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Public Banking in America

Washington State Joins a Nationwide Movement

By Ellen Brown

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Bills were introduced on January 18 in both the House and Senate of the Washington State Legislature that add Washington to the growing number of states now actively moving to create public banking facilities.

The bills, House Bill 1320 and Senate Bill 5238, propose creation of a Washington Investment Trust (WIT) to "promote agriculture, education, community development, economic development, housing, and industry" by using "the resources of the people of Washington State within the state."

Currently, all the state's funds are deposited with Bank of America. HB 1320 proposes that in the future, "all state funds be deposited in the Washington Investment Trust and be guaranteed by the state and used to promote the common good and public benefit of all the people and their businesses within [the] state."

The legislation is similar to that now being studied or proposed in states including Illinois, Virginia, Hawaii, Massachusetts, Maryland, Florida, Michigan, Oregon, California and others.

The effort in Washington State draws heavily on the success of the 92-year-old Bank of North Dakota (BND), currently the only state-wide publicly-owned U.S. bank. The BND has helped North Dakota escape the looming budgetary disaster facing other states. In 2009, North Dakota sported the largest budget surplus it had ever had.

The Wall Street Credit Crisis Is Crippling State and Municipal Governments

That state budget deficits are reaching crisis proportions was underscored in the January 19 New York Times:

[A]lmost everywhere the fiscal crisis of states has grown more acute. Rainy day funds are drained, cities and towns have laid off more than 200,000 people, and Arizona even has leased out its state office building. . . .

"It's the time of the once unthinkable . . . ," noted Lori Grange, deputy director of the Pew Center on the States. "Whether there are tax increases or dramatic cuts to education and vital services, the crisis is bad . . . ."

The "once unthinkable" includes not only draconian cuts in services, increases in taxes, and sale of public assets, but now filing for bankruptcy. States are not currently allowed to go bankrupt, but a move is afoot in Congress to change all that. Bankruptcy proceedings would allow states to escape pension and other contractual obligations, following the dubious lead of such megacorporations as General Motors and Continental Airlines.

Meanwhile, fears of state bankruptcy have caused state and municipal bond values to plummet and borrowing costs to soar. As with Greece and Ireland, rumors of bankruptcy become a self-fulfilling prophecy, bringing out the hedge funds and short sellers that turn prophecy into reality.

Addressing the Problem at Its Source: The North Dakota Model

While drastic spending cuts are being proposed and implemented, the states' woes are not the result of over-spending. Rather, they were caused by loss of revenues and increased borrowing costs resulting from the Wall Street banking crisis. Jammed with toxic assets, derivatives, and the subprime mortgage debacle, the Wall Street credit machine ground to a halt in the fall of 2008 and has still not recovered.

And it is here, in generating credit for the state, that the Bank of North Dakota has been spectacularly successful. By providing affordable, low interest credit for business expansion, new businesses and students, the BND has helped North Dakota sidestep the credit crisis altogether.

The BND partners with private banks, providing a secondary market for mortgages; offers "wholesale" banking services such as check clearing and liquidity support to private banks; and invests in North Dakota municipal bonds to support economic development. In the last ten years, the BND has returned more than a third of a billion dollars to the state's general fund. North Dakota is one of the few states to consistently post a budget surplus.

Unlike private banks, public banks don't speculate or gamble on high risk "financial products." They don't pay outrageous salaries and bonuses to their management, who are salaried civil servants. The profits of the bank are all returned to the only shareholder – the people.

Washington State Representative Bob Hasegawa, a prime sponsor of the Washington legislation, called the proposal for a publicly-owned bank "a simple concept that will reap huge benefits for Washington." In a letter to constituents, he explained, "The concept (is) to keep taxpayers' money working here in Washington to build our economy. Currently, all tax revenues go into a 'Concentration Account' held by the Bank of America. BoA makes money off our money and we never see those profits again. Instead, we can create our own institution and keep taxpayers' dollars here in Washington, working for Washington."

Hasegawa said a key feature of the Washington banking institution is that it will work in partnership with financial institutions, community-based organizations, economic development groups, guaranty agencies, and others. He said the Washington Investment Trust will offer "transparency, accountability, and accuracy of financial reporting," a welcome change from the accounting tricks common among the large Wall Street money center banks today.

A public hearing on HB 1320 is scheduled for Tuesday, January 25th, at 1:30pm. The bill is assigned to the [Business and Financial Services Committee] in the House and the [Financial Institutions, Housing & Insurance Committee] in the Senate.

For more information on the movement for publicly-owned banks, see http://PublicBankingInstitute.org.

Ellen Brown wrote this article for YES! Magazine, a national, nonprofit media organization that fuses powerful ideas with practical actions. Ellen is an attorney and the author of eleven books, including *Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free*. Her websites are http://webofdebt.com and http://ellenbrown.com.

Ellen

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