would like their public banks to make pledges to provide loans to marginalized communities, formerly incarcerated, the homeless, and people with disabilities. This can be done by including specific provisions into the public bank's mission statement, for instance, regarding providing lower-cost mortgages to first-time homebuyers from marginalized communities.

Democratization of finance

The democratization of finance and enhancing community participation in local and state government financing were other recurrent themes in the questionnaire and the interviews. Although many advocates we contacted stressed that they do not see public banks' activities in a necessary competition with private banking, many of them also expressed a need to curb the power of too-big-to-fail banks through divesting public resources from them and creating and popularizing alternative banking arrangements. In addition, the advocates expressed the view that public banking would foster democratization by giving the public a say in how the city and state resources should be used to tackle various socio-economic and ecological problems through the democratic governance of the bank.

3.3. Public Banking Initiatives at Local and State Levels

To pursue the agenda items discussed above, public banking advocates work towards establishing public banks following two common approaches. The first approach is to establish public banks at the city, county, or regional level. In most cases, the state governments need to pass legislation to authorize the creation of local-level public banks. The second approach involves establishing a state public bank, like the BND, which would act as the public depository for state funds and partner with local lenders. (Brennan and Keliher, 2020)

As we will explain below, there are attempts in different states to establish public banks following both of these approaches. Table 3 shows that these efforts are spread throughout the country, including California, Colorado, Hawaii, Massachusetts, New Jersey and New Mexico. Given space limitations, we will cover only a selected number of initiatives briefly and focus on two states that are furthest along the process of establishing a public bank (California and New Jersey) in the main text. A more detailed overview of other initiatives is provided in table 3 and the appendix.

Table 3: Public Banking Initiatives

State	Type of Public Bank (PB)	Legislation No and/or Name	Aim of the Legislation	Selected Supporting Individuals and Organizations	Progress and/or Challenges
California	Local PB	AB 857	Authorizes the state to charter ten municipal banks over seven years.	California Public Banking Alliance (CPBA) (coalition of ten public banking grassroots groups across the state)	Passed in 2019.
	Municipal bank in San Francisco	Ordinance 210078	Creates a working group to write a public bank business plan.	CPBA; San Francisco Public Banking Coalition	
	State PB	SB 528 AB 310	Convert the Infrastructure and Development Bank (iBank) into a state-level public bank.	CPBA; organizations listed on https://ab310.org/	SB 528 failed to pass. AB 310 is likely to pass and be signed into law in 2021. The Treasurer, the Controller, and the Chair of the State Governance and Finance Committee supports the bill
Colorado	State and Local PB	Ballot Proposal No 127	Establish a state-owned bank.	The Colorado Public Banking Coalition (many other organizations listed on their website); Rocky Mountain Public Banking Institute	The ballot proposal was initially approved for inclusion in a public vote; however, it was later on rejected upon some modifications and objections. A feasibility study was conducted by Rocky Mountain Public Banking Institute, which concluded that establishing a PB in Colorado was feasible. A legislation was going to be introduced in 2020; however, the Covid crisis prevented the introduction of the bill. The legislator who was sponsoring the bill has left and now the supporters are trying to find new sponsors.
Hawaii	State PB	Hb 1103	Establishes an implementation board to review, investigate, and study the feasibility of establishing a state-owned bank.	State Representative Dale Kobayashi	

Massachusetts	State PB	H935; S579	Establish Massachusetts Infrastructure Bank	Mass Public Banking; Black Economic Council of MA, Boston Ujima Project; Alliance for Democracy	H935 and S579 did not pass. A comprehensive draft for a state PB has been drafted and it will be introduced in the legislative 2021-22 session.
New Jersey	State PB	EO 91 (Executive order)	Create 14-member board (task force) to develop a set of recommendations for the state Governor's consideration to establish a state-level PB.	New Jersey Citizen Action; State Governor Phil Murphy	The task force is expected to identify recommendations over 2021. In 2021, the Governor Murphy will be running for a new term. The establishment of the PB is likely to take place in his new term.
New Mexico	Local PB in Santa Fe			Alliance for Local Economic Prosperity	A feasibility study found establishment of a local PB feasible in 2014. In 2017, a PB task force was established. In 2018, they presented a report to the city council. The report concluded that the financial infrastructure of Santa Fe was not large enough to create a city owned PB and encouraged establishment of a state-level PB.
	State PB	SB313/ HB236	Establish the Public Bank of New Mexico	Alliance for Local Economic Prosperity	The bills have been filed and assigned to some committees in February 2021. As of February 2021, it awaits scheduling and hearing in these committees.
New York State	Local PB	S1762 (state level bill) also known as 'the New York Public Banking Act'	Facilitate the creation of public banks by authorizing the New York State Department of Financial Services to issue PB charters to NY cities, counties and regions	Public Bank NYC (a coalition representing several organizations including New Economy Project)	The bill has not been voted on yet. One of our survey participants expressed that they are optimistic about the prospects of this bill passing.
	State PB	S9044	Establish State of New York Public Bank following the BND model	Senator Sanders Jr.; Public Bank NYC	The bill has not been voted on yet.
Oregon	State PB	SB 399	Establish Bank of the State of Oregon.	Oregon Public Banking Alliance	The bill is in Senate Committee on Finance and Revenue as of February 2021
	Local PB	HB 2743	Enable municipalities to create public banks. Provides that municipal	Oregon Public Banking Alliance	The bill is in House Committee on Business and Labor as of February 2021

bank is not required to obtain deposit insurance from FDIC under certain conditions. Provides that municipal bank may act as depository or custodian of public banks under certain conditions.

Pennsylvania	Local PB in Philadelphia	210005	Provide the legal background to establish a local public bank.	Philadelphia Public Banking Coalition (PPBC), Public Banking Pennsylvania, City Council member Derek Green	As of February 2021, the bill is in Committee on Finance.
	State PB	NA	Establish State of New York Public Bank following the BND model.	Pennsylvania Public Bank Project	A bill is expected to be introduced in early 2021.
Virginia	State PB	NA	Consolidating four state agencies into a state level PB	Bank of Virginia Act- Protect US	
Washington State	State PB	SB5949; SB5995; SB 5188	Establish a public state investment trust, which would function as a public depository for state money, and a commission to oversee it	Senator Bob Hasegawa; Washington Public Bank Coalition; The League of Women Voters of Washington	SB5949 has not passed. There was a strong ideological opposition, including from the State Treasurer. SB5995 received a public hearing in January 2020; however, it was similarly opposed. SB 5188 has been introduced in 2021.
Federal		HR 8721 (known as Public Banking Act)	Encourage and enable the creation of public banks at state and local levels	Congresswomen Rashida Tlaib; Congresswomen Alexandria Ocasio-Cortez	
		S 4614 (known as Postal Banking Act)	Re-establish postal banking	Senator Kirsten Gillibrand; Senator Bernie Sanders	

S 3571 (Banking for All Act)	Allow the public members to set up FedAccounts at local banks and post offices	Senate Banking Committee member Sharrod Brown
HR 6422 (the National Infrastructure Bank Act)	Capitalize a national public bank	Representative Danny Davis; Representative Seth Moulton; Coalition for the National Infrastructure Bank (NIB)

Source: Compiled from information posted on PBI’s website, websites of supporting organizations listed on the table, and interviews and public banking survey held by the authors.

Note: The table does not intend to present a complete list of public banking initiatives. We focused on the efforts that we managed to gather information through interviews, surveys and online resources. Interested readers can check the PBI’s website (<https://www.publicbankinginstitute.org/legislation-local-groups-by-state/>, accessed on February 10, 2021), where a more comprehensive list of public banking initiatives is regularly updated

New York State: New York State hosts important initiatives to establish public banks at local and state levels. There is for instance an ongoing attempt to introduce legislation to facilitate the creation of public banks at city and county levels across the state. If it passes, this legislation will provide the legal background for local governments to establish their own public banks. As we will explain below, this attempt is similar to AB 857 legislation that has passed in California in 2019. In addition, there is an attempt to establish a state level public bank. Both of these efforts are supported by numerous grassroots groups organized around the ‘Public Bank NYC’ coalition. Although none of the proposed bills have come to the floor yet, our survey participants from New York State expressed optimism the prospect of the bills to pass.

Pennsylvania: Similar efforts to establish both local and state levels public banks are present in Pennsylvania. The local level initiative is based in Philadelphia. The feasibility of establishing a public bank in Philadelphia has been analyzed in two separate studies, which yielded positive results. Following these studies, the advocates have introduced a bill in February 2021. If this bill passes, the city will have the legal background necessary to establish a city public bank. The state level attempt aims to establish a public bank by adopting the BND model. This effort is supported by the PBI, and the advocates are planning to introduce legislation to facilitate this in early 2021.

