The Public Bank Alternative

A New Push to Remake the American Financial System

BY RICK GIRLING

A n historic hearing took place on July 21 when the House Committee on Financial Services for the first time in recent history discussed public banking. Deyanira Del Rio from the New Economy Project, along with other panelists, presented proposals for revamping the American financial system to rebuild the economy and reach the one-fifth of Americans who are either unbanked or underbanked—those lacking bank accounts, and those who have bank accounts yet rely on payday lenders and other predatory financial services.

The paintings accompanying this article are by the Los Angeles-based artist Alex Schaefer. All images are copyright © Alex Schaefer and are used with permission. Find more information about Schaefer’s art at his website (paintwithalex.com), and at the Saatchi Gallery website (saatchiart.com/paintwithalex), where you can buy originals and prints of his paintings. According to the Saatchi Gallery website, Schaefer’s “main influences are the early French Impressionists and San Francisco Bay area figurative and abstract artists of the 1950’s.”

During the Great Recession, Schaefer produced a series of plein-air paintings depicting branches of the “too big to fail” banks—Wells Fargo, Bank of America, and Chase—in flames. We feature several paintings from that series here.

The public banking options discussed in this article present an alternative to the solution alluded to in Schaefer’s paintings.

In her remarks to the committee, Del Rio explained the importance of public banks in this historical moment:

Public banking would serve as an especially powerful tool as cities and states throughout our country work to advance a just recovery from the pandemic and to withstand future crises. We’ve seen that countries that have public banks are significantly more resilient in the face of crises than those without them and that’s precisely because local public banks invest in sectors that provide direct economic, social, and environmental benefits.

People facing financial difficulties—which are all the more common in the Covid-19 economy—increasingly find that banks are unwilling to help and impossible to contact despite the substantial profits banks continue to bring in, due largely to government handouts aimed at rescuing “too big to fail” megabanks.

Panelist Law Professor Mehrsa Baradaran asked members of Congress to imagine people going to their local post office to deposit a paycheck or confirm their bank balance. Earlier this year, Congress took steps to make this a reality. Efforts to restore postal banking, a policy in place from 1911 to 1967, were renewed in mid-April by Senators Kirsten Gillibrand and Bernie Sanders together with Representatives Alexandria Ocasio-Cortez, Bill Pascrell, and Marcy Kaptur. They advocate returning to the days when U.S. post offices provided financial services such as bank accounts, check cashing, and cost-free savings accounts to millions of customers. They argue that a return to postal banking promises to strengthen the United States Postal Service while also directly benefiting Americans who lack access to banks.

Life without a bank account imposes substantial costs on those who can least afford them. People without bank accounts often pay fees and travel long distances just to cash a check. They pay fees for money orders to pay their bills. If they run out of cash, they can’t go to an ATM or pull out a debit or credit card. They have no safe place to save money for future needs. While an appalling one out of every five Americans is confronted with these problems, nearly half of all Black and Brown people are without adequate banking services. Approximately 12 million borrowers every year are forced to spend more than $7 billion on fees associated with payday loans.

Even those with bank accounts holding modest deposits increasingly face problems with their banks. As Congressman Ed Perlmutter said at the hearing in July, “According to an FDIC survey, the number one reason why Americans didn’t have bank accounts was because they didn’t have enough money to meet a bank account’s minimum requirement. This is one example of how expensive it is to be poor in the richest country in the world.” Excessive fees for overdrafts, late payments, and ATMs drain the savings of working people across the nation. People facing financial difficulties—which are all the more common in the Covid-19 economy—increasingly find that banks are unwilling to help and impossible to contact despite the substantial profits banks continue to bring in, due largely to government handouts aimed at rescuing “too big to fail” megabanks. When the pandemic was in full swing, three of the biggest banks took in over $300 million in overdraft fees in just three months. They charged these fees at the very time federal agencies and Congress gave lenders regulatory breaks to allow them to better help customers, as Senator Elizabeth Warren pointed out in a recent Senate Banking Committee hearing.

**POSTAL SAVINGS SYSTEM**

Prior to 1911, it was risky to put your savings into a bank. When banks failed, you lost all the money you had deposited and there was no recourse. Financial panics in 1857, 1873, 1884, 1890, and 1907 resulted in hundreds of banks shutting their doors, causing depositors’ savings to evaporate. The Progressive movement demanded postal banking so people could secure their savings by having their savings backed by “the full faith and credit of the United States Government.”

