

# A Public Bank for Los Angeles? City Council Puts It to the Voters.

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

ONE INCH PUNCH / SHUTTERSTOCK

BY

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

The bank is expected to save the city millions, if not billions, of dollars in Wall Street fees and bondholders, while injecting new money into the local economy, generating jobs and expanding services. The bank 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 amount of tax revenue generated by the cannabis business, which was legalized by Proposition 64 in 2016. Wesson has argued that the cannabis industry has "kind of percolated to the top" of the public bank push, "but it's not what's driving the push for affordable housing and other key issues; and that a public bank should be pursued even if it causes a loss of revenue from the cannabis industry. However, the prospect of millions of dollars in tax revenue is an obvious benefit. Los Angeles is the largest cannabis market in the state, with Mayor Eric Garcetti estimating that it generates \$30 million in taxes for the city.

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## Bypassing the Fed

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

Cannabis is still a forbidden Schedule 1 drug under federal law, and the Federal Reserve has no master account to banks taking cannabis cash. Without a master account, they cannot access services, essentially shutting them out of the banking business.

In a surprise move in early June, President Donald Trump announced that he "probably will e

legislation to let states set their own cannabis policy. But Ma says that while that is good news, we must wait on the federal government. She and State Sen. Bob Hertzberg (D-Los Angeles) have introduced legislation which would allow state-chartered banks and financial institutions to apply for a special cannabis license to accept clients, after a rigorous process that follows regulations from the US Treasury. The bill cleared a major legislative hurdle on May 30<sup>th</sup> when it passed on the Senate Floor.

SB 930 focuses on California state-chartered banks, which unlike federally-chartered banks are part of a closed loop system with private deposit insurance. As Ma explained in [a May 17 article in The](#)

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 regulations. State-chartered banks that are protected, regulated and certified under California law are not required to be under the FDIC.

State income taxes, sales taxes, unemployment, workers' compensation and property taxes are currently paid through a closed-loop system that takes in revenue from the cannabis industry, and then flows it back into the federal banking system. . . . Cannabis businesses could be part of a cashless system like 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 Fed only for cannabis cash, and the checks issued by these “pot banks” can be used for anything. But the prospect it opens up for California is now the fifth largest economy in the world, with 39 million people. It has the resources to create a 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 the “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 generating a profit for the state. In 2017, it recorded its [14<sup>th</sup> consecutive year of record profits](#), with \$145.3 million in earnings and a return on the state's investment of 17 percent. California, with more than 50 times the population of North Dakota's, 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 academia or the political clout. Fiona Ma is slated to become state treasurer, having won the primary election 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 [been exploring the possibility for the creation of a public bank](#). These are not armchair theoreticians but the people who make the 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 Bank Alliance, a coalition to advance legislation that would facilitate the formation of municipal banks under a special state charter. A [press release by Public Bank Los Angeles](#), one of its founding members, notes that 15 pieces of legislation for public banks are being explored across the nation through legislative committees and state legislators, with over three dozen public banking movements building momentum across the country. San Francisco has created a 16-person Municipal Bank Feasibility Task Force. Washington DC has separately earmarked \$100,000 for public banking feasibility studies; and California State legislators have added nearly a half million dollars to their budget to produce a business depository bank. New Jersey state legislators, with the backing of Governor Phil Murphy, have announced plans to form a state-owned bank; and GOP and Democratic lawmakers in Michigan have filed a big

create one in that state.

Cities and states are seeking ways to better leverage taxpayer dollars and reinvest them in the communities. Public banking serves that purpose, providing local determination and the opportunity for and environmentally responsible lending and investments. The City Council of Los Angeles is the voters; and where California goes, the nation may well follow.

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### **Ellen Brown**

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In her latest book, she turns those skills to an analysis of the Federal Reserve and “the money cartel” and how this private cartel has usurped the power to create money from the people themselves. Her 11 books include *Forbidden Medicine*, *Nature's Pharmacy* (co-authored with Dr. Richard Walker), and *The Key to Ultimate Health* (co-authored with Dr. Richard Hansen). Her websites are [ellenbrown.com](http://ellenbrown.com) and [public-banking.com](http://public-banking.com).

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