

LATEST

SECTIONS

ABOUT

SUBSCRIBE

DONATE



Cities and states are seeking ways to better leverage taxpayer dollars and reinvest them in the needs of local communities.

ONEINCHPUNCH / SHUTTERSTOCK

BY

Ellen Brown, THE WEB OF DEBT BLOG

PUBLISHED

July 9, 2018

SHARE



Voters in Los Angeles will be the first in the country to weigh in on a public banking mandate, after the City Council agreed on June 29th to put a measure on the November ballot that would allow the city to form its own bank. The charter for the nation's second-largest city currently prohibits the creation of industrial or commercial enterprises by the city without voter approval. The measure, introduced by City Council President Herb Wesson, would allow the city to create a public bank, although state and federal law hurdles would still need to be cleared.

The bank is expected to save the city millions, if not billions, of dollars in Wall Street fees and interest paid to bondholders, while injecting new money into the local economy, generating jobs and expanding the tax base. It could respond to the needs of its residents by reinvesting in low-income housing, critical infrastructure projects, and clean energy, as well as serving as a depository for the cannabis industry.

The push for a publicly-owned bank comes amid ongoing concerns involving the massive amounts of cash generated by the cannabis business, which was legalized by Proposition 64 in 2016. Wesson has said that **cannabis has “kind of percolated to the top”** of the public bank push, “but it’s not what’s driving” it, citing affordable housing and other key issues; and that **a public bank should be pursued** even if it cannot be used by the cannabis industry. However, the prospect of millions of dollars in tax revenue is an obvious draw. Los Angeles is the largest cannabis market in the state, with Mayor Eric Garcetti estimating that it would bring in \$30 million in taxes for the city.

Don't miss a beat

Get the latest news and thought-provoking analysis from Truthout.

SUBSCRIBE

Bypassing the Fed

State Board of Equalization Member Fiona Ma, who is running for state treasurer, says California's homegrown \$8-20 billion cannabis industry is still operating mostly in cash almost 2 years after state legalization, with the majority of businesses operating in the black market without paying taxes. This is in large part because federal law denies them access to the banking system, forcing them to deal only in cash and causing logistical nightmares when paying taxes and transferring money.

Cannabis is still a forbidden Schedule 1 drug under federal law, and the Federal Reserve has refused to give a master account to banks taking cannabis cash. Without a master account, they cannot access Fedwire transfer services, essentially shutting them out of the banking business.

In a surprise move in early June, President Donald Trump announced that he "probably will end up supporting" legislation to let states set their own cannabis policy. But Ma says that while that is good news, California cannot wait on the federal government. She and State Sen. Bob Hertzberg (D-Los Angeles) have brought **Senate Bill 930**, which would allow state-chartered banks and financial institutions to apply for a special cannabis banking license to accept clients, after a rigorous process that follows regulations from the US Treasury Department. The bill cleared a major legislative hurdle on May 30th when it passed on the Senate Floor.

SB 930 focuses on California state-chartered banks, which unlike federally-chartered banks can operate under a closed loop system with private deposit insurance. As Ma explained in a [May 17 article in The Sacramento Bee](#):

There are two types of banks – those with federal charters, and banks with California charters. Because cannabis is still considered a Schedule 1 narcotic, we cannot touch federal banking wires. We want state-chartered banks that are protected, regulated and certified under California law, and not required to be under the FDIC.

State income taxes, sales taxes, unemployment, workers' compensation and property taxes could all be paid through a closed-loop system that takes in revenue from the cannabis industry, but is apart from the federal banking system. . . . Cannabis businesses could be part of a cashless system similar to Apple Pay, and their money would be insured by a state-licensed institution.

That is a pretty revolutionary idea – a closed-loop California banking system that is independent of the Federal Reserve and the federal system. SB 930 would bypass the Feds only for cannabis cash, and the bill strictly limits what the checks issued by these “pot banks” can be used for. But the prospects it opens up are interesting. California is now the fifth largest economy in the world, with 39 million people. It has the resources for its own cashless “CalPay” or CalCoin” system that could bypass the federal system altogether.

