

Americans push for a return to public banking

Former Wall Street banker Nomi Prins has called for the reinstatement of public banking in an article for truthout.org titled, "I've Seen Goldman Sachs From the Inside. We Need Public Banks." In the 20 April piece the author and outspoken advocate of Glass-Steagall bank separation blew the lid on the Wall Street racket that controls finance. "For far too long, Wall Street has wreaked havoc on people's personal financial stability and our economy as a whole. I should know. As a managing director at Goldman Sachs in the early 2000s, I witnessed firsthand how the banking industry lined their pockets at the expense of customers", she opened.

The bankers' racket is particularly destructive when it comes to infrastructure, especially in California's case, which contends with everything from earthquakes to mudslides and wildfires. As Prins reported, "*half of the total cost of some infrastructure projects goes toward paying Wall Street banks' high interest rates and loan fees*". (Emphasis added.)

After the 2008 financial crisis and revelations of the big banks' criminal behaviour, there was no recourse for justice, no bankers jailed, and no convincing reform or regulation. "Wall Street banks continue to commit fraud, enjoy front-row lobbying seats in Washington, write legislation on their own behalf", wrote Prins. The 2010 *Dodd-Frank Act* was supposed to re-regulate too-big-to-fail banks, but crucially "failed to divide banks into two entities: one dealing with people's FDIC [Federal Deposit Insurance Corporation] insured deposits, and the other able to create complex securities and engage in derivatives trading using our deposits as collateral". Access to deposits gave banks the leverage they needed to join the high roller gambling dens, and Glass-Steagall bank separation would cut them off. While state and city governments have nowhere to keep their cash other than private banks, "our own tax dollars are underwriting Wall Street's most reckless investments", added Prins. "This is why it is more important than ever to create public banks tasked with using state and local funds for public good, not private profit. And my home state of California is leading the way."

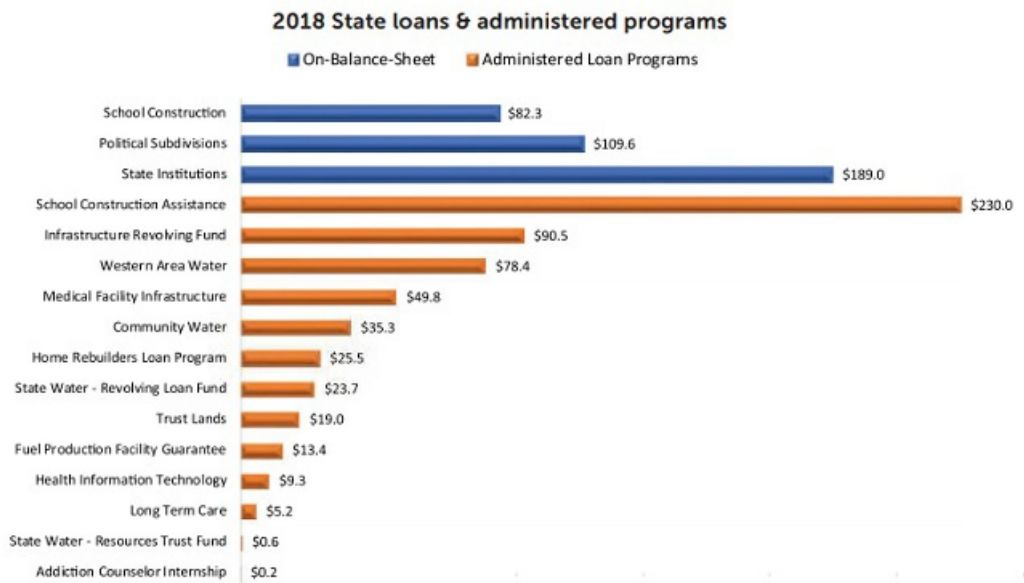
Californian legislation

Two Democratic legislators in California put up legislation in March to create state-chartered public banks. Assemblymen Miguel Santiago from Los Angeles and David Chiu from San Francisco propose to follow the unique model of the Bank of North Dakota, a state-owned and -run bank established by North Dakota's state legislature in 1919. The California legislation differs from North Dakota in that rather than establishing one state-wide agency, it allows for local governments to charter public banks to increase the lending capacity of local banking networks.

