

Return to
PROSPERITY

.....
PUBLIC BANKING
in AMERICA

Handbook

An Initiative of the
PUBLIC BANKING INSTITUTE
in partnership with
MOVE YOUR MONEY



About the Public Banking Institute

publicbankinginstitute.org

The **Public Banking Institute** is an educational, nonprofit organization (tax exempt status pending). We are dedicated to disseminating factual, nonpartisan information about public banking and aim to help U.S. states and local tax jurisdictions launch their own public bank. A public bank helps families and Main Street businesses return to prosperity by ensuring an adequate supply of affordable credit. We research and articulate how public banking can be operated transparently under ethical guidelines, so voters will have confidence that their tax money is being managed prudently and in the public interest. We also measure economic impacts to keep voters and public officials aware of the resulting benefits.

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About Move Your Money

moveyourmoneyproject.org

Move Your Money is a nonprofit campaign that encourages individuals and institutions to divest from large Wall Street banks and move their money into local community banks and credit unions—to better serve each depositor and communities as a whole. It's neither a conservative nor liberal idea, just a way for people to vote with their dollars and create a better financial landscape. We view public banking as an important adjunct, prompting states and cities to follow the lead of their citizens by shunning Wall Street banks and instead leveraging public funds to work in the public interest, for example creating local jobs.

I. WELCOME

This briefing offers a commonsense approach to bringing prosperity back to communities across America. It is a joint project of two nonprofit, nonpartisan organizations: the **Public Banking Institute** and **Move Your Money**. We have teamed up to provide you and your community with information aimed at helping you return to the prosperity and economic stability that communities across America once knew. We hope this briefing will help you reach out to other people to build awareness and spark action.

Part of the problem: states and local governments typically deposit your tax dollars in major Wall Street banks—the same institutions that caused the current economic crisis and, by curtailing credit even to deserving borrowers on Main Street, continue the agony.

But what if instead states and cities formed their own banks and deposited your tax dollars there until the money is needed? These idle public funds could be put to work, for instance creating local jobs by easing the credit crunch on Main Street.

This is no pipe dream. Quite the opposite: the State of North Dakota has owned its own bank for more than 90 years. Remarkably, that state today enjoys full employment, a budget surplus and not a trace of the Main Street credit crunch suffered elsewhere.

What if other states followed North Dakota's lead? States and cities collectively have more than a trillion dollars of public funds on deposit, much of it in "too big to fail" Wall Street banks. These funds could be put to work locally in the public interest, providing affordable credit for solid Main Street businesses and families.

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II. THE VISION

Move Your Money and the **Public Banking Institute** envision communities across America enjoying lasting prosperity with full employment in a robust economy. Public banking will help enable this vision by providing communities with the sustainable supply of affordable credit that the private interests of Wall Street banks have failed to deliver. These banks are *constricting* the flow of credit while making huge profits on other business pursuits.

Despite this imbalance, tax jurisdictions such as states and municipal governments keep many billions of dollars of public funds on deposit in Wall Street banks. These deposits could instead serve the public interest, generating affordable credit in local communities to help businesses create jobs and families regain financial stability.

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States and cities can produce these benefits by forming their own banks to regain full control of their massive tax-revenue deposits. Resulting credit resources can help ensure stable supplies of local credit. In the process, public banks can generate significant profits, just as the state-owned Bank of North Dakota does. Profits from public banks would be reinvested in communities to increase the tax base and/or returned to the public treasury, reducing tax burdens.

This is the eminently achievable vision of **Move Your Money** and the **Public Banking Institute**. By demanding that your elected officials take action on this issue, you and your organization will play a vital role in creating more local jobs—perhaps the single most critical step in returning your community and state to prosperity. We believe that this change must start at the local level. Together, we can make it happen.

III. RETURN TO PROSPERITY CAMPAIGN

This campaign aims to change public policy at state and local levels by having states, cities and other tax jurisdictions form their own public banks—leveraging deposits of tax dollars to better serve the public interest. This proven strategy creates jobs and provides affordable credit for deserving borrowers up and down Main Street, instead of profiting big Wall Street banks—just as it does today in the State of North Dakota, which has resulted in full employment, a state budget surplus and no shortage of credit.

A. YOUR ROLE IN THE VISION

Returning our communities to prosperity takes impassioned people like you. But each of us cannot work alone: it takes a coordinated message, process and effort. We designed this handbook to guide you, and we post frequent updates at returntoprosperity.org. To be most effective, please stay current with the latest information there.

Changing public policy takes people acting in unison. Change happens when everyone is “singing from the same songbook”—delivering consistent messages and factual evidence.

- *Key messages* that make sense to specific audiences—for instance families, small businesses, elected officials, public employees, taxpayers, and community bankers (who play an important role in public banking and have much to gain from it).
- Evidence (“proof points”) that shows how and why these ideas are valid, so you can confidently advocate for public banking in your state and community.

Accuracy in banking and financial matters is especially important, so please read up on public banking. At publicbankinginstitute.org you’ll find the Public Banking in America Legislative Guide. It’s the most up-to-date collection of material on public banking available.

