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Out of the Shadows: Public Banking for Municipal Finance

In a recent essay, we advanced a proposal for sub-federal governments to sell municipal bonds to their own public banks. We took the city as our primary point of departure, but the same lessons are applicable to U.S. counties and states. Establishing a public bank that regularly purchases municipal debt, we argued, would not only significantly expand a city's fiscal capacity to support its communities and environs, but also reclaim regional public finance from a parasitical and punishing bond market.

Since the publication of our essay, some commentators have criticized the proposal for involving city finance in so-called shadow banking, precisely because it places public credit creation outside traditional private capital markets. Such concerns are rooted in a legitimate wariness toward the unregulated and often fragile credit structures that trigger financial crises. However, this criticism fails to distinguish between speculative private ventures and institutionalized provisioning by the municipal public purse. Indeed, such a critique mistakes the absence of private middlemen for a lack of financial oversight and security. Our plan, by contrast, replaces the opaque and volatile shadows of private intermediation with a transparent, public-facing mechanism anchored in the enduring fiscal authority of the city government.

Continue reading.

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