The Principles, Structure, and Operating Procedures of a City Public Bank

1. The Principles of a Public Bank

- While a public bank can and should be profitable, profit is not its primary directive. Public banks, as the name would imply, serve a public purpose to provide all the financing needed for the jurisdiction it represents at low cost to the community.
- The Regional Principle (Mark Cassell): unlike the private banks, public banks are constrained to invest only in the community it represents, providing low cost loans to local SMEs and abundant financing to the government that presides over the bank.
- Non-competitive nature of public banks. Public banks will not compete with LFIs (Local Financial Institutions), like community banks & credit unions, but instead it will collaborate with them in providing loans to the community.
- Transparency. The bank will provide regular financial documentation to the public, the board, and the local legislature.
- Accountability. The public bank will be responsible to
  - The Charter of the Bank and its defined Mission to serve the local community
  - Then, the Governing Board
  - Then, the Government
  - Finally, the public that it serves.
- Collateralization: a public bank, unlike a private bank, is not required to collateralize its deposits for several reasons:
  - A private bank is using other people's money, so 100% collateralization is sensible.
  - But a public bank is using the money of the community that owns the bank. The owner and the depositor are the same. A different kind of bank that does not require collateral because of this fact.
  - As the sole depository bank for the local government and with provisions that the bank can never be sold, the possibility of a run on the bank are near zero percent. The bank will have but 1 depositor, namely the government that owns the bank.
  - Read Earl Staelin's insightful exposition on this matter, Public Banks: FDIC Membership and the Collateral Requirement – Meritless Roadblocks
- Credit Creation: all banks create money whenever they issue a loan.
  - As Professor Richard A. Werner, international banking expert, has empirically demonstrated, banks create new money whenever they issue a loan, examining the 3 theories of banking and the conclusive evidence.
  - Banks create the money supply. But if that new money is used for consumption or for asset purchases (property, stocks, bonds, etal) asset bubbles and inflation will occur. Only when the new money created by banks are used for productive purposes like new technology, new goods and services, contributing to the local GDP with value-added products and services, only then can you have sustainable growth without inflation.
  - So, it is imperative that local public banks use their powers of credit creation to increase local GDP with value-added new technologies, products, and services.