Washington State: Over the past several years, advocates in Washington State have been pushing to establish a state level public bank that would function as a public depository for state money and would be authorized to manage and invest state funds in infrastructure development programs. These efforts have been supported by State Senator Bob Hasegawa and various grassroots organizations. However, these initiatives have been facing fierce ideological opposition expressed mainly by the state treasurer. Despite these difficulties, the organizers who participated in our survey expressed their commitment to continue pushing for public banking in the coming years.

California: There are efforts to create both local-level public banks and a state-level public bank in California. In 2019, California passed legislation, AB 857, which enables the creation of local public banks. There are also ongoing efforts to convert California’s Infrastructure and Development Bank (the IBank), currently an infrastructure loan fund, into a state-level public bank.

The grassroots movement advocating for divestment against the Wall Street banks supporting the Dakota Access Pipeline Project (DAPL) has laid the groundwork for AB 857. In 2016, DAPL announced a significant expansion of its fossil fuel infrastructure. Given the risks the expansion would pose for the water supply and livelihoods of indigenous people of Standing Rock, the announcement triggered massive protests. In the context of these protests, a group of activists organized a divestment campaign against Wells Fargo, one of the leading Wall Street banks that funded the DAPL. The activists campaigned for pulling some cities’ deposits, including Seattle,

San Francisco, Los Angeles, and Albuquerque, out of Wells Fargo (Anzilotti, 2019). The campaign won a significant victory when the City Councils of Seattle, Washington, and Davis, California voted to end their relationship with Wells Fargo in 2017. However, this decision has brought up an important question: where could local government keep their funds instead? The lack of alternatives to Wall Street banks gave rise to the *Public Bank LA* initiative, which began a campaign to establish a municipal bank that would be owned by the city of Los Angeles and would manage city funds in the public interest. (Epstein and Ugurlu, 2020)

One of the first major accomplishments of Public Bank LA was to facilitate a city referendum to form a public bank. Although the referendum fell short at 44.15% support, this momentum was translated into the formation of the *California Public Banking Alliance* (CPBA), which is a coalition of ten public banking grassroots groups across the state⁸ (Brennan, 2020). In 2019, California passed the first municipal banking legislation in the country, AB 857, authorizing the state to charter ten municipal banks over seven years. More specifically, this legislation provides a regulatory framework, through California’s Department of Business Oversight, for issuing public banks “certificates of authorization to transact business as a bank” (Brennan and Keliher, 2020).

Besides local public banking, the advocates in California have been campaigning for a state-level public bank. These efforts started in 2019 with the introduction of a bill, SB 528, by Democratic Senator Ben Hueso. This bill aimed to transform the IBank into a depository institution that could take deposits from cities and counties, manage them and provide loan guarantees and conduit bonds to California projects. Although this bill has failed, a new task force is working on converting the IBank into a state-level public bank. In July 2020, a new bill, AB 310, was introduced for this purpose. AB 310 has two main components/targets: (1) expanding the IBank’s lending capacity, and (2) converting the IBank into a state Public Bank. The expansion in the lending capacity is introduced to support local governments and small businesses, targeting especially those owned by disadvantaged groups.

Under AB 310, the support for local government would come in the form of purchasing municipal bonds at below-market rates and provision of direct loans by the IBank. Besides, the bill requires the IBank to establish a specific ‘bridge loan program’ for local governments that serve disadvantaged communities. Concerning the support for small businesses, the bill directs the IBank to expand the scope of its existing small business loan guarantee program through partnering with “participating lenders”, which would include CDFIs, credit unions, and banks. The expansion in the lending capacity would then be channeled into “target borrowers”, who are underserved and disadvantaged small business owners in urban and rural areas. The bill requires 60% of the loan

⁸ These grassroots groups: Public Bank Los Angeles, Public Bank San Francisco, Public Bank East Bay, South Bay Progressive Alliance, Friends of Public Banking Santa Rosa, Public Bank Santa Barbara, Cooperation Humboldt-Eureka, People for Public Banking Santa Cruz, Public Bank Pomona Valley, and Public Bank San Diego.

guarantee funds to focus on the target borrowers. Furthermore, the bill introduces a new small loan guarantee program that would focus exclusively on target borrowers. Lastly, the bill equips the IBank with new tools, such as long-term subordinated debt at favorable terms and full or partial loan repurchases, which can be used to increase the lending capacity of financial institutions serving low-income communities, such as CDFIs, community development credit unions, and local public banks. (California Public Banking Alliance, 2020)

The bill projects five-years period for the IBank to fully function as a state public bank. The state treasurer would need to transfer 20% of state deposits into the IBank within a year of becoming a depository institution. The rest of the funds would need to be deposited within five years. Once converted into a depository institution, the state bank would have access to the Fed's discount window, which provides short term lending to banks at a 1.25% interest rate (*ibid.*).

To summarize, if AB 310 passes, the bill would be paving the path for the first state-level public bank in the US in 102 years. Under this legislation, the IBank would be converted into a depository institution, which according to some calculations, can leverage its capital up to ten times. The state public bank would provide long-term stable financing for local governments and small businesses. As local governments and government agencies would receive banking services from a public bank, they would be saving on fees and interests that currently benefit Wall Street banks. Most importantly, the state public bank would redirect the state's funds into socially, ecologically, and economically desirable uses, such as supporting green infrastructure investment and lending to communities at economic margins. With the prospects of creating ten local public banks and converting the IBank into a state-level public bank, public banking advocates in California have been setting important examples that can be replicated in other parts of the country.

New Jersey: New Jersey is another state where significant developments are taking place in the public banking terrain. In 2019, the Democratic Governor Phil Murphy, who is widely known for his previous role as a Goldman Sachs executive, signed an executive order, EO91, to create a 14-member board (also referred to as implementation board or task force) whose mission is to develop a set of recommendations for the governor's consideration to establish a state-level public bank.

New Jersey Citizen Action (NJCA) is one of the grassroots organizations involved in public banking efforts⁹. NJCA aims to contribute to public banking advocacy in New Jersey by discussing

⁹ NJCA campaigns around progressive legislatures, participates in electoral campaigns, and provides direct services to low-and moderate-income individuals living in New Jersey. In addition to advocacy campaigns, they provide free direct services to low- and moderate-income individuals. According to our interviewee, NJCA got interested in banking following the Community Reinvestment Act. They actively worked with the banks to inform them on whom among the underbanked could be lower risk. Thanks to longstanding efforts of NJCA, there was already an interest in New Jersey for public oriented finance. When Governor Murphy introduced the idea of a state public bank, NJCA was ready to provide support.

some of the priority areas that a state bank should focus on, exploring capitalization options, and discussing the institutional and regulatory structure for the public bank that can enable cooperation and collaboration with existing state agencies. So far, NJCA has identified affordable housing, renewable energy investment, small business support, disaster relief, and re-financement of student loans as priority areas.

Our interviewee from NJCA expressed that the BND model cannot be directly replicated in New Jersey, given that there are significant differences in the economic and institutional landscape between the two states. He pointed out that New Jersey already hosts several public financial entities in the areas of economic development, housing, environment, transportation, and construction¹⁰. According to our interviewee, there is a need to identify the “need gaps” of these agencies and identify opportunities for collaborative synergies. For NJCA members, this is necessary to shape the vision and mission of the state public bank in New Jersey. Therefore, NJCA calls for a ‘homegrown effort’ that takes the sophisticated public financial terrain of New Jersey into consideration.

New Jersey, alongside California, has the potential to host one of the first state-level public banks after BND. Since it has a governor sympathetic to the idea of public banking, New Jersey managed to skip some of the typical legislative steps, such as feasibility studies and enabling legislation (*ibid.*). What needs to be done to put the public bank into practice is to develop a business plan and appropriate the funds required for capitalization. In 2021, Governor Murphy will be running for the next term, and the implementation board expects to identify recommendations over 2021. If the governor accepts these recommendations, the establishment of the bank can take place in his next term.