"It is time that banks start working on behalf of people, not Wall Street investors", said Chiu. Rather than big banks investing purely for profit, "This legislation allows us to take a first step towards ensuring the public's money is used for public good." Santiago added, "we need a public bank that can determine how to use all the money saved on fees for the public good."

The California Bankers Association is opposed to the bill, incredulously stating that its authors "have failed to identify how the current financial system is not meeting the needs of our cities and communities, and frankly why there is a need for this bill". A spokesperson pointed to the nearly 200 banks in California offering ample choice to consumers and communities. The bill is supported by the California Public Banking Alliance—a coalition of public banking activists—and several other public banking advocacy groups.

Bank of North Dakota



Current Bank of North Dakota investments listed in its 2018 Economic Development Report.
Photo: BND

The Bank of North Dakota, which celebrates its centenary this year, exists to “drive economic development and infrastructure projects across the state”, according to its website. BND was organised by farmers in 1919, thereafter providing loans to students, farmers and small business at lower than market rates. It provides infrastructure loans at 2 per cent interest, at up to 30 year terms, with the possibility for interest and principal deferment for up to three years in order for projects to achieve viability.

All state revenue flows into the bank and all profits, above bank capital requirements, flow back to state government. In 2018 the bank earned a 17 per cent return on its investments. During a drought in 2017 the bank’s disaster relief loan program was vital for farmers to survive, buy feed, and re-establish herds.

The bank also provides collateral for private community banks. BND spokesperson Janel Schmitz told the *Times of San Diego* on 1 January 2019: “We work with banks, we don’t work against banks. That has been, in this day and age, critical.” The paper says such a bank in California could provide credit in areas that private banking doesn’t—affordable housing, low-interest student loans and infrastructure. If California were a country, it would have the world’s fifth largest economy (in nominal GDP terms), so a California state bank would operate on a much larger scale than the BND.

The concentration of finance in solely private hands has starved whole areas of the economy of credit, so support is growing across America for a renewal of the national banking principle which built the country in the first place, starting with the First Bank of the United States established by Treasury Secretary Alexander Hamilton in 1791. New Jersey, Washington state and Michigan have also considered creating state banks. The debate in expert economic circles has intensified as US infrastructure has deteriorated. Macro-economist with 25 years experience at the IMF, Alphecca Muttardy, has called for the establishment of a National Infrastructure Bank. Muttardy has stated that with the notable exception of the Bank of North Dakota, most State Infrastructure Banks are too small and do not function in the true capacity of state banks. “North Dakota has the highest rate of infrastructure spending of any state in the nation”, she said in December 2018, calling for “a scaled-up version of the Bank of North Dakota to fund the country’s infrastructure needs”. Such a bank is “not subject to the annual budget appropriations” and therefore can be dedicated to rolling out infrastructure in an uninterrupted fashion. As with previous national banks, the NIB would create credit against holdings of existing federal debt, namely Treasury securities. The NIB would take deposits, including of federal and state government agencies, increasing its credit-creation capacity. (See [“Frequently Asked Questions on the National Infrastructure Bank \(NIB\)”](#), AAS, 16 Jan. 2019 for details.)

Muttardy has worked with Americans for Financial Reform (AFR) and the Coalition for a National Infrastructure Bank, whose representative Stanley Forczek, a transportation and energy executive with 30 years’ experience at US national railway operator Amtrak, has called for a new Hamilton-modelled national credit bank. (“National Infrastructure Bank: A Hamiltonian solution to today’s infrastructure crisis”, AAS, 8 May 2019).