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Restoring Economic Sovereignty: The Push for State-owned Banks

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"It is time to declare economic sovereignty from the multinational banks that are responsible for much of our current economic crisis. Every year we ship over a billion dollars in Oregon taxpayer dollars to out-of-state and multinational banks in the form of deposits, only to see that money invested elsewhere. It's time to put our money to work for Oregonians."— Bill Bradbury, former Oregon Senate President and Secretary of State, quoted in The Nation

Responding to an unfilled need for credit for local government, local businesses and consumers, three states in the last month have introduced bills for state-owned banks — Oregon, Washington and Maryland – joining Illinois, Virginia, Massachusetts and Hawaii to bring the total number to seven.

While Wall Street is reporting record profits, local banks are floundering, credit for small businesses and consumers remains tight, and local governments are teetering on bankruptcy. There is even talk of allowing state governments to file for bankruptcy, something current legislation forbids. The federal government and Federal Reserve have managed to find trillions of dollars to prop up the Wall Street banks that precipitated the credit crisis, but they have not extended this largesse to the taxpayers and local governments that have been forced to pick up the tab.

In January, Federal Reserve Chairman Ben Bernanke announced that the Fed had ruled out a central bank bailout for state and local governments. The collective state budget deficit for 2011 is projected at $140 billion, a mere 1% of the $12.3 trillion the Fed managed to come up with in liquidity, short-term loans, and other financial arrangements to bail out Wall Street. But Chairman Bernanke said the Fed is limited by statute to buying municipal government debt with maturities of six months or less that is directly backed by tax or other assured revenue, a form of debt that makes up less than 2% of the overall muni market. State and municipal governments, it seems, are on their own.

Faced with federal inaction and growing local budget crises, an increasing number of states are exploring the possibility of setting up their own state-owned banks, following the model of North Dakota, the only state that seems to have escaped the credit crisis unscathed. The 92-year-old Bank of North Dakota (BND), currently the only state-owned U.S. bank, has helped North Dakota avoid the looming budgetary disasters of other states. In 2009, North Dakota sported the largest budget surplus it had ever had. The BND helps fund not only local government but local banks and businesses, by providing matching funds for loans to commercial banks to support small business lending.

In the last month, three states have introduced bills for state-owned banks, following the North Dakota model. On January 11, a bill to establish a state-owned bank was introduced in the Oregon State legislature; on January 13, a similar bill was introduced in Washington State (discussed in an earlier article here); and on February 4, a bill was introduced in the Maryland legislature for a feasibility study looking into the possibilities. They join Illinois, Virginia, Hawaii, and Massachusetts, which introduced similar bills in 2010.

Broad-based Support

The bills are widely supported by small business owners. The Seattle Times reported on February 3 that 79% of 107 business owners surveyed by the Main Street Alliance of Washington supported the Washington bill. More than half said they had experienced a tightening of business credit, and three-fourths of those said they could create additional jobs if their credit needs were met.

A survey by the Main Street Alliance of Oregon produced similar results. Their survey, which covered 115 businesses in 28 communities, found that two-thirds of small-business owners had delayed or canceled expansions because of credit problems; 41 percent had been turned down for credit; and 42 percent had seen their credit terms deteriorate. Three-quarters of the business owners surveyed supported the Oregon bill.

Also supporting the idea of a state-owned bank is Oregon state treasurer Ted Wheeler, with this twist: he thinks Oregon can unlock additional lending capacity in partnership with existing institutions by creating a "virtual" bank. The state would not need to build new brick and mortar banks requiring hundreds of new employees to service them. The new tools afforded the state by being a "bank" could be arranged quickly and cheaply through a framework he calls a "virtual economic development bank." In an OpEd posted on *Oregonlive.com* on February 9, he wrote:

This new model would consolidate Oregon's various economic development loan programs in one place, and allow state government to step in as a new lending participant, which will help qualified Oregonians to secure additional financing. We also have strategic investment tools such as the Oregon Growth Account that could be better utilized as part of this framework.

Banks "create" money by leveraging their capital into loans. At an 8% capital requirement, they can leverage capital by a factor of twelve, so long as they can attract sufficient deposits (collected or borrowed) to clear the outgoing checks. States give this leveraging power away when they put their deposits in Wall Street banks and invest their capital there.

State and municipal governments have assets tucked all over the state in separate rainy day funds, which are largely invested in Wall Street banks for a very modest return. At the same time, states are borrowing from Wall Street at much higher interest rates and have to worry about such things as credit ratings, late fees, and interest rate swaps, which have proven to be very good investments for Wall Street and very bad investments for local governments.

By consolidating their assets into their own state-owned banks, state and local governments can leverage their own funds to finance their own operations; and they can do this essentially interest-free, since they will own the bank and will get the interest back. The BND contributed over $300 million to state coffers in the past decade, a notable achievement for a state with a population that is less than one-tenth the size of Los Angeles County.

The growing movement to establish local economic sovereignty through state-owned banks has been a grassroots effort that has grown spontaneously in response to unmet needs for local credit. In Oregon, the push has come from an active volunteer group called Oregonians for a State Bank working with the Working Families Party. In Washington, a major role has been played by the Main Street Alliance, a project of the Alliance for a Just Society (formerly NWFCO). The chief legislative champion in Washington State is Rep. Bob Hasegawa. In Maryland, the campaign was initiated by the Wisconsin-based Center for State Innovation (CSI), working with the Service Employees International Union (SEIU) and the Progressive States Network. Progressive Maryland is a prominent NGO supporter. Detailed analyses of the Washington and Oregon initiatives and their projected benefits have been done by CSI. For grassroots efforts in other states and for petitions that can be signed, see http://publicbankinginstitute.org/state-info.htm.

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