3.4.Challenges

Establishing a public bank entails a long process with potential challenges at every step of the way. In most cases, existing regulations present an obstacle for establishing public banks, given that most state constitutions and regulatory frameworks are built around the assumption that all banks are privately owned (Brennan and Keliher, 2020). Public banking advocates can address this problem by authorizing the states to charter public banks. This can be done by (1) allowing a single special charter for a state public bank or (2) establishing a general framework to charter public banks at city, county, region or state-levels. If the aim is to establish a state-level public bank through the first approach, this can be done via introducing a single public banking bill, which would also authorize creating a special task force to develop a business plan and lay out the

¹⁰ For instance, the New Jersey Redevelopment Authority can act as a public bank within urban areas that need redevelopment. There is a housing mortgage financing agency that provides low-cost financing for low- and moderate-income households. The New Jersey Environmental Infrastructure Investment Trust offers low-interest rates for water-related projects and disaster relief.

capitalization methods. Under the second approach, once the legislation enabling public bank charters passes, the relevant government bodies would need to develop a business plan for the bank and apply for a charter. A specially appointed task force would carry out the plan and lay out some principles about i) governance of the bank, ii) lending programs and iii) management of profits (*ibid.*).

In our questionnaire, we gave participants seven statements regarding potential challenges their organization might be facing and asked them to address each statement on a Likert scale (1-strongly agree, 6-strongly disagree) (see appendix D for details). Lack of resources to conduct high-quality feasibility studies, securing funds for capitalization, opposition from private interest groups and lack of familiarity with public banking were highlighted as the main issues public banking advocacy groups face.

3.4.1. Feasibility Studies

Attempts to legislate public banking generally start with feasibility studies. In theory, feasibility studies help find gaps in the existing banking system, such as credit shortages, and assess the potential benefits of alternative banking arrangements. Some public banking groups believe that feasibility studies can give them a better understanding of contextual nuances around legal and regulatory barriers (Brennan, 2020). Another potential advantage is that feasibility studies can put the advocates in a stronger position as the opponents would need to justify their opposition with credible arguments against the feasibility study (*ibid.*)

Despite these potential benefits, our questionnaire and interviews revealed mixed opinions on studies. One of the issues that came up was that most organizations lacked the resources to control the quality of feasibility studies. Out of 27 people, 18 people agreed to varying degrees that their organization lacked financial resources to administer a feasibility study (see appendix D for details). An interviewee who decided to remain anonymous explained that, in their case, the agency tasked with carrying out the study lacked banking expertise, and “the study was a huge failure.” They also mentioned that in another state, public banking advocates failed to provide a solid idea behind their feasibility study and that many public banking organizations, in general, fail to tap into actual experts. According to this interviewee, poorly carried out feasibility studies combined with public officials who are terrified about taking bold steps or doing something legally wrong make it challenging for public banking initiatives to succeed. In a similar vein, one of the survey participants expressed that “none of the feasibility studies were conducted by anyone who understands how a public bank works.” The idea that some of the public banking proposals were too hastily crafted and did not respond to moral hazard concerns, including the political use of bank funds, is supported by Schneiberg (2013).

Another interviewee expressed that feasibility studies tend to undermine the multiplier effects and work on low growth assumptions. A questionnaire participant mentioned that “[their feasibility

study] process was hijacked by private interests.” When we asked the questionnaire participants more broadly whether private banking has slowed down their initiatives' progress, 20 out of 26 participants expressed that that was the case, whereas only three of them disagreed, and six of them neither agreed nor disagreed.

To summarize, lack of resources and private interests could result in poorly carried out feasibility studies that jeopardize the prospects of establishing a public bank. The experiences of public banking organizers from Washington D.C. and Massachusetts show evidence in this regard. Due to unsatisfactory experiences with feasibility studies, more and more organizations are moving away from feasibility studies towards business plans¹¹.

Our interviews have shown that most public banking advocacy work builds on voluntary efforts. Most organizations lack resources to hire full-time staff, and they rely on the pro-bono work by organizers, lawyers, and analysts. As such, shortcomings in some operation capabilities are to be expected. Overcoming these problems requires a significant increase in funding and technical infrastructure. As we will argue in the next section, federal government should fund these efforts.

3.4.2. Opposition from Private Interest Groups

The opposition by private banking interest groups could arise in various steps of public banking efforts. For instance, in California, the California Bankers Association issued a statement warning against “the risks of putting public dollars into money-losing public banks” after AB 857 has passed¹². On the other hand, our interviewee from New Jersey expressed that “the notion of public banking has received some critical comments from the private banking community; however, given that the mission of the public bank proposal in New Jersey is not fully determined yet, these criticisms have not yet become a major concern”. In New York, Public Bank NYC Coalition express that they expect a vehement opposition to their public banking legislation from Wall Street given that their proposal concerns Wall Street’s home state (Abello, 2020).

The opposition to public banking initiatives by the private banking interests is often expressed by the American Bankers Association. For instance, in response to the efforts to establish a public bank in Philadelphia, the president and CEO of this association, Bob Nichols, publicly expressed his opposition on the basis that “public banks are expensive to start and vulnerable to political control.” According to Nichols,

“Launching a public bank in Philadelphia would cost millions of dollars [...] Beyond the expense to the city and taxpayers, there is the critical question of who would make financial

¹¹ Business plans are documents that lay out the bank’s governance, lending, and profit management principles.

¹² <https://www.calbankers.com/press-release/california-bankers-association-response-signing-ab-857>

decisions. Placing political leaders, no matter how well-intentioned, in charge of a public bank raises serious questions about whether the bank could operate independently from the political process. A government bank, for example, could be incentivized to make questionable loans to politically connected borrowers, putting public funds at risk¹³.”

A similar rhetoric against public banking was expressed by Independent Community Bankers of America:

“A state-owned bank? Why don’t we just re-label the state capitals the Kremlin? [...] It’s a socialistic idea. If you get a state-owned bank that is allocating credit, it can slide very quickly into a situation where those in favor get credit and those not in favor don’t get credit.” (cited in Schneiberg, 2013, p. 293)

As these quotations illustrate, the opposition to public banking by private banking groups reflects a broader ideological opposition to government intervention in the economy. Therefore, as we discuss in the next section, a significant transformation of the American banking sector requires challenging free-market fundamentalism and the neoliberal ideology at a larger level.

3.4.3. Securing Funds for Capitalization

In establishing a public bank, one of the major challenges is to secure funds for initial capitalization of public banks. These funds can come from various sources, such as pension funds, local governments, or the state government, either through bond issuing, repurposing “rainy day funds,” or tax revenues (Brennan, 2020). Our questionnaire shows that most public banking initiatives consider a mix of approaches to meet the initial capitalization requirements including i) appropriation of some set amount of money from the government, ii) contributions and investment by pension funds, iii) private donations, iv) issuing bonds, v) consolidation of other government agencies.

According to our questionnaire, the most popular option to capitalize public banks is to appropriate a set amount of money from the government, at local, state, or federal level. Most state-level banking proposals consider tapping into their states’ resources to fund a percentage of their capitalization and start-up costs. The viability of this option depends on the political will and the decision by the city, county, or state treasurer. Some of the participants expressed that their proposals were facing opposition from treasurers¹⁴.

¹³ <https://www.inquirer.com/opinion/commentary/public-banks-philadelphia-new-jersey-california-20200213.html>

¹⁴ For instance, in New Jersey, the state treasurer objects to tapping into the state’s cash management fund even if only a small percentage of this fund was used to start-up the bank. Similarly, in Colorado, the Governor and the treasurer have expressed skepticism towards the public banking proposals.

The US treasury allows new federally chartered banks with 50 percent capitalization to capitalize the rest through bond issuing to be repaid within three years. Most initiatives consider bond issuing as a potential option towards meeting the remaining 50 percent capitalization requirement¹⁵. Some interviewees mentioned that they were already in touch with investment managers of public pensions and private investors to find potential investors for their planned bond issuing programs. Bond issuing would give the advantage of avoiding potential negotiations over the state budget. However, it also requires building trust in the proposals such that state agencies and private investors would participate in bond purchases and deposit their funds in public banks (Brennan, 2020).

Another approach, which we dub “consolidation approach”, involves consolidating pre-existing authorities into a public bank. For instance, public banking advocates in Virginia propose consolidating four different agencies into Bank of Virginia¹⁶. These agencies currently operate independently and provide loans and investment options. The advocates in Virginia argue that consolidating these agencies into a public bank that will have access to the Fed would remove inefficiencies and enable cheaper loans. Besides, given that these agencies are not poorly capitalized, they address a great portion of the capitalization requirements. The proposal to convert the IBank into a state-level public bank relies on a similar approach. If AB 310 passes, the state treasurer would invest 10 percent of the so-called Pooled Money Investment Account (PMIA), equating to almost \$10 billion, into the IBank. Given that this operation entails an alternative investment of existing state funds, which are currently held in PMIA, this legislation does not involve a budget appropriation. However, the capitalization requirements in the case of IBank would need to be supported by other means.

