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The Public Bank Option for Scotland: Ensuring Economic Sovereignty

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The Royal Bank of Scotland (RBS) and the Bank of Scotland have been pillars of Scotland's economy and culture for over three centuries. So when the RBS was nationalized by the London-based UK government following the 2008 banking crisis, and the Bank of Scotland was acquired by the London-based Lloyds Bank, it came as a shock to the Scots. They no longer owned their oldest and most venerable banks.

Another surprise turn of events was the triumph of the Scottish National Party (SNP) in the 2011 Scottish parliamentary election. Scotland is still part of the United Kingdom, but it has had its own parliament since 1999, similar to U.S. states. The SNP has rallied around the call for independence from the UK since its founding in 1934, but it was a minority party until the 2011 victory, which gave it an overall majority in the Scottish Parliament.

Scottish independence is now on the table. A bill has been introduced to the Scottish Parliament with the intention of holding a referendum on the issue in 2014.

Arguments in favor of independence include that it will allow the Scottish people to make decisions for Scotland themselves, on such contentious issues as having nuclear weapons in their seas and being part of NATO. They can also directly access the profits from the North Sea oil off Scotland's coast.

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. North Sea oil revenues will eventually decline.

One way budgetary problems might be relieved would be for Scotland to have its own publicly-owned bank, one that served the interests of the Scottish people. True economic sovereignty means having control over the national currency, credit and debt.

The Public Bank Option

It was in that context that I was asked to give a presentation on public banking at RSA Scotland (the Royal Society of Arts) in Edinburgh on November 22nd. Among other attendees were a special adviser and a civil servant from the Scottish government. The presentation was followed by one by public sector consultant Ralph Leishman, Director 4-consulting, who made the public bank option concrete with specific proposals fitting the Scottish context. 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. Lively debate followed.

The SIB is a division of Scottish Enterprise (SE), a government economic development body.

SE encourages economic development, enterprise, innovation and investment in business, which is achieved by the SIB 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 . . . . 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 is provided by deposits, which remain in the bank available to the depositors. Any shortage in liquidity can be covered by borrowing at low interest from other banks or the money market. 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 (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."
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> Leishman stated that the SIB now has 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 has £125 million on deposit with private banks, currently earning little or no interest. Adding just 14% of the General Fund cash and cash equivalent reserves held by Scotland's local governments would provide another £125 million, reaching the needed £250 million with six times that sum in local government revenues to spare.

The Model of the Bank of North Dakota

My assignment was to show what the government could do with its own bnak, following the model of the Bank of North Dakota (BND). On the Saturday following the RSA event, the Scotsman published an article by Alf Young that summarized the issues and possibilities so well that I'm taking the liberty of abstracting from it here.

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, determined, through their Non-Partisan League, to stop rapacious Wall Street money men foreclosing on their farms.

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 writes:

> 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.
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> 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 writes:

> 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? . . .

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 the E.U., 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 and president of the Public Banking Institute. In Web of Debt, her latest of eleven books, she shows how a private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her websites are http://WebofDebt.com, http://EllenBrown.com, and http://PublicBankingInstitute.org.

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