Also, we need to hear about your experiences, and your ideas on how to improve. As with any public policy, there are adversaries who oppose our position. (Often their views are based on incorrect or misleading information.) We are constantly refining responses to these objections as they are presented, so please let us know the issues you encounter. This information is extremely valuable to all of us who want to see public banking proliferate in the public interest. Please write to info@returntoprosperity.org. We’ll be glad to respond.

Your Key Objectives

Don’t know where to start? It’s simple, really. There are two groups of people with whom you should talk and discuss the merits of public banking: your city council and your school board. These public bodies are facing recent or pending cuts in the state budget. Meanwhile, the option of issuing public bonds is quickly becoming unaffordable. Budget cuts often mean job losses and reduced services, leaving board members stuck between a rock and a hard place. That is why you are likely to find a receptive audience for a sound, credible, evidence-based plan aimed at returning the community to prosperity—with affordable credit and a stronger tax base to support public services.

You may even wish to draft a resolution with these voting bodies and to lead the discussion to a vote, but this is entirely up to you. This handbook contains a sample resolution.

Bring members of the small business community with you into the discussion, particularly anyone who has had their credit lines reduced or eliminated, or businesses who have been forced into obtaining credit card services at a much higher rate than before. You may also wish to find a community banker who wishes to generate loan origination fees on large commercial loans and partner with a larger bank which would then participate in the loan (but not try to cross sell the customer and take his/her deposits).

You may also find allies among:

- Teachers, firefighters, police and other public employees whose livelihoods are threatened by looming budget cuts.
- Anyone whose career has been marred and income eroded by recent unemployment or under-employment.
- Individuals and groups advocating more effective use of tax dollars to minimize taxation.
- Community bankers, who (as in North Dakota) would channel the newly created credit to deserving local borrowers—stimulating job growth in local communities.

Your key objective should be to educate all parties by using:

- Return to Prosperity materials, including this handbook.
- The Return to Prosperity presentation.
- The Public Banking in America Legislative Guide.

B. KNOW YOUR AUDIENCES

Each audience has its own motivations and concerns.

- City councils: reduced tax revenue: no credit line available.
- School boards: forced budget cuts: bleak planning horizon.
- Small businesses: credit restrictions: increased cost of credit.
- Community bankers: need to partner with a larger bank for loan participation, but one that does not “steal” customers and their deposits; need better capitalization ratios to maintain solvency; need more deposits to maintain liquidity.

C. UNDERSTAND PUBLIC BANKING

Public banks may be formed at the municipal, county, state, or even national level. A public bank is formed by using public assets to capitalize itself. Deposits generally consist of public tax revenues and rainy-day funds.

The State of North Dakota, for example, by law deposits all state tax revenues in the Bank of North Dakota (BND) and requires municipal taxes and fees to be deposited in local banks. This state-owned bank has no retail branches and limits private deposits to a very small fraction of its deposit base. BND does not compete with local banks. In fact, it strengthens them—one reason North Dakota today has more community banks per capita than any other state.

The following is an example of how a state-owned public bank can benefit your state's budget and local communities.

STATE-OWNED BANKS: A WIN-WIN FOR LOCAL ECONOMIES

by Ellen Brown
President, Public Banking Institute
March 21, 2011

Cut spending, raise taxes, sell off public assets—these are the unsatisfactory solutions being debated across the nation; but the budget crises now being suffered by nearly all the states did not arise from too much spending or too little taxation. They arose from a credit freeze on Wall Street. In the wake of the 2009 financial market collapse, banks curtailed their lending more sharply than in any year since 1942, driving massive unemployment and causing local tax revenues to plummet.

The logical solution, then, is to restore credit to the local economy. But how? The Federal Reserve 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 Fed Chairman Ben Bernanke declared in January 2011 that the Fed had no intention of doing that—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 mandate. If Congress wants the Fed to advance credit to local governments, he said, it will have to change the law.

The states are on their own. Policymakers are therefore considering a variety of reforms designed to increase bank lending, particularly to small businesses, the hardest hit by tightening credit standards. One measure that is drawing increasing interest is the creation of a bank 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 lowest unemployment rate in the country; and in 2009, when other states were floundering, it had the largest budget surplus it had ever had.

Eight states now have bills pending either to form state-owned banks or to do feasibility studies to determine their potential. This year, bills were introduced in the Oregon State legislature on January 11; in Washington State on January 13; in Massachusetts on January 20 (following a 2010 bill that lapsed); and in the Maryland legislature on February 4. They join Illinois, Virginia, Hawaii, and Louisiana, which introduced similar bills in 2010. The Center for State Innovation, based in Madison, Wisconsin, was commissioned to do detailed analyses for Washington and Oregon. Their conclusion was that state-owned banks in those states would have a substantial positive impact on employment, new lending, and state and local government revenue.