Beitel (2016a, 2016b) discusses two sources for raising funds needed for capitalization in the context of municipal banking. Accordingly, municipal banks can appropriate some set amount of money from the General Fund of their cities. The amounts coming from this channel would be limited so that the municipality does not incur any ongoing financial or legal obligation. As the second source, Beitel discusses the interest earned on funds held in the local government Investment Pool. This option is particularly viable for municipalities and countries with significant cash reserves for which funding can be procured through a time-limited dedication of annual interest earnings from the investment pool to the capitalization fund (Beitel, 2016b, p. 3) Beitel explains that in the case of many large cities, the amount of funds held in these funds is sufficient

¹⁵ Given that most organizations plan for capitalization are not finalized and have not been publicly announced, we purposefully avoid making references to specific public banking initiatives in this section.

¹⁶ These agencies are (i) The Virginia Housing Development Authority (VHDA), (ii) Assistive Technology Loan Fund Authority (ATLFA), (iii) Virginia College Savings Program, (iv) the Virginia State Employee Loan Program.

that a limited set of transfers can provide a substantial sum of money for the initial capitalization (Beitel, 2016a, p. 6).

Funds raised for the initial capitalization of public banks through the channels described above can be supported by contributions and investments from foundations, pension funds, and socially responsible investment funds (*ibid.*). All these options require building coalition, gaining political support, and ensure the participation of key government agencies in bond purchases and cash transfers.

3.4.4. Lack of Familiarity with Public Banking

Survey participants and interviewees mentioned that the lack of familiarity with public banking constituted a problem and they stressed the need for public education on these matters. In the survey, 22 out of 26 participants agreed to varying degrees with the statement that the lack of familiarity with public banking constituted an impediment to the success of their initiative. In general, many people find money and banking as intimidating subjects that need to be left to experts. The public banking advocates expressed that this problem is further aggravated in the US due to widespread pro-market sentiments. Further efforts of education and promotion by public banking networks can help to address this problem. On a positive note, several survey participants noted their belief that public banking organizing across the country has elevated the awareness and that they have been observing increasing community support and interest.

4. Strengthening Public Banking Efforts

4.1. Support from Public and Quasi-Public Institutions

In our questionnaire, we asked the participants what form of support they would expect to receive from the Federal Reserve. The most commonly mentioned support was “access to overnight/discount lending window.” The discount window is a Fed facility providing credit – currently at a 1.25% interest rate – for private banks. Most public bank advocates demand an access to the window at the same interest rate that private banks get.

The advocates point out that while private banks received a critical lifeline through the discount window during the pandemic, state and local governments had to pay higher interest rates to borrow from the Fed through the Municipal Liquidity Facility. There is a widespread belief among the advocates that the recovery efforts at the local and state levels could have been more successful if public banks with access to the Fed’s facilities were more widespread. Some participants expressed that the Fed could support public banking through granting funds for capitalization.

We also asked our participants which other institutions besides the Fed could provide support and in what form. A common response was that the Congress should appropriate general funds to

provide grant funding to capitalize and facilitate the development of local and state public banks. Another idea the participants expressed relates to obtaining promises from state and local pension fund managers to allocate a portion of their pensions for investment into public banks. Other responses were more specific based on the institutional and regulatory structures of individual states different public banking groups operate in. For instance, one participant from California expressed that Community Choice Aggregators (CCAs) of California could get involved with funding and creating public banks. A respondent from Massachusetts mentioned that some quasi-public institutions such as Mass Housing Financing, Community Development Finance Corporation, and Mass Development could support the initiatives to create a state public bank.

4.2.Federal Level Legislation

In fact, there are some Federal level initiatives that can respond to some of these challenges faced by state and local initiatives.

In this section, we discuss four of Federal initiatives, with a particular focus on the ‘Public Banking Act (PBA)’ (HR 8721) as this bill has a great potential to meet the demands of public banking organizations discussed in the previous section.

The PBA was introduced to the congress in October 2020 by Congresswomen Rashida Tlaib and Alexandria Ocasio-Cortez, with the support of nine other Democratic members of the house. It aims to *enable* and *encourage* the creation of public banks at state and local levels by establishing a comprehensive federal regulatory framework, grant programs, and supporting the financial infrastructure. Although the bill does not create new public banks, it encourages the creation of public banks by providing “top-down” support for “bottom-up” local initiatives (Grey, 2020).

Under the PBA, public banks can become members of the Federal Reserve. In addition, this legislation presents a pathway for state-chartered banks to gain federal recognition and identifies a framework for public banks to interact with postal banking (where the USPS serves as a bank), or FedAccounts (where everyone gets an account with the Fed through which they could receive direct payments, such as COVID-19 stimulus checks, from the government). The bill also introduces regulations on several important issues, such as lending rules and regulations regarding excluded and marginalized groups, ecological sustainability, and data reporting. For instance, it establishes a cap of 15% interest rate on any public bank lending product and prohibits fees and minimum balances on consumer accounts. It also prohibits public banks from engaging in or supporting fossil fuel investment. Besides, it directs the Fed to develop regulations and provide guidance to ensure that public banks’ activities remain consistent with climate goals and are universal and comprehensively include historically excluded and marginalized groups¹⁷.

¹⁷ <https://tlaib.house.gov/tlaib-aoc-public-banking-act> (Accessed on November 1, 2020)

A key feature of PBA is that it recognizes the need for more federal-level support for public banking initiatives at state and local levels spread throughout the country. This legislation also shows that both the Fed and the Treasury have the capacity to support the financial infrastructure outside of their typical models of action. Finally, the bill, irrespective of whether it will be signed into law or not, does a huge service to the public banking movement by increasing national awareness about the concept of public banking.

Another piece of legislation that puts the financial exclusion problem, discussed in section 3.2, on the agenda at the federal level is the Postal Banking Act (S 4614). Sponsored by Senator Kirsten Gillibrand and supported by Senator Bernie Sanders, this legislation aims to re-establish postal banking to provide financial security to millions of Americans in low-income and rural communities. Besides, it aims to support the USPS by generating new revenue sources. According to a report from the USPS Inspector General in 2014, this proposal would provide approximately \$9 billion to the USPS in annual revenues.

Soon after its release, this report was criticized by the private banking industry, describing post office offering loans as “the worst idea since the edsel banks” (Witkowski and Wack 2014, cited in Baradaran 2014). The chief concern stated by the skeptics was that the Postal Service was struggling financially in recent years and expanding their operations into banking would be a “recipe for disaster.” Beyond expressing skepticism, the payday lending industry has been actively campaigning and lobbying to prevent postal banking efforts. During the Trump administration, they aimed to push for weaker government regulations by establishing a strong relationship with the administration (Merle, 2019). For instance, since 2015, the industry has given about 8 million dollars to congressional lawmakers, local elections, and to the RNC, 1,275 million dollars of which went towards President Trump’s inauguration in 2016 (*ibid.*). Postal Banking legislations pose a huge threat to this industry given that introduction of postal banking would practically end this 40-billion-dollar industry.¹⁸

The “Banking for All Act” is another piece of legislation that aims to address the financial exclusion problem. Sponsored by the Senate Banking Committee member Sharrod Brown, this legislation would allow the public members to set up FedAccounts at local banks and post offices. The account holders would receive an array of essential banking services, including debit cards, online banking services, automatic bill payer, and ATM access at post offices. The bill aims to eliminate the reliance on expensive check cashers by allowing Americans to set up free bank accounts. FedAccounts would not be subject to fees or minimum or maximum balances and would be managed by the Federal Reserve (Hrushka, 2020).

Finally, “The National Infrastructure Bank Act” (HR 6422) is federal-level legislation that aims to capitalize a national public bank with \$500 billion in US Treasury securities. This bill is co-

¹⁸ <https://www.arcgis.com/apps/Cascade/index.html?appid=c77d0b8ff7b440dcbda6cb6c502f75f0>

sponsored by Representative Danny Davis and Seth Moulton and is supported by a group called ‘Coalition for the National Infrastructure Bank (NIB).’ Under this bill, the bank would provide credit only for infrastructure projects with a maximum 2% interest rate cap. According to Brown (2020), this bill is modeled on Roosevelt’s Reconstruction Finance Corporation (RFC), which funded the national reconstruction efforts after the Great Depression. According to the advocates, this bill is projected to create \$4 trillion in bank credit that can be used to rebuild the country’s infrastructure, including transportation infrastructure, power grids, clean water, and air infrastructure, and investment in new schools and affordable housing. The bill also projects that NIB would run a net profit of about \$80 billion per year, which can be recycled into financing the infrastructure needs further.

None of these bills have yet been advanced in the Congress, but each could significantly contribute to provision of important financial services to the public, supporting or complementing the state and local initiatives.

