Public Banking and Public Finance

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Across the United States, state and municipal governments are struggling with large budget shortfalls and even larger pension liabilities.

The budget shortfalls were created by collapsing revenue, which in turn was created when the money center banks of the Federal Reserve failed and the government chose to rescue them instead of the American people, and set off a catastrophe that wiped out jobs and homes by the millions, and took trillions of dollars of wealth from the American people.

The budgetary problems are short term and will be resolved through a combination of cuts in spending, increased taxes and increased revenue from an improving economy.

In most states, spending cuts will fall on the most vulnerable citizens who have little clout in their politics and new taxes will be avoided at all costs, leaving it up to an improving economy to get the states back to where they were before the economic disaster of 2008 and 2009.

But without affordable credit and new investment in new businesses, expanded business, economic development and jobs creation, it will be a slow recovery. Millions of Americans may never recover their lost prosperity, and this is made even more grim by the long term problem of unfunded or underfunded pensions.

Fortunately, this problem is not as bad as alarmists warn, many of whom brandish a figure of $3 trillion in unfunded liabilities, and some of whom are no doubt looking only to stampede Americans into actions as foolish as the Wall Street bail out.

Their target is not the cash in Americans' pockets – they have most of that - but the remaining and valuable public assets, which states are already being urged to sell off.

But the long term problem of unfunded pension liabilities is real enough. The Center for Budget and Policy Priorities puts it at about $700 billion, but notes in a report that even the $3 trillion estimate of unfunded liabilities does not mean that states and localities have to contribute that amount to their pension funds, "since the funds very likely will earn higher rates of return over time than the Treasury bond rate, which will result in pension fund balances adequate to meet future obligations without adding the full $3 trillion to the funds."

But ultimately, workers and taxpayers (often the same people) will be forced to contribute more to pension funds, or receive drastically reduced benefits.

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There is an alternative that can restore the states to fiscal health without new taxes or an erosion of promised retirement income. It is public banking, as practiced in North Dakota for more than 90 years.

The Bank of North Dakota (BND) holds all the state's deposits, and leverages them as any bank to create affordable credit that is loaned out in partnership with the state's local banks to sustain not only a robust economy, but a healthy state banking industry.

The bank's profits are both reinvested in creating yet more credit, economic activity and jobs, and returned to its owners – the people of the state – as cash into the general fund.

With a population of only about 650,000, the state has received more than a third of a billion dollars from the BND over ten years. North Dakota is one of only a few states to have a budget surplus and no need of new taxes to maintain critical state services.

Unemployment in North Dakota is the lowest in the country.

What might larger states or municipalities with greater revenues and assets accomplish with a public bank? So far, over 15 states have introduced legislation to find out, and more are lining up. In Santa Fe, Allentown, Philadelphia, and Pittsburgh, municipalities are also investigating the formation of a public bank.