As a result of these efforts, the Postal Savings System was established in 1911 during the Taft Administration. However, the establishment of the Federal Deposit Insurance Corporation (FDIC) in 1933, combined with the limit on interest rates the Post Office could pay and persistent opposition from the American Bankers Association, caused the use of postal banking to decline, which then led to its demise in 1966.
The enormous financial power that the largest corporate banks wield makes corporate bankers think that they can do whatever they want to boost profits with impunity. In a year that brought ruin to more Americans than at any time since the Great Depression, banks posted $147.9 billion in profits. While this is a substantial decline from their 2019 profits of $233.1 billion and $237 billion in 2018, it is remarkable that the same year that saw record unemployment and a record decline in GDP also brought significant profits to the banking industry. Consequently, a new breed of financial reformers has come together to challenge unelected and unaccountable corporate bank executives’ control over the nation’s financial system. Grassroots public bank advocates, as well as academics, are fighting for a reformulation of the federal financial system to support the formation of public banks, which will provide affordable financial services for the betterment of local communities.

**Public Banking Advancing in the Federal Government**

In addition to the Postal Banking Act, last year Representatives Rashida Tlaib and Alexandria Ocasio-Cortez introduced HR 8721, the Public Banking Act, to establish a federal-level regulatory framework and corresponding financial infrastructure for public banks. Currently, none of the federal institutions overseeing banking offers services for public banks. Oddly enough, the nation’s bank, the Federal Reserve Bank (Fed), which has some public accountability since its board is nominated by the president and confirmed by the Senate, provides no accommodation for public banks.

“Chase: Van Nuys,” oil on canvas, by Alex Schaefer.
This quasi-public Fed, governed by the Federal Reserve Board and banking industry representatives, has been summoned to rescue the nation’s financial system with trillion-dollar bailouts to corporate banks twice since 2008. The vast majority of these funds found their way to large corporations and wealthy investors. Both of these pending acts would require the Fed to serve the broader public by acknowledging a role for public banking in the national financial infrastructure and by making the financial system more democratic.

Many people are looking at public banking as a means to finance a green transition to confront the impending global climate catastrophe. They look to Germany’s vibrant economy with its network of hundreds of public banks that have been instrumental in facilitating a dramatic transformation of energy production where today 46% of the country’s energy is secured from renewable sources, compared to a mere 11% in the United States. Germany has had a network of public banks, known as Sparkassen, for over 200 years. What started as a means of micro-finance for low-income earners has grown into one of the largest banking groups in the world. Fifty million Germans have accounts in the over 400 municipally owned nonprofit public banks that collectively hold over $1.2 trillion in assets. Sparkassen provides financing for roughly 70% of small and medium-sized enterprises and about half of all mortgages.

**Municipal Public Banking Moves Forward**

While passage of the pending federal legislation will make it easier to establish public banks, financial reformers across the nation are moving forward without waiting. In 2019, the California Public Banking Alliance worked with state legislators to pass the first law in modern times enabling municipalities to establish public banks. Public banking advocates across California are now developing plans for establishing these banks and the state banking regulators are busy writing the rules for chartering municipal banks. As a paper from the Political Economy Research Institute (PERI) notes, public banks “...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.”

Compared to national or state banks, an advantage of municipal public banks is that bank leadership is closer to the public it serves, making the decision makers accountable and the decisions more representative. One drawback is that smaller communities may not have substantial enough revenues to make a local public bank feasible. This has led some advocates to push for statewide public banks instead.

**The Bank of North Dakota**

North Dakota has owned and operated the Bank of North Dakota (BND) profitably for more than a century. Largely following this model, 11 states are currently advancing state-run public banking legislation, and four states are introducing both statewide and municipal public bank legislation. The BND has been an inspiration because it was extremely effective in assisting a rapid recovery.
from the 2008 financial crisis and allowed for the efficient distribution of federal Paycheck Protection Program (PPP) funds to a broad spectrum of small businesses during the current financial malaise. As a result, North Dakota received PPP loans in excess of $2,000 per capita, more than any other state. Politicians are also quick to notice that the BND has returned a substantial portion of the bank’s profits to the state treasury, enabling the expansion of state services without requiring large tax increases.