4.3. Addressing the Corruption Concerns

One of the typical oppositions to public banking is the idea that public banks are susceptible to cronyism, patronage, and corruption (Shleifer and Vishny, 1994; Shleifer, 1998; La Porta *et al.* 2002). In our survey, we asked the participants how their organizations plan to address these concerns. We also asked what kind of institutional structures they consider preventing potential capture of the bank by interest groups that might direct the resources towards projects that do not conform to the bank’s founding objectives. This question was posed as an open-ended question to which most participants provided in-depth answers. Most answers make references to ‘mission statement,’ ‘board of directors’ and ‘citizen oversight assemblies.’

A mission statement helps to ensure the accountability of public banks by “mission locking” the activities of the bank (Brennan and Keliher, 2020). For instance, in the context of the BND, the bank’s role in financing fossil fuel extraction, supporting the law enforcement during the DAPL protests, and its lack of a social or environmental justice focus in general, is built into the BND’s mission (*ibid.*). The contemporary public banking advocacy groups support the incorporation of their agenda items that we outlined in section 3.2 into their public bank mission statements. They express that this would be one of the first steps towards ensuring accountability.

The second step would be to establish an independent board of directors. The board of directors consists of democratic, technical, and administrative representatives. The public can maintain control over the bank through the board directly electing board members and/or more indirectly through other members appointed to the board by their elected officials. According to our survey, many organizations either already established a governance structure that gives a majority of board seats to community representatives or are planning to give significant representation and a voting

structure that would allow for the community voice to be heard at the table (see appendix E for further details).

5. Conclusion

As the GFC and Covid Pandemic has illustrated, major socio-economic crises call the legitimacy of existing economic thinking, policies, and institutions into question. In this paper, we provided an overview of the Public Banking movement, which has emerged as a reaction to various socio-economic and ecological issues the US is facing in recent decades. We mapped out public banking advocacy networks and initiatives, discussed the major problems these initiatives aim to address, and described the achievements and challenges faced by public banking advocacy groups.

As Schneiberg (2013) notes, the presence of crises and viable alternatives to dominant ideologies or institutional structures do not automatically bring about major changes. In the case of public banking, increasing their presence and importance of these public finance institutions in the US financial system requires substantial action. Among other things, grassroots efforts, political campaigns, the creation and mobilization of networks, the use of conferences, publications, and other forums to discuss ideas and build discourses, provision of legal and technical support to advocacy groups, and public education will all be necessary to make some of these ideas a reality. Our analysis shows that the public banking movement has been making commendable progress on all these fronts. Nevertheless, a relatively few of these initiatives have succeeded thus far, and we believe that further progress requires, in addition to those outlined above i) broader changes in the political discourse around ‘state intervention’ and ‘corruption,’ and ii) support for public banking initiatives at the Federal level.

With regard to the second point, our analysis suggests that Public Banking Act, in particular, has the potential to address the challenges faced by local and state-level public banking initiatives, particularly through the liquidity facilities and technical support it aims to provide. Based on the progression of the ongoing efforts discussed in this paper, further analyses will be needed to identify the requirements for a more equitable banking structure in the US.

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Appendix A: The list of organizations that survey participants are affiliated with (in alphabetical order):

350 Colorado; Alliance for Just Money; American Monetary Institute; Banking on New Jersey; California Central Coast People for Public Banking; California Democratic Party club; California Public Banking Alliance; Colorado Public Banking Coalition; DC Public Banking; Democracy Policy Network; Friends of Public Banking Santa Rosa; Friends of the Public Bank East Bay; Governor Murphy's Public Bank Implementation Board in New Jersey; Massachusetts Public Banking; National Public Banking Alliance; New Economy Project (which convenes Public Bank NYC and NYS Community Equity Agenda coalitions); New Jersey Citizen Action; PA Project; Parity Research Team (AFJM [Alliance for Just Money], AMI , National Organization for Raw Materials—NORM); People for Public Banking Central Coast; People for Public Banking Santa Cruz; Philadelphia Public Banking Coalition; Public Bank Los Angeles; Public Bank of the Easy Bay; Public Banking and Justice; Public Banking Associates; Public Banking Institute; San Francisco Public Bank Coalition; The Democracy Collaborative; WA State Public Banking Coalition; Washington State League of Women Voters Public Banking Advocacy Committee

Appendix B: Survey questions

Q1: Name of the participant

Q2: Email address of the participant

Q3: Please indicate the name(s) of public banking organization(s) that you are a member of?

Q4: If you are a member of multiple public banking organizations, please indicate the name of the organization you are filling this survey for

Q5: What role do you serve in this organization (chair, organizer, treasurer, member, lawyer, researcher, etc.)

Q6: What are the main issues that your public banking initiative aim to address? (Please choose all that apply) Options: environmental justice, management of local resources (such as local tax revenues), financial exclusion, racial inequalities, small business lending, affordable housing, gender inequalities, other (please explain).

Q7: Which public banks inside or outside of the US do you consider as a role model?

Q8: What type of public banking does your organization envision to establish? (Please choose all that apply) Options: Municipal banking, state-wide public banking, postal banking, credit union, state-chartered depository institution, other (please explain)

Q9: Does your organization receive any technical, legal, or financial support from another organization (such as independent research institutes, Public Banking Institute, private foundations, etc.)? Options: Yes (please indicate the name of the organization providing the support), no, prefer not to answer

Q10: Did your organization present a feasibility study? Options: Yes, no, other (please explain)

Q11: What did the feasibility study conclude? Options: the proposed public banking was feasible, the proposed public banking was unfeasible, other (please explain)

Q12: Has your organization participated in the introduction of a public banking legislation? If yes, please type the legislation name/number.

Q13: Did this legislation pass? Options: Yes, no, other (please explain)

Q14: Which of the following capitalization options does your organization consider? (Please choose all that apply) options: appropriation of some set amount of money from the government, bond issuing, private donations, consolidation of other government agencies, contributions and investment by pension funds, other (please explain)

Q15: How do you plan to manage the profits of your proposed public bank? (Please choose all that apply) Options: leveraging them for increased lending capacity, investing in dedicated funds, purchase of short-term series municipal bonds, other (please explain)

Q16: This question aims to understand some of challenges your organization might be facing. How much do you agree or disagree with the following statements? Options: Strongly agree, agree, somewhat agree, neither agree nor disagree, disagree, strongly disagree

Statements:

- Lack of familiarity of policymakers with public banking constitutes an impediment to the progress of our initiative
- Our organization lacks financial resources to administer a feasibility study
- Lack of people with expertise on money and banking in our organization is an impediment to our progress
- The opposition by private banking has slowed down the progress of our initiative
- Our initiative lacks public support at the local level
- Lack of familiarity of the broad public with public banking constitutes an impediment to the success of our initiative
- There is sufficient coordination among various public banking efforts across the US

Q17: Can you name any other barriers that your organization is facing?

Q18: What form of support do you think the Federal Reserve should provide to public banks? (Please choose all that apply) Options: access to overnight lending window, access to deposit insurance, support during periods of financial distress, other (please indicate)

Q19: Which other institutions besides the Federal Reserve do you think can and should provide support to public banks? What form do you think this support should take?

Q20: How much do you agree or disagree with the following statements? Options: Strongly agree, agree, somewhat agree, neither agree nor disagree, somewhat disagree, disagree, strongly disagree. Statements:

- We receive large support from the general public at the local level
- We have not yet faced any direct opposition to our initiative from the private banking industry
- We need more financial resources to conduct feasibility studies
- Our organization needs more people with expertise on banking

- Our organization could benefit from a stronger coordination and solidarity with other public banking initiatives across the country

Q21: One of the typical oppositions to public banking is that public banks are susceptible to cronyism, patronage, and corruption. How does your organization plan to address these concerns? What type of institutional structures do you propose to prevent any potential capture of the bank by interest groups that might direct resources towards projects that do not conform to the bank's founding objectives?

Q22: Can you briefly tell us about some of the positive developments you have been observing since you started working for your organization? Some examples might include but not limited to increased solidarity with other grassroots organizations, increased interest of local communities in your initiative, greater financial support from the donors, enhanced access to policymakers, etc.

Q22: If we have any follow-up questions, can we contact you via the email address that you have provided?

Appendix C: Geographical locations of the organizations represented in the questionnaire

Location	Number of participants
California	18
Colorado	1
Country-wise	5
Massachusetts	4
New Jersey	2
New York	1
Pennsylvania	2
Washington State	2
Total	35

Appendix D: Interview questions

Q1: What do you see as the main problems in the current financial/banking system?