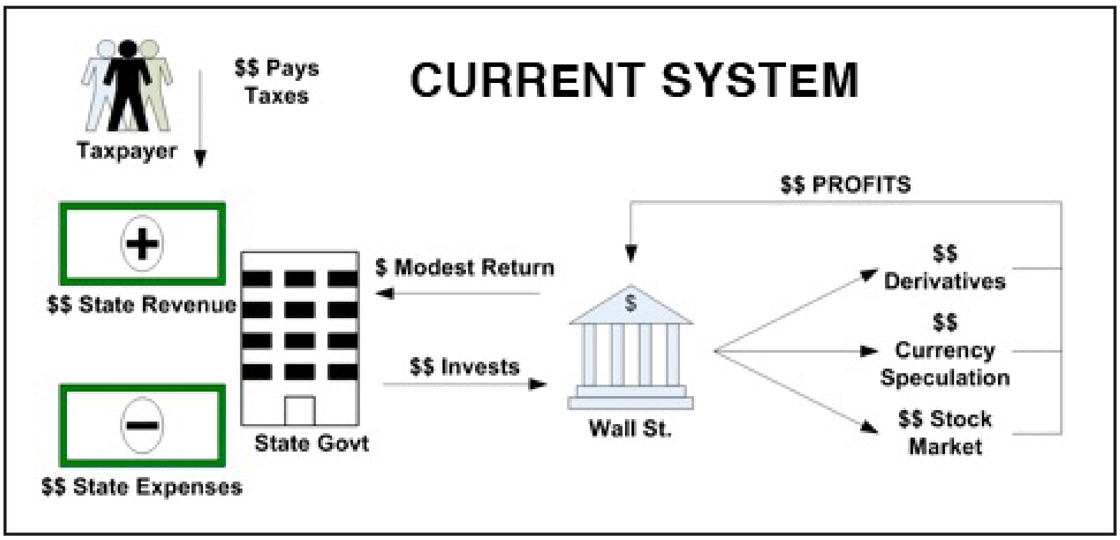
According to an analysis of the legislation to create such a bank in Washington State published by the Center for State Innovation (CSI), a properly organized bank with prudent risk management criteria will need three years to begin returning dividends to the state – although new economic activity and jobs creation can begin almost immediately.

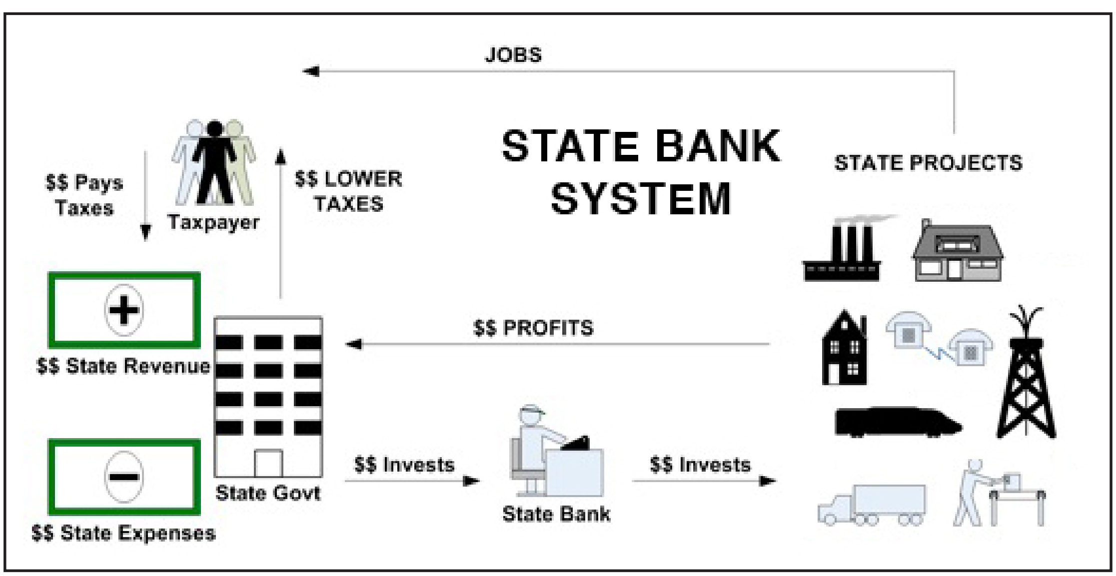
But with a capitalization of $100 million, the CSI forecasts that within five years a Washington state bank will have returned more than $8 million to the state, in ten years more than $71 million, and in twenty years more than $206 million, which will be about the time pension liabilities must be met.

But jobs creation starts right away, and CSI forecasts that in the first fully operational year of the bank, it's lending will create or retain more than 8,000 small business jobs, and more in other sectors.

Public banking is not a solution to all our public budget woes. But it keeps your tax dollars in your city, working for you, and not in the money center banks of the Federal Reserve, working for the Wall Street wizards who ran their banks into the ground.

Public banking is a path to a more responsible banking industry and a clear path to a more prosperous future and sound public finances.





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