The BND directs public monies it receives from tax payments, fees, and fines to community banks and credit unions throughout the state to support local development. Considering the burden that the Covid-19 pandemic has placed on state and local government finances, states are particularly keen to see how public banks can help expand lending and direct investment funds to priorities that are most relevant to their constituents’ needs such as health care delivery, affordable housing, climate-resilient infrastructure, and the resuscitation of small businesses devastated by government-mandated shutdowns.

Taking into account that it may take a while for public banks to open operations, public banking advocates in California recently directed some of their efforts to support financial reforms that can offer more immediate relief to the unbanked and underbanked. Collaborating with the Service Employees International Union (SEIU) in California, which is the largest union in the state with 700,000 members, the California Public Banking Alliance (CPBA), a statewide network of public banking organizations, is working diligently to pass AB 1177, the California Public Banking Option Act (BankCal). This legislation will provide an alternative to the predatory financial practices of payday lenders and pawn shops by making available to all Californians a no-fee, no-fine debit card that they can use to deposit checks, pay bills, and send money. While AB 1177 does not set up a public bank, it is designed to complement the services of public banks once they come into being.

A Return to Conservative Banking Practices
Public banking advocates endorse a return to the “conservative” banking practices of the past where bankers are connected to the communities they serve and there is close contact between lenders and borrowers. These reformers want big changes because they fear the instability of the current system with “too big to fail” banks dominating financial markets. They abhor the speculative and avaricious investments made by mega-banks with the only goal being profit maximization for their shareholders and bloated executive compensation.

Smaller community banks and credit unions have disappeared over the past few decades, leaving financial deserts in their wake. Growing concentration in the financial industry due to interstate branching deregulation and the repeal of

Public banking advocates want to increase financial democracy and accountability by building public institutions that can counter the concentrated power that today’s financial behemoths wield. While there are 4,437 financial institutions across the United States, the four largest banks hold 45% of the nation’s assets.

BISHOP BERKELEY’S PUBLIC BANKING SOLUTION

George Berkeley (1685–1753), the Anglo-Irish clergyman and philosopher for whom the University of California–Berkeley is named, may not have believed in the existence of the material world, but he did formulate the idea of a national public bank to stimulate the economy: “A Bank wherein there are no Shares, would be free from all the Evils of Stock-jobbing [speculation]. A Bank, whereof the Publick makes all the Profit, and therefore makes good all Deficiencies, must be most secure. Such a Bank prudently managed, would be a Mine of Gold in the hands of the Publick. … The Advantages of such a bank in restoring Credit, promoting Industry, answering the Wants, as well of the Publick as of private Persons, putting Spirit into our People, and enlivening our Commerce, will, I suppose, be evident to whoever shall consider the Queries of late proposed to the Publick.” —George Berkeley, The Querist: Containing Several Queries Proposed to the Consideration of the Public, 1737 (available at Project Gutenberg, gutenberg.org).
Glass-Steagall resulted in larger banks absorbing community banks. Consequently, the experience of interacting directly with a teller or loan officer is increasingly rare. There has been a severe reduction in bank presence in communities. The effect on communities with low and moderate incomes (“LMI communities”) is even more dramatic. In her testimony at the House hearing in July, Professor Baradaran stated “93% of bank branch closings were in LMI communities. Rural Americans have lost over half of their banks; banks don’t serve these communities for the simple reason that there aren’t enough profits.”

Public banking advocates want to increase financial democracy and accountability by building public institutions that can counter the concentrated power that today's financial behemoths wield. While there are 4,437 financial institutions across the United States, the four largest banks hold 45% of the nation's assets. Supporters of public banking recognize the enormous might corporate bankers exhibit when they leverage billions to invest in extractive industries, which are accelerating the climate disaster. They want accountable bankers who won’t discriminate against people of color applying for mortgages or small business loans. They advocate for a public option for financial services because the financial system should be one that serves all, not just the megabanks and massive corporations that dominate our economy. These community warriors believe that we should have public banks the same as we have public libraries, public schools, and public parks.

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For more information on public banking and the progress that has been made for establishing municipal public banks you can go to the California Public Banking website (californiapublicbankingalliance.org) and the San Francisco Public Bank Coalition website (sfpublicbank.org).

IN OUR NEXT ISSUE: Rick Girling on why corporate bankers are wary of public banking.