Q2: How would you describe your ideal financial system? What institutions are necessary for your ideal financial system to flourish?

Q3: What are the main problems do you want to address with your initiative?

Q4: Can you describe the main aspects/components of your financial initiative?

Q5: Is there any country/ an alternative financial system that you take as an example?

Q6: How is your organization/fund different from conventional financial institutions?

Q7: Where do you expect to get financial support from? Or is it going to be completely self-supporting from participants/customers?

Q8: Following the Global Financial crisis, more than twenty states in the US have proposed bills for introduction of public oriented banking or to study their feasibility. Despite the positive results of many of these feasibility analyses, legislatures have generally been unwilling to

endorse public banking (for instance in Vermont and Maine). Why do you think this has been the case? What do you think are the main challenges these initiatives/organizations face?

Q9: What are the main challenges facing your organization?

Q10: What do you see as the role of government? Can publicly oriented financial institutions grow to necessary scale without public support?

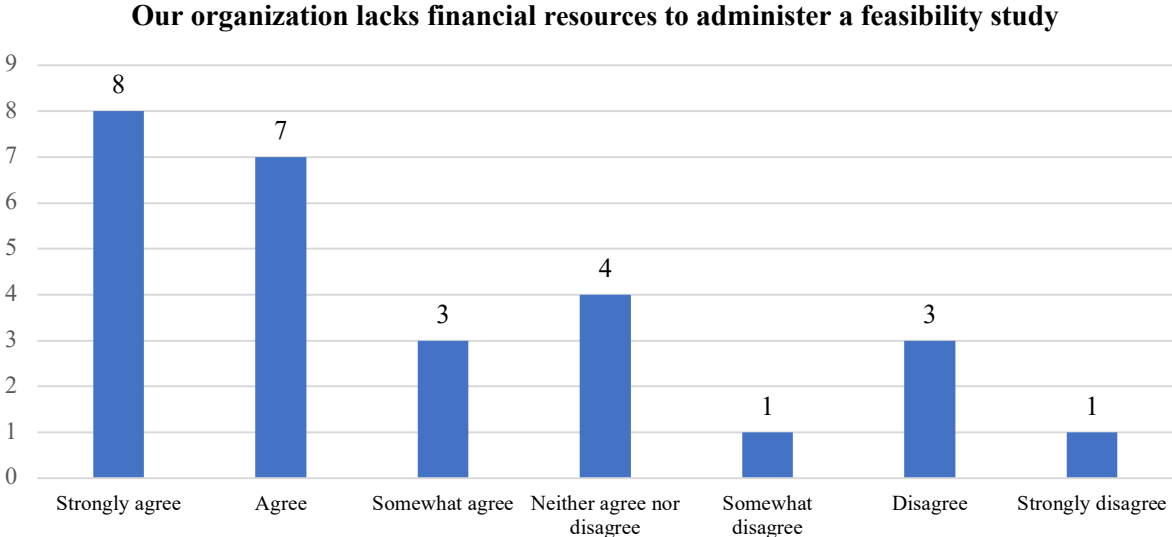
Q11: What role, if any, do you see for private investors in publicly oriented financial institutions? How much should these financial institutions prioritize profitability?

Q12: How do you interpret the recent efforts, such as SBA loans and the PPP, to help small businesses in the wake of the coronavirus crisis? What do you think are the main gaps in these efforts?

Q13: How do you think the current crisis will affect the public-banking movement in the US? Do you expect to face more challenges? Do you think the crisis will increase the interest in the alternative finance movements across the US?

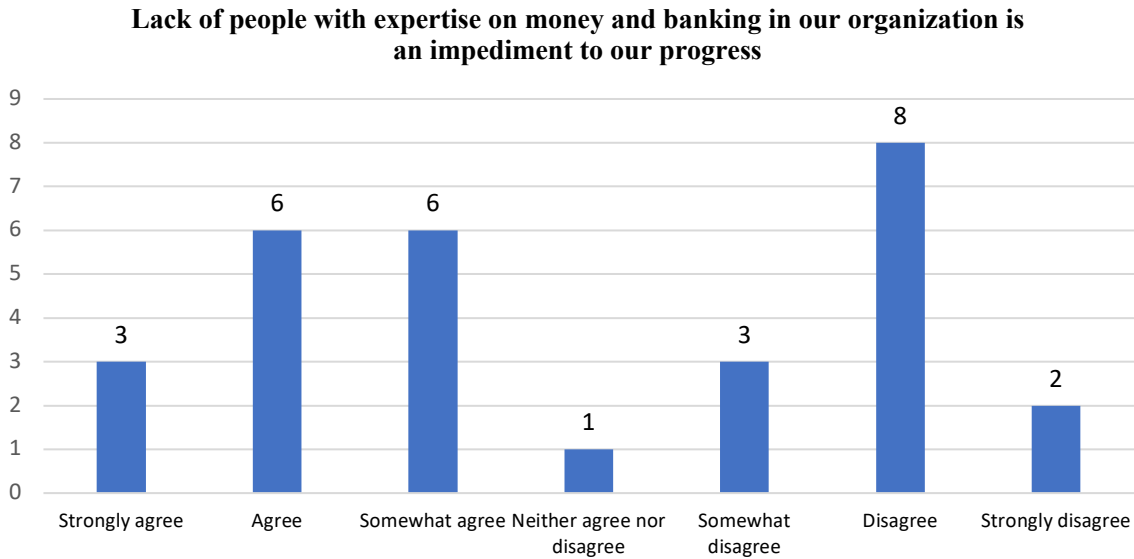
Appendix E: Selected Answers from the Questionnaire

Figure 1A: Is the lack of financial sources an impediment to public banking initiatives?



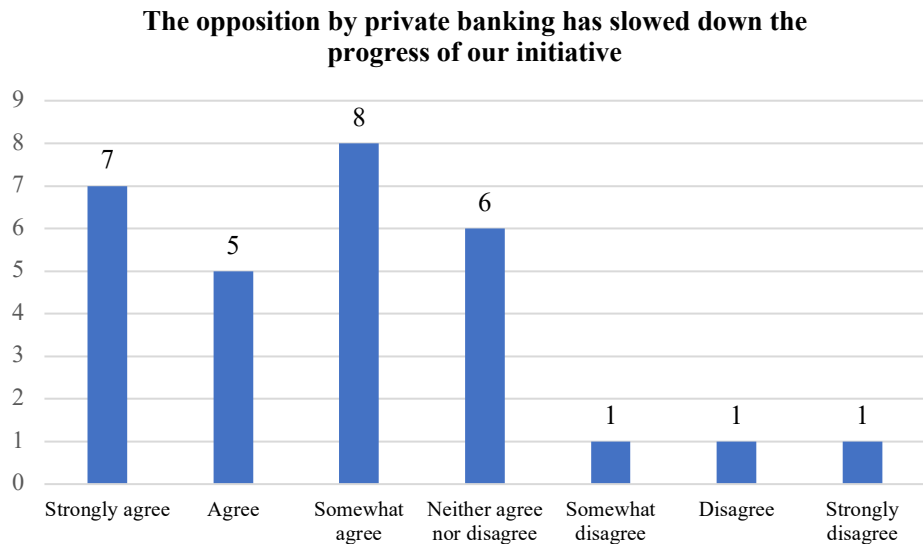
Note: This figure summarizes the answers given to the following question: “How much do you agree or disagree with the following statement?: Our organization lacks financial resources to administer a feasibility study.” 27 participants answered this question.

Figure 2A: Is the lack experts on money and banking an impediment to public banking initiatives?



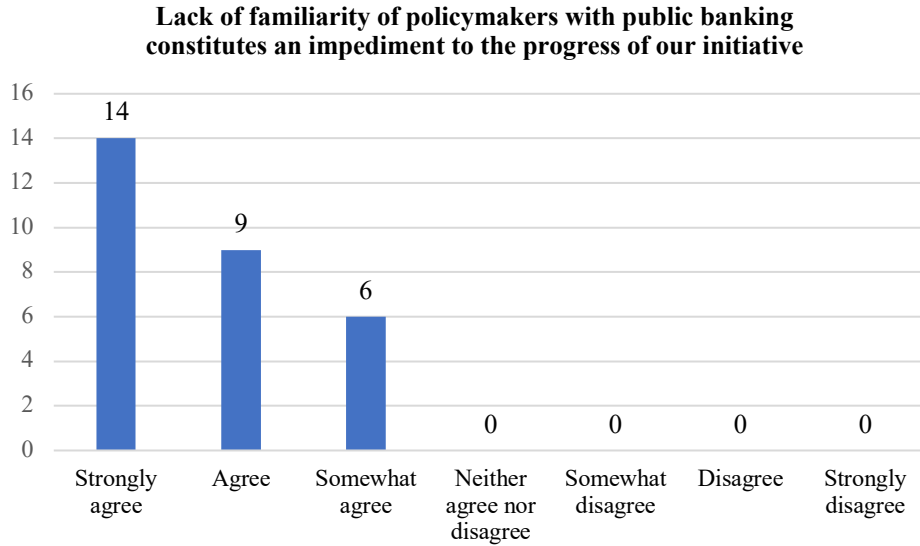
Note: This figure summarizes the answers given to the following question: “How much do you agree or disagree with the following statement?: Lack of people with expertise on money and banking in our organization is an impediment to our progress” 29 participants answered this question.

Figure 3A: Is the opposition by private banking an impediment to public banking initiatives?



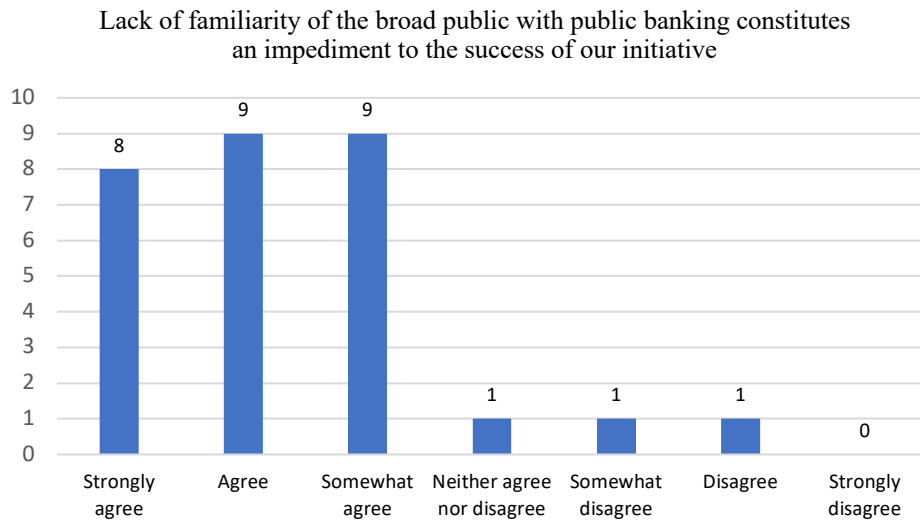
Note: This figure summarizes the answers given to the following question: “How much do you agree or disagree with the following statement?: The opposition by private banking has slowed down the progress of our initiative” 29 participants answered this question.

Figure 4A: Is lack of familiarity of policymakers with public banking constitutes an impediment to the progress of your initiative?



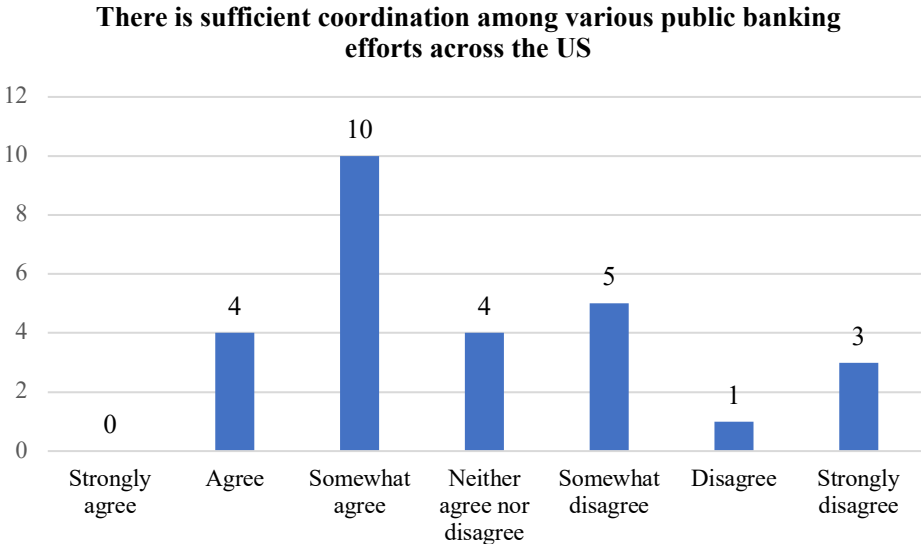
Note: This figure summarizes the answers given to the following question: “How much do you agree or disagree with the following statement?: Lack of familiarity of policymakers with public banking constitutes an impediment to the progress of our initiative” 29 participants answered this question.

Figure 5A: Is lack of familiarity of broad public with public banking constitutes an impediment to the progress of your initiative?



Note: This figure summarizes the answers given to the following question: “How much do you agree or disagree with the following statement?: Lack of familiarity of the broad public with public banking constitutes an impediment to the success of our initiative” 29 participants answered this question.

Figure 6A: Coordination among various public banking efforts across the US



Note: This figure summarizes the answers given to the following question: “How much do you agree or disagree with the following statement?: There is sufficient coordination among various public banking efforts across the US” 27 participants answered this question.

Appendix F: Addressing the concerns regarding cronyism, patronage, and corruption. Selected Answers.

-
- Democratic multistakeholder board of directors, including inclusion of citizen oversight assemblies
 - Independent Board of Directors
 - There needs to be a public oversight board.
 - Our proposed governance structure gives a majority of board seats to community representatives.
 - Formal charter laying out duties of Board of Directors, and limits of oversight by government to legal and regulatory factors. Interest groups will not hold stock or deposits in Public Bank. Bank employees will be Civil Servants.
 - Our bill creates an Advisory Board that coordinates public input on the bank's operations. We've also specified that directors and advisers represent different constituencies and that there is regional representation. But convincing people that a public bank can stand apart from perceived cronyism is going to be difficult.
 - We are including an Advisory Committee which will hold hearings around the state and report back to the BOD and CEO; requirements for transparency; appointments to Board by different political interests
 - Governance that integrates legislative and executive oversight in a newly formed commission, and annual public performance surveys integrated into an audit process, subject to board hearings.
-

-
- Including a Social Board which connects the Political Board with society and has the power to veto using legislation like CPBA has done
 - Establishing a governance structure at the onset that would prevent special interest groups from corrupting the bank.
 - Governance is the most important aspect of a public bank to get set up properly. We are considering a Board made up of people with different backgrounds, some with banking experience, some local activists to keep the mission on track, and others.
 - We have laid out a structure of the bank board that includes a majority of community members next to representatives from the relevant municipalities. This should avoid cronyism and allow people active in the community outside of government to give the local people a voice and demand transparency.
-

Appendix G: List of interviewees & meetings

Name of the interviewee	Name of the organizations the interviewee is affiliated with
Michael Brennan	Democracy Collaborative
Rick Girling	California Public Bank Alliance and San Francisco Public Bank Coalition
Ben Gordon	California Public Banking Alliance
Austin Sachs	Protect US/ Bank of Virginia Act
Thomas Marois	Lecturer at SOAS, specializes on public banking, member of Democracy Collaborative and Public Banking Institute
Steve Seuser	DC Public Banking
Barbara Clancy	Mass Public Banking
Martin Bierbaum	New Jersey Citizen Action
Earl Staelin	Rocky Mountain Public Banking
Christine Desan	Mass Public Banking
National Public Banking Alliance Monthly Zoom Meeting, June	
Meeting with Rick Girling, Christine Desan, Sushil Jacob (California Public Banking Alliance), Naveen Agrawal (California Public Banking Alliance)	

Appendix H: More detailed summaries of selected local and state level initiatives

New York State: New York State hosts important initiatives to establish public banks at local and state levels. The state introduced “New York Public Banking Act” (S5565/ A9665), which, similar to California’s AB 857 of California, aims to facilitate the creation of public banks at city and county levels across New York State. The bill authorizes the New York State Department of Financial Services to issue public bank charters to New York cities, counties, and regions (New Economy Project Legislative Memo 2020). Therefore, if it passes, the bill will make it easier for local governments to create their own public banks. The bill also requires public banks to comply with certain financial and ethical standards. For instance, public banks would be prohibited from lending to fossil fuel industry, weapons manufacturers, defense contractors, private prisons,

immigration detention facilities, and companies that engage in tax avoidance or exploitative labor practices (Brennan and Keliher, 2020). Besides, the bill creates a regulatory framework for municipal banks with strong governance and oversight provisions (*ibid.*).

