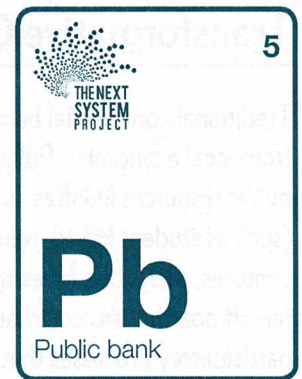


# Elements of the democratic economy

# PUBLIC BANKS



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

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

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

## Potential Impact

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



**Big bank**

vs.

**Public bank**

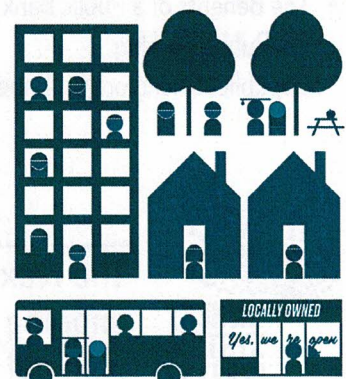
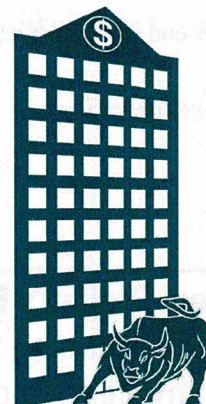


Large commercial banks get billions of dollars from state and local governments annually, including interest payments on bonds and fees on depository accounts.

**Who profits?**  
Wall Street banks and CEOs.

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

**Who profits?**  
The entire community.



## Transformative Characteristics

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

## Challenges

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

## More resources

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

## Examples

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### Bank of North Dakota Established 1919

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

### Sparkassen (Germany) Established 1778

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



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

*Authored by Adam Simpson*



## **Protect US encourages the State of Virginia to pass the Bank of Virginia Act**

### **Overview of Public Banking:**

- In 1919 the State of North Dakota created the first state public bank in the United States to help small farmers facing financial difficulties.
- In turn the State of North Dakota runs a financial institution that accepts the deposits of its municipal governments and state agencies, that in turns loans that money out to individuals, organizations and the same governments in North Dakota.
- The Bank of North Dakota has brought economic vitalization to North Dakota and created a vibrant economy for its state, while costing taxpayers no extra financial burden

### **Overview of Need in Virginia:**

- There is an increasing need for municipal governments and state agencies to transition to sustainable alternatives requires accessible and affordable financing
- There is an increasing need for small farmers to have access to affordable credit in the state, that is inaccessible through current day financial market conditions
- There is a need to decrease overall costs for financially burdened municipalities and state agencies to better allocate resources to important aspects of each entity
- There is a need to decrease financial risk municipalities and state agencies are exposed to by risky corporate lending behaviors

### **Policy Recommendation:**

- Create a public bank in the State of Virginia that would accept the deposits of its municipalities and state agencies.
- Maintain the programs of the Virginia Housing Development Authority, Assistive Technology Loan Fund Authority and Virginia 529 while consolidating administration into the Bank of Virginia
- Create the ability for the Bank of Virginia to develop specific infrastructure loan pools available to the municipal governments and state agencies
- Maintain a socially responsible mandate within the bank, so that loans given are first given to companies and individuals who align with the values of the State of Virginia
- Ensure the Bank of Virginia partners with local financial institutions instead of competing against

### **Next Steps:**

- Hold conversations with current elected officials and candidates for public office across the state to further spread awareness of the need for the Bank of Virginia and gather support
- Hold conversations with the residents of Virginia to inform them of the Bank of Virginia and the benefits they will see from it
- Pass the Bank of Virginia in the Virginia General Assembly in 2020

# The Bank of Virginia Act

## The Future of Virginia!

What is the Bank of Virginia Act?

- Socially Responsible
  - All state funds can be loaned out to socially responsible companies
- Fiscally Responsible
  - Save taxpayer dollars by decreasing interest costs and bank fees
- Efficient
  - Consolidate four existing programs into the Bank of Virginia



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<http://www.facebook.com/protectingus>

<http://www.protect-us.org>

<http://www.bankofvirginiaact.weebly.com>

