GAME CHANGERS
Economic Policies for a Working America

POLICY BRIEF

Public Banking

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The Problem

The federal government delegates an essential public task to commercial banks. They make the modern money supply because the credit they issue is privileged as the medium of our payments system. That design choice has distributive impact: because banks only lend according to a calculus of private profit, they exclude highly creative people, productive projects, and richly deserving communities from equal access to credit and capital. These structural gaps are becoming more urgent as bank consolidation reduces local lending capacity, federal support becomes less predictable, and states face growing financing needs for climate, infrastructure, and small business.

Past Failure to Solve the Problem

Remedies for the exclusionary dynamics identified above focus on the damage produced by the design. State and federal governments and NGOs have struggled to reduce discrimination in lending, provided grants for underserved communities, established revolving loan funds, and worked to increase financial literacy. Those remedies leave the basic design for money creation unquestioned. A public resource, money, begins its distributive journey as directed by commercial actors choosing how they might most benefit their private interests. That groundwork has lasting impact.

Game Changer: Public Banking

Public banking offers a structural solution to a structural problem. Just as they establish commercial banks by granting them charters to operate, state and local governments can establish public banks, empowering them with the same capacities that commercial banks virtually monopolize. But rather than lending for private profit, public banks would act according to criteria that enhance public welfare. Common globally and familiar to earlier Americans, public banks are making a comeback in the United States today. The

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Bank of North Dakota is long-established; proposals for public banks are multiplying from California's municipal institutions to legislation for a state-level bank in Massachusetts.

While designs for public banks vary, certain basics would make for sustainable and accountable institutions. A lump sum appropriated by a state legislature would provide a one-time contribution to capitalize a bank. Because banks can safely and legally lend eight to ten times as much as their capital, the state would then provide a depository base eight to ten times as big for the bank by transferring state and/or municipal revenues from existing (and often out-of-state) investment accounts. (This is not new spending—it is redeploying existing public funds.) The strategy would greatly enhance states' capacity to make the most of scant resources.

Proposed legislation establishing a small pilot public bank in Massachusetts (H. 1114 and S. 736) furnishes an example. It appropriates $200 million to create the capital base of the bank. The legislation in turn directs the state treasurer to populate the public bank with deposits by transferring to it $1.4 billion in existing state funds currently invested in out-of-town securities. With $200 million in capital, and $1.4 billion in deposits, the public bank would have assets of $1.6 billion. Assuming a very cautious lending strategy, the bank would be able to make $1.3 billion worth of financing available according to mission-driven criteria. Priorities in existing bills include small-businesses and small farms particularly in underserved communities; municipal infrastructure; green finance; affordable housing; cooperatives, land trusts, and other organizations that enhance social welfare but lack conventional collateral; student loans; and disaster relief.

The Massachusetts legislation also showcases the way that public banks can operate with the existing financial ecosystem. It directs that most of its lending should occur through participation loans in partnership with existing community development finance institutions, community banks, and other partners skilled at identifying sound but neglected lending opportunities. That strategy would allow them to complement, not compete with, commercial banks.

For the same reason, the Massachusetts legislature provides that its public bank would accept only public revenues as deposits, preventing it from pulling private deposits away from commercial banks. As the same time, emphasizing this wholesale lending would allow public banks to minimize operational costs and transactional complexities while building expertise and credibility.

Finally, chartering legislation should structure public bank governance to ensure democratic input from citizens and accountability to them. The Massachusetts legislation, for example, provides for a board of directors that balances expertise and community membership along with a board of advisors that represents its broad public constituency. Public banks would hold master accounts at the Federal Reserve and operate within the payments system so that they operated with as much power and reach as their commercial counterparts do.

Economic Rationale and Feasibility

State and local governments currently count themselves out of the most efficient and sustainable funding strategy in finance, an opportunity especially critical now as the federal government withdraws support for the underserved, green finance, municipalities, and the material well-being of many. Depository banks can lend at lower rates - about 10% less than any other lender. That advantage—the benefits of money creation as a funding strategy – makes banks into

essential sources of credit and capital in our society. Those who can borrow from banks, as opposed to fintechs, predatory lenders, and finance companies, get the chance to bring productive projects to life.

Public banks could bring those benefits to creative people and businesses currently excluded. Those banks could lend at even lower rates than commercial banks given the operational efficiencies that come with having a unified and stable depositor, working in partnership with existing lenders, avoiding retail complexities, and escaping shareholder demands. But the benefits only start with individual borrowers. By releasing such potential, public lending would nourish whole communities, a source of uplift and enterprise. The impact would manifest in increased economic activity, employment, and tax revenues. But it would also be evident in the energy and optimism that come with projects for the greater good. Public banking would be a game changer to bring about the future we want for our world.

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