State-owned banks could be a win-win for everyone interested in a thriving local economy. Objections are usually based on misconceptions or a lack of information. Proponents stress that:

1. A state-owned bank on the BND model would not compete with community banks. Rather, it would partner with them and support them in making loans. The BND serves the role of a mini-Fed for the state. It provides correspondent banking services to virtually every financial institution in North Dakota and offers a Federal Funds program with daily volume of \$330 million. It also provides check clearing, cash management services, and automated clearing house services. It leverages state funds into credit for local purposes, funds that would otherwise leave the state and be leveraged for investing abroad, drawing away jobs that could go to locals.
2. The BND not only does not compete for loans but does not compete for commercial deposits. Less than 2% of its deposits come from consumers. Municipal government deposits are also reserved for local community banks, which are able to use these funds for loans specifically because the BND provides letters of credit guaranteeing them. Virtually all of the BND's deposits come from the state itself. All state revenues are deposited in the BND by law.
3. Although the BND is a member of the Federal Reserve System, it is insured by the state rather than by the FDIC. This does not, however, put depositors at risk. Rather, it 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 very expensive but subjects members to FDIC regulation, making the state subservient to a semi-private national banking association. (The FDIC calls itself an independent agency of the federal government, but it receives no Congressional appropriations.

Rather, it is funded by premiums that banks and thrift institutions pay for deposit insurance coverage and from earnings on investments in U.S. Treasury securities.) North Dakota prefers to maintain its financial independence.

4. BND officials stress that the bank is run by bankers, not politicians bent on funding their favorite development projects or bestowing political favors. The bank is run very conservatively, doing only creditworthy deals and avoiding speculation in derivatives and risky subprime loans. By partnering with local banks, the BND actually shields itself from risk, since the local bank takes the initial loss if the borrower fails to pay.
5. The BND does not imperil state funds or tax money but is self-funding and self-sustaining. It keeps federally-guaranteed funds in the state that would otherwise go elsewhere, including VA and FHA loans and low-income subsidies. Profits on these federally-guaranteed loans can then be used to build a capital surplus from which riskier loans can be 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 less than one-tenth the size of Los Angeles County. Compare California’s public pension funds, which entrust their money to Wall Street and are down more than \$100 billion, or close to half the funds’ holdings, following the banking debacle of 2008.
6. Partnering with the BND allows community banks to fund local projects in which Wall Street is not interested, leveraging municipal government funds that would otherwise not be available for loans. Further, infrastructure projects can be funded through the state bank at substantially less cost, since the state owns the bank and gets the interest back. Studies have shown that interest composes 30-50% of public projects.
7. The North Dakota Bankers’ Association does not oppose the BND but rather endorses it. North Dakota has the most local banks per capita and the lowest default rate of any state.

Other states could realize similar benefits, if they were to form banks on the BND model.

www.webofdebt.com/articles

D. WHEN TO TURN TO THE PUBLIC BANKING INSTITUTE

More than likely, you already have a public banking team in your state. Simply go to publicbankinginstitute.org/state-info.htm, where you'll find a list of the State Coordinators in each state. If there is no State Coordinator and you would like to volunteer for this position, simply review the requirements and complete/send the contact form on that page.

If you do reside in a state with a State Coordinator, simply contact him/her via email and s/he will help you organize your effort to return your community to prosperity.

Media may request interviews by sending an email to info@returntoprosperity.org.

Always refer to factual data when responding to questions or issues that are raised. A complete list of FAQs (Frequently Asked Questions) is included in the Public Banking in America Legislative Guide.

E. RETURN TO PROSPERITY!

Take action now.

- Review the list of possible allies on page 6. See who'll support public banking with you.
- Present the concept public banking and its benefits to your city council.
- Do the same with your school board!
- Challenge these public bodies to vote on a resolution to bring public banking to your state and community to serve the public interest.
- Show public officials they can create jobs and affordable credit—what Wall Street banks have failed to do—by depositing tax revenues (*your money!*) in a public bank.
- Want to *really* get involved? Visit publicbankinginstitute.org. We'll show you more ways to make an impact and help your community return to prosperity.

F. SAMPLE STATE RESOLUTIONS (for educational and informational purposes)

Please use freely for educational and informational purposes.

STATE BANK RESOLUTION (California)

Whereas, the State of California is the 8th largest economy in the world and the growth of that economy depends upon a sustainable supply of affordable credit for individuals, businesses, and such public purposes as infrastructure and job creation; and

Whereas, the current system of banking and finance in California has proved ruinously destructive to the economy of California and the prosperity of millions of ordinary California citizens, and incapable of providing the critical mass of affordable credit required to recover and grow their lost prosperity;

And whereas, the public funds of California are regularly and in vast amounts transferred to, held in and invested by out of state banks;

Therefore, be it resolved that California State supports the creation of public Bank of California, capitalized with existing but underutilized public funds, held out of California in private banks for purposes and profit external to the needs of the people of California; and further that all profits of said Bank of California shall annually be both returned to the General Fund of the State of California to help sustain public services and/or reduce tax impacts on citizens, and reinvested in said Bank of California, by such formula as the State Legislature shall direct; and

Therefore, be it further resolved that this resolution be distributed to members of the California State Legislature, the Governor, the Lieutenant Governor, the State Treasurer, and the State Controller for immediate evaluation and action thereon.



RETURN TO PROSPERITY SELF-HELP RESOLUTION (Other States)

Whereas, job creation and economic growth in the State of _____ depends on a sustainable supply of affordable credit for individuals, