

## Why Not State Banks?

North Dakota shows how a public bank can save taxpayers money, expand access to credit and stabilize the economy.

By [David Bollier](#)



Despite the huge infusions of bailout capital by the federal government, many banks continue their reluctance to lend, even to creditworthy businesses and individuals. If nothing else, the banking crisis of the past 18 months has shown that when the chips are down, it's the government and taxpayers who do the bidding of the banks, not vice-versa. The common wealth is commandeered to shore up private wealth because "the free market" is seen as the only realistic vehicle for advancing the common good.

But is it? Perhaps our biggest problem is the suffocating strictures of conventional wisdom and our lack of imagination.

For example, why not consider starting state banks? If Republicans are going to blast any government action, no matter how innocuous, as "socialism," why not make the most of it? Why not actually recoup some of the benefits of taxpayer money for taxpayers themselves? Now there's a radical idea!

The [Bank of North Dakota](#) is getting a lot of attention these days for precisely that reason. As a recent [Associated Press story noted](#), "Gubernatorial candidates in Florida and Oregon and a Washington state legislator are advocating the creation of state-owned banks in those states. A report prepared for a Vermont House committee last month said the idea had "considerable merit." Liberal filmmaker Michael Moore promotes the bank on his Web site."

Just last week, the president of the Massachusetts state senate called for a commission to study whether Massachusetts should emulate the North Dakota bank and move its funds from money management firms (which collect a fee for their services) to a state bank.

The Bank of North Dakota was started in 1919 when out-of-state bankers and grain dealers were manipulating markets and credit to farmers in the state. In effect, state farmers were held captive by private interests, with serious harms to the ability of farmers to buy and sell crops and finance farm operations.

To help loosen the grip of private power, the state legislature created the Bank of North Dakota. For creditworthy projects, this state-owned bank takes a stake in loan packages, which reduces the levels of risk that private, commercial banks must assume. It makes direct loans to South Dakota farmers, students and businesses at reasonable rates, and it acts as the repository for the funds administered by

all state agencies.

When the economy gets bogged down and commercial banks are disinclined to lend, the Bank of North Dakota is a ready, reliable alternative. It makes money as the bank for taxpayer funds while making loans to state citizens, which helps keep the (state) economy humming.

What's not to like? A state bank produces a less volatile credit market with greater social equity and lower banking costs!

At a time when the economies of most states are dismal, the economy in North Dakota is doing very well indeed. Unemployment is only 4.4 percent and there is a state budget surplus. Now, there are certainly many "exogenous" factors to explain this state of affairs, but a state bank is certainly a stabilizing, constructive influence. It lets taxpayers recoup greater margins from their own tax monies and enjoy greater access to credit in periods when commercial banks are skittish about any lending.

While commercial banks may not like even the whiff of competition from a state bank, such competition is minimal in this instance. The Bank of North Dakota has only one office, and it does not offer retail banking services. Yet even in this restricted role, the bank clearly benefits the citizens of the state.

Last year, the Bank of North Dakota had profits of \$58.1 million (on a loan portfolio of \$2.67 billion), which was the sixth consecutive year of record profits. Over the past decade, the bank has channeled about \$300 million to the state treasury, where it supplements the budget of the state government. Not too shabby.

Although the state earns about 0.25 percent less interest on funds deposited in the Bank of North Dakota than in commercial banks, it does not pay state or federal taxes. Nor does it pay deposit insurance; essentially the state of North Dakota is the guarantor of funds: a great way for taxpayers to leverage their collective equity for collective benefit. (If government is going to act as a guarantor for banks, why not reap some margin from doing so?)

Because the Bank of North Dakota is not obliged to maximize returns for private investors, but to serve the common good — within the bounds of responsible banking practices — it can spend time and energy trying to make deals work rather than summarily rejecting them as too risky or not lucrative enough. After all, the bank realizes that putting together a successful loan package could have enormous effects on community development — something that is lesser priority for commercial banks. As a result, the Bank of North Dakota is often willing to take extra steps to try to make local development projects work.

Ah, but then, there's that nasty accusation: "socialism"!

I continue to be perplexed by the crazy reality that any time government tries to act for the common good, outside of military circumstances, conservatives rise up to deride it as socialism. The clause in the U.S. Constitution mandating that government "promote the general welfare" strikes me as pretty darn American. Where is it written in our founding documents that the public interest can only be served by letting private interests have full sway — often monopoly or oligopoly control — is the only way to actualize the general welfare?

Of course, the sloganeering is just a preemptive attempt by insecure bankers to prevent innovative, public-spirited solutions from gaining a toehold. It resembles the banking industry's shameful efforts to shut down government's role in making student educational loans.

North Dakota, you are an inspiration! Here's hoping our current financial crisis is the mother of a new wave of innovation in the states.

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