The Bank of North Dakota, currently the nation's only state-owned depository bank, has been called a “mini-Fed” for that state. The Bank of North Dakota partners with local banks to make below-market loans for community purposes, including 2 percent loans for local infrastructure, while at the same time turning a tidy profit for the state. In 2017, it recorded its [14th consecutive year of record profits](#), with \$145.3 million in net earnings

and a return on the state's investment of 17 percent. California, with more than 50 times North Dakota's population, could use its own mini-Fed as well.

Growing Support for Public Banks

It is significant that the proposal for a closed-loop California system is not coming from academics without political clout. Fiona Ma is slated to become state treasurer, having won the primary election in June by a landslide; and the current state treasurer **John Chiang has been exploring the possibility** of a public bank that could take cannabis cash for over a year. Lt. Gov. Gavin Newsom, the front runner for governor, **has also called for the creation of a public bank**. These are not armchair theoreticians but the people who make political decisions for the state, and they have substantial popular support.

Public bank advocacy groups from cities across California have joined to form the California Public Banking Alliance, a coalition to advance legislation that would facilitate the formation of municipal banks statewide under a special state charter. A **press release by Public Bank Los Angeles**, one of its founding advocacy groups, notes that 15 pieces of legislation for public banks are being explored across the nation through municipal committees and state legislators, with over three dozen public banking movements building in cities and states across the country. San Francisco has created a 16-person Municipal Bank Feasibility Task Force; Seattle and Washington DC have separately earmarked \$100,000 for public banking feasibility studies; and Washington State legislators have added nearly a half million dollars to their budget to produce a business plan for a public depository bank. New Jersey state legislators, with the backing of Governor Phil Murphy, have introduced a bill to form a state-owned bank; and GOP and Democratic lawmakers in Michigan have filed a bipartisan bill to create one in that state.

Cities and states are seeking ways to better leverage taxpayer dollars and reinvest them in the needs of local communities. Public banking serves that purpose, providing local determination and the opportunity for socially and environmentally responsible lending

and investments. The City Council of Los Angeles is now taking it to the voters; and where California goes, the nation may well follow.

Psssttt! While you're here we need your help.

Since Donald Trump took office, progressive journalism has been under constant attack and companies like Facebook and Google have changed their policies to limit your access to sites like Truthout.

The result is that our articles are reaching fewer people at a time when we need genuinely independent news more than ever.

Here's how you can help: Since Truthout doesn't run ads or take corporate or government money, we rely on our readers for support.

By making a monthly or one-time donation of any amount, you'll help us publish and distribute stories that have a real impact on people's lives.



SUPPORT INDEPENDENT JOURNALISM

This article was originally published under another title at TruthDig.com.

Ellen Brown

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In *Web of Debt*, her latest book, she turns those skills to an analysis of the Federal Reserve and “the money trust.” She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her 11 books include *Forbidden Medicine*, *Nature’s Pharmacy* (co-authored with Dr. Lynne Walker), and *The Key to Ultimate Health* (co-authored with Dr. Richard Hansen). Her websites are webofdebt.com, ellenbrown.com and public-banking.com.

MORE BY THIS AUTHOR...

RELATED



ECONOMY & LABOR

Blackstone, BlackRock or a Public Bank? Putting California’s Funds to Work

There is another alternative.

by Ellen Brown, THE WEB OF DEBT BLOG

May 30, 2018



ECONOMY & LABOR

The Public Bank Option — Safer, Local and Half the Cost

Phil Murphy has made a state-owned bank a centerpiece of his platform.

by Ellen Brown, THE WEB OF DEBT BLOG

November 10, 2017





ECONOMY & LABOR

Regulation Is Killing Community Banks — Public Banks Can Revive Them

Crushing regulations are driving small banks to sell out to the megabanks.

by Ellen Brown, THE WEB OF DEBT BLOG

November 1, 2017

SUBSCRIBE

DONATE



[About Us](#)

[Staff](#)

[Contact Us](#)

[Jobs](#)

[Report an Issue](#)

[Submission Guidelines](#)

[Privacy Policy](#)

©2018 Truthout

^ BACK TO TOP