Cut spending, raise taxes, sell off public assets—these are the unsatisfactory solutions being pro-posed; but the budget crises did not arise from too much spending or too little taxation. It arose from a credit freeze on Wall Street. In the wake of the 2008 financial market collapse, banks curtailed their lending more sharply than in any year since 1942, driving massive unem-ployment, which caused local tax revenues to plummet.

Public Banking
A Better Solution

The logical solution is to restore credit to the local economy—but how? The Federal Re-serve could provide the capital and liquidity necessary to create bank credit, in the same way that it provided $12.3 trillion in liquidity and short-term loans to the large money center banks. But the Fed has no intention of do-ing this—not because it would be too costly (the total deficit of all the states comes to less than 2% of the credit advanced for the bank bailout)—but because it is not part of the Fed's legal mandate.

So, policymakers at the state and local levels are considering a variety of reforms designed to increase bank lending, particularly to small businesses, the hardest hit by the credit squeeze. One measure that is drawing increasing interest is the creation of lending institutions modeled on the Bank of North Dakota (BND), currently the only state-owned bank in the country. The BND has a 92-year history of safe, secure and highly profitable banking. North Dakota has the low-est unemployment and foreclosure rates in the country; and, in 2010, when other states were floundering, it had the largest budget surplus in its history.

About PBI

The Public Banking Institute (PBI) is a non-partisan think-tank, research, and ad-visory organization dedicated to explor-ing and disseminating information on the potential utility of publicly-owned banks, and to facilitate their implementation. Through its consolidated corporate busi-ness model, the actions of a banking in-dustry, dominated by the "money center" banks of the Federal Reserve, have pre-cipitated the economic imbalances now witnessed across the US economy.

PBI seeks to explore the possibilities for, and to facilitate the implementation of, public banking at all levels – local, region-al, state, national, and international. Its ap-proach is informed by the historic role of public banks, in the U.S. and elsewhere, in fostering access to cheap and readily avail-able credit for governments, businesses, and individuals, particularly with respect to creating productive capacity.

PUBLIC BANKING INSTITUTE

Banking in the Public Interest

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How States & Municipalities Can Solve Their Budget Crises:

Own a Bank

Restoring credit to the local economy is the key to job creation and prosperity. Many cities and states are taking the initiative with studies and legislation aimed at establishing public banks based on the succesful model of the 92 year old Bank of North Dakota. Here's how you can become part of the growing movement to create public banks for the public good.

Public Banking
A Better Solution

Public banks are a win-win for everyone.

Since 2010,** cities and **states have** been working **either to form** public **banks or to do feasibility studies to determine their potential.** Public **banks are a win-win for everyone. Objections are usually based on misconceptions or lack of information. Proponents stress that a** public **bank** based **on the BND model:

1. Generates new revenues for cities and states, through annual bank dividend payments, and indirectly by creating jobs and spurring local economic growth.

2. Lowers debt costs for local governments. Public banks can get access to low-cost funds from the regional Federal Home Loan Banks. The banks can pass savings on to local governments when they buy debt for infrastructure investments. The banks can also provide Letters of Credit for tax-exempt bonds at lower interest rates, or help a city or the state itself issue a new bond at an interest rate lower than it could otherwise get in the open market, or buy bonds already issued and traded on the bond market, with interest payments simply diverted to the state.

3. Builds up small businesses. In markets increasingly dominated by large corporations and the banks that fund them, public banks would increase lending capabilities at the smaller banks that provide the majority of small business loans in America.

4. Does not compete with community banks. Rather, it partners with and supports them in making loans. The BND serves the role of a mini-Fed, providing correspondent banking services to virtually every financial institution in North Dakota, including a Federal Funds program with daily volume of $330 million, check clearing, cash management services, and automated clearing house services.

5. Does not compete for loans or commercial deposits. Virtually all of the BND's deposits come from the state. The BND does not take municipal government deposits; instead, these funds remain in local community banks, which are able to use them for loans because the BND provides letters of credit guaranteeing them.

6. Remains independent of private banking interests. Although the BND is an online member of the Minneapolis Federal Reserve Bank, it is insured by the "full faith and credit" of North Dakota, not the FDIC. This helps avoid risk and unnecessary expense, since the BND's chief depositor is the state, and the state has far more to deposit than $250,000, the maximum covered by FDIC insurance. FDIC insurance is not only expensive, but subjects the state to interference by a semi-private national banking association.

7. Supported by local independent banks. The North Dakota Bankers' Association endorses the BND. When partnering with local banks, the BND does not solicit customers, unlike the large commercial banks. North Dakota has the most local banks per capita and the lowest default rate of any state.

8. Provides accountability, transparency and prudent risk management and operates according to a charter that promotes the public interest. By partnering with local banks, the BND actually shields itself from risk, since the local bank determines the creditworthiness of the borrower and takes the initial loss in the event of default. A public bank is run by professional bankers who are public employees, operating transparently, audited publicly by state regulators, and not incentivized to speculate in derivatives and risky subprime loans.

9. Creates new jobs and spurs economic growth. According to studies by the Center for State Innovation, if Washington State had a fully-operational publicly owned bank capitalized at $100 million during the present recession, it would have supported $2.6 billion in new lending and helped to create 8,212 new small business jobs. Likewise, a proposed Oregon bank would help community banks expand lending by $1.3 billion and help small business create 5,391 new Oregon jobs in its first three to five years.

10. Is self-funding and self-sustaining. The BND keeps federally-guaranteed funds in the state and uses the profits on these to build a capital surplus from which loans are made to local businesses. The BND has a return on equity of 25-26% and has contributed over $300 million to the state (its only shareholder) in the past decade—a notable achievement for a state with a population of approximately 670,000.

11. Partners with community banks by leveraging public funds into credit for local purposes, funds that would otherwise leave the state via Wall Street banks and be leveraged abroad, drawing away local jobs. Further, infrastructure projects can be funded through a public bank at substantially less cost, since the public owns the bank and gets the interest back. Studies have shown that interest composes 30-50% of public projects.

12. Strengthens local banks, even out credit cycles, and preserve real competition in local credit markets. There have been no bank failures in North Dakota during the financial crisis. By purchasing local bank stock, partnering with them on large loans and providing other support, public banks would strengthen small banks in an era when federal policy encourages bank consolidation.