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A Public Bank Option for Scotland

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Scottish voters will go to the polls on September 18th to decide whether Scotland should become an independent country. As video blogger Ian R. Crane colorfully puts the issues and possibilities:

> [T]he People of Scotland have an opportunity to extricate themselves from the socio-psychopathic global corporatists and the temple of outrageous and excessive abject materialism. However, it is not going to be an easy ride . . . .
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> If Alex Salmond and the SNP [Scottish National Party] are serious about keeping the Pound Stirling as the Currency of Scotland, there will be no independence. Likewise if Scotland embraces the Euro, Scotland will rapidly become a vassel state of the Euro-Federalists, who will asset strip the nation in the same way that, Greece, Ireland, Portugal and Spain have been stripped of their entire national wealth and much of their national identity.

To achieve true independence, Crane suggests the following, among other mandates:

- Establish an independent Central Bank of Scotland.
- Issue a new Scottish (Debt Free) Currency.
- Settle any outstanding debt with new Scottish Currency.
- Take Scotland out of the EU.
- Take Scotland out of NATO.
- Establish strict currency controls for the first 3 years of independence.
- Nationalize the Scottish oil & gas industry.
- Re-take control of the National Health Service.
- Establish a State Employment Agency to provide work/training for all able-bodied residents.

Arguments against independence include that Scotland's levels of public spending, which are higher than in the rest of the UK, would be difficult to sustain without raising taxes. But that assumes the existing UK/EU investment regime. If Scotland were to say, "We're starting a new round based on our own assets, via our own new bank," exciting things might be achieved. A publicly-owned bank with a mandate to serve the interests of the Scottish people could help give the newly independent country true economic sovereignty.

I wrote on that possibility in December 2012, after doing a PowerPoint on it at the Royal Society of Arts in Edinburgh. That presentation was followed by one by public sector consultant Ralph Leishman, who made the proposal concrete with facts and figures. He suggested that the Scottish Investment Bank (SIB) be licensed as a depository bank on the model of the state-owned Bank of North Dakota. I'm reposting the bulk of that article here, in hopes of adding to the current debate.

The SIB is a division of Scottish Enterprise (SE), a government body that encourages economic development, enterprise, innovation and investment in business. The SIB provides public sector funding through the Scottish Loan Fund. As noted in a September 2011 government report titled "Government Economic Strategy":

> [S]ecuring affordable finance remains a considerable challenge and further action is needed to ensure that viable businesses have access to the funding they require to grow and support jobs. The recovery is being held back by limited private sector investment – indeed, overall investment in the UK remains some 15% below pre-recession levels. Evidence shows that while many large companies have significant cash holdings or can access capital markets directly, for most Small and Medium-sized companies bank lending remains the key source of finance. Unblocking this is key to helping the recovery gain traction.

The limitation of a public loan fund is that the money can be lent only to one borrower at a time. Invested as capital in a bank, on the other hand, public funds can be leveraged into nearly ten times that sum in loans. Liquidity to cover the loans comes from deposits, which remain in the bank, available for the use of the depositors. As observed by Kurt Von Mettenheim, et al., in a 2008 report titled Government Banking: New Perspectives on Sustainable Development and Social Inclusion from Europe and South America (Konrad Adenauer Foundation), at page 196:

> [I]n terms of public policy, government banks can do more for less: Almost ten times more if one compares cash used as capital reserves by banks to other policies that require budgetary outflows.

In 2012, according to Leishman, the SIB had investment funds of £23.2 million from the Scottish government. Rounding this to £25 million, a public depository bank could have sufficient capital to back £250 million in loans. For deposits to cover the loans, the Scottish Government then had £125 million on deposit with private banks, earning very little or no interest. Adding the revenues of just 14% of Scotland's local governments would provide another £125 million, reaching the needed deposit total of £250 million.

The Model of the Bank of North Dakota

What the government could do with its own bank, following the model of the Bank of North Dakota (BND), was summarized by Alf Young in a followup article in the Scotsman. He noted that North Dakota is currently the only U.S. state to own its own depository bank. The BND was founded in 1919 by Norwegian and other immigrants, who were determined, through their Non-Partisan League, to stop rapacious Wall Street money men foreclosing on their farms.

Young observed that all state revenues must be deposited with the BND by law. The bank pays no bonuses, fees or commissions; does no advertising; and maintains no branches beyond the main office in Bismarck. The bank offers cheap credit lines to state and local government agencies. There are low-interest loans for designated project finance. The BND underwrites municipal bonds, funds disaster relief and supports student loans. It partners with local commercial banks to increase lending across the state and pays competitive interest rates on state deposits. For the past ten years, it has been paying a dividend to the state, with a quite small population of about 680,000, of some $30 million (£18.7 million) a year.

Young wrote:

> Intriguingly, North Dakota has not suffered the way much of the rest of the US – indeed much of the western industrialised world – has, from the banking crash and credit crunch of 2008; the subsequent economic slump; and the sovereign debt crisis that has afflicted so many. With an economy based on farming and oil, it has one of the lowest unemployment rates in the US, a rising population and a state budget surplus that is expected to hit $1.6bn by next July. By then North Dakota's legacy fund is forecast to have swollen to around $1.2bn.
>
> With that kind of resilience, it's little wonder that twenty American states, some of them close to bankruptcy, are at various stages of legislating to form their own state-owned banks on the North Dakota model. There's a long-standing tradition of such institutions elsewhere too. Australia had a publicly-owned bank offering credit for infrastructure as early as 1912. New Zealand had one operating in the housing field in the 1930s. Up until 1974, the federal government in Canada borrowed from the Bank of Canada, effectively interest-free.
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> . . . From our western perspective, we tend to forget that, globally, around 40 per cent of banks are already publicly owned, many of them concentrated in the BRIC economies, Brazil, Russia, India and China.

Banking is not just a market good or service. It is a vital part of societal infrastructure, which properly belongs in the public sector. By taking banking back, local governments could regain control of that very large slice (up to 40 per cent) of every public budget that currently goes to interest charged to finance investment programs through the private sector.

Recent academic studies by von Mettenheim et al. and Andrianova et al. show that countries with high degrees of government ownership of banking have grown much faster in the last decade than countries where banking is historically concentrated in the private sector. Government banks are also LESS corrupt and, surprisingly, have been MORE profitable in recent years than private banks.

Young wrote:

> Given the massive price we have all paid for our debt-fuelled crash, surely there is scope for a more fundamental re-think about what we really want from our banks and what structures of ownership are best suited to deliver on those aspirations? . . .
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> As we left Thursday's seminar, I asked another member of the audience, someone with more than thirty years' experience as a corporate financier, whether the concept of a publicly-owned bank has any chance of getting off the ground here. "I've no doubt it will happen," came the surprise response. "When I look at the way our collective addiction to debt has ballooned in my lifetime, I'd even say it's inevitable".

The Scots are full of surprises, and independence is in their blood. Recall the heroic battles of William Wallace and Robert the Bruce memorialized by Hollywood in the Academy Award winning movie Braveheart. Perhaps the Scots will blaze a trail for economic sovereignty in Europe, just as North Dakotans did in the U.S. A publicly-owned bank could help Scotland take control of its own economic destiny, by avoiding unnecessary debt to a private banking system that has become a burden to the economy rather than a pillar in its support.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books, including the best-selling Web of Debt. In The Public Bank Solution, her latest book, she explores successful public banking models historically and globally. Her 200+ blog articles are at EllenBrown.com.

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