There is also an attempt to establish a state level public bank sponsored by Senator Sanders Jr. (S9044). This bill would establish a State of New York Public Bank that would use public funds for increasing access to credit and capital in underbanked and economically disadvantaged communities. Under this bill, as in the BND model, the public banks will act as a banker's bank, partnering with community banks, credit unions, and loan funds to leverage public deposits to support local businesses and other financing needs such as affordable housing.

Public banking efforts in NYC are supported by 'Public Bank NYC', a coalition group representing more than 30 advocacy groups, including New Economy Project, that work towards pushing elected officials to create a public banking system for local and state governments¹⁹. Although none of these bills came to the floor yet, one of the questionnaire participants from NEP expressed that they are optimistic that the bills will pass.

Washington State: In 2019, the state of Washington introduced public banking legislation, SB 5949, thanks to the efforts of a long-standing public banking advocate State Senator Bob Hasegawa. The bill aimed to create a public state investment trust and a commission to oversee it. It received a public hearing in a Senate Committee; however, it did not pass after receiving unfavorable comments, including from the State Treasurer Duane Davidson. After incorporating some of the critical feedback the bill has received, Senator Hasegawa introduced another bill, SB 5995, aiming to establish Washington Investment Trust (WIT), which would function as a public depository for state money and would be authorized to manage and invest state funds in infrastructure development programs. SB 5995 received a public hearing in January 2020; however, it suffered from similar critiques.

The motivations of public bank advocates in Washington share many commonalities with other initiatives. Under the current system, the state of Washington borrows from private commercial banks to finance its infrastructure programs. The public bank advocates argue that the interest on debt paid out of the state's general fund reduces the state's ability to pay for other programs²⁰. Senator Hasegawa advocates for WIT on the basis that "[it] would save the state money in the long-term by taking out debt for public projects at a lower interest rate and reducing the total amount paid." The League of Women Voters of Washington (LWVWA), one of the groups supporting the establishment of WIT, motivates their support as follows:

¹⁹ Some of the organizations represented in this coalition are NYPIRG, Chayya Development Corporation, New Economy Project, New York Communities for Change, and Brooklyn Cooperative Federal Credit Union.

²⁰ Presentation by Public Bank Caucus, LWV Washington Public Bank Task Force

“the public sectors do not have control over the leveraged investment by private-sector banks (no targeted or long term investment) and there is no guarantee that bank investments will remain in WA; there is not enough transparency to demonstrate what level of risk the private-sector bank managing public funds would be taking; and although public funds have been entrusted to private-sector banks since WA statehood, the arrangement does not appear to have sufficiently benefitted the state.”

The State Treasurer responded to these legislations by releasing ‘a study of studies on state banks’²¹. The report argues against a state bank in Washington on the basis that “there is too much taxpayer risk, and not nearly enough proven benefit from the formation of a state bank.” (*ibid.*, p.2) The banking industry representatives in Washington expressed similar concerns that the bill would jeopardize the state’s high credit rating²².

Based on the interviews the state treasurer gave in the media, it can be argued that his opposition stems from an ideological opposition to government intervention in the economy. In fact, Ellen Brown, in a letter written as a response to the treasurer’s report discusses some of the problems with the treasurer’s report. Firstly, Brown notes that “the linked report contains no footnotes or citations, [and] the summaries of the reports cited do not lead to that conclusion.”²³ Brown further points out that the treasurer’s report does not even address the 2010 study by the Center for State Innovation (CSI) – the only report addressing Washington State – which reached positive conclusions regarding the feasibility of a state bank in Washington and addressed issues concerning capitalization requirements. According to Brown, the treasurer’s report was also factually wrong with regard to its reflections on public banking developments in California.

Public banking advocates from Washington who participated in our questionnaire links the failure of their attempts to ideological opposition and conflicts of interest. One of the questionnaire participants note that “the process [to establish a public bank in WA] was hijacked by private banking interests.” Although the attempts have failed so far, the advocates in Washington believe that there might be better chances in the upcoming years.

Pennsylvania: Like California, public banking advocates in Philadelphia express strong dissatisfaction with the investment practices of Wall Street banks, which they believe do not align with the values of many residents of the city. This view is reflected in the city’s decision to take

²¹ <https://tre.wa.gov/wp-content/uploads/Public-Banking-Report-Study-of-the-Studies.pdf> (Accessed on March 17, 2021)

²² <https://thelens.news/2020/01/30/state-bank-bill-revived/> (Accessed on March 17, 2021)

²³ Another critical response to the treasurer report can be found here: <https://nwcitizen.com/entry/washington-state-treasurer-gaslighting-on-public-banking/> (Accessed on December 19, 2020).

its funds out of Wells Fargo in 2016 and its ongoing attempts to establish a public bank that would be owned by the city of Philadelphia.

The concentration in the banking sector, slow job growth²⁴, high poverty levels, and the need for green infrastructure investment are among the other issues public banking advocates in Philadelphia are attempting to address. These efforts are supported by various groups and individuals, including Philadelphia Public Banking Coalition (PPBC), Public Banking Pennsylvania, and City Council member Derek Green. In 2016, Derek Green introduced a resolution authorizing the council's Committee on Commerce and Economic Development to hold hearings on public banking. The feasibility of establishing a public bank for Philadelphia has been analyzed in two separate feasibility studies²⁵. The first study, conducted by the University of Pennsylvania, analyzed the problems a public bank could address in the city. The second study, commissioned to a private company named HR&A Advisors, examined the bank's legal and technical viability. Both studies generated very positive results.

For a municipal bank in Philadelphia to be operational, it needs to obtain a charter from the commonwealth, generate deposits, acquire sufficient capital to cover any losses, and have a business plan to avoid failure. According to Krauss (2020), the start-up capital and deposits do not present a significant obstacle in Philadelphia. Krauss points out that the most recent commercial bank that received a charter in Pennsylvania had a relatively low start-up cost (about \$17 million). Besides, the city lists hundreds of millions of liquid assets, a portion of which can be held in the public bank.

The advocates in Philadelphia are working on a legislation that they expect to introduce in the city council in early 2021. Once the legislation draft is ready, Derek Green will officially introduce it at a council session. Upon the approval of certain council committees, the legislation will go to the city council floor for a vote. If the council votes in favor and the city major approves the decision, Philadelphia will have the legal background to establish a public bank.

There is also an initiative to establish a state-level public banking in Pennsylvania. This bank would be owned by the state, would hold some part or all state revenues as deposits, and would return part of its profits to the general fund and re-invest the remaining in expanding its lending capacity. According to *Pennsylvania Public Bank Project*, one of the organizations supporting the initiative, the state bank would adopt a BND type model where it partners and does not compete with local banks and credit unions. The proposed bank would be managed by professionally who

²⁴ Philadelphia City Council member Derek Green points out that, according to the Bureau of Labor Statistics, the job growth in Philadelphia (1.5%) lacks behind the average job growth rate in big cities in the US (2.3%). He argues that this low job growth rate explains why Philadelphia has a poverty rate of 25%, second only to Detroit.

²⁵ https://www.phila.gov/media/20200930101919/Philadelphia-Public-Bank-Feasibility-Study_-FINAL_Sept-2020.pdf (accessed on December 30, 2020).

would not receive any fees or commissions to prevent investment in risky activities by the bank management. The bank is expected to facilitate lending to small businesses, spur economic growth, create new jobs, and help the state economy during economic crisis and disasters. The advocates in Pennsylvania are preparing to introduce legislation in January 2021 after the new legislature takes office.

New Mexico: In late 2014, City of Santa Fe hosted an international symposium on public banking supported by the PBI. This symposium gave rise to the establishment of a group named *Banking on New Mexico* and a subsequent exploration of a public bank through a feasibility study commissioned to a private firm by the city council²⁶. The study concluded that a public bank was economically and operationally feasible (Hanna, 2018, p.20). The report also provided a set of recommendations that could be introduced to prepare the establishment of the bank. In 2017, the city council approved setting up a Public Bank Task Force, made up of volunteers, to lay out the steps necessary for the establishment of the bank (*ibid.*) The task force presented a final report to the city council in 2018, which recommended that “the City of Santa Fe’s financial infrastructure is not large enough to create a city-owned public bank, but that the benefits of public banking are sufficient to encourage the City to support consideration of a statewide public bank.”²⁷ The state-level public bank is supported by “Alliance for Local Economic Prosperity.” In 2019, a group of State Representatives co-sponsored a ‘House Memorial’ requesting “the legislative finance committee to undertake a feasibility study of establishing a state-owned bank in New Mexico.

²⁶ <https://aflep.org/public-banking-in-new-mexico/>

²⁷ https://aflep.org/wp-content/uploads/2019/04/Public-Bank-Task-Force-presents-to-Council_5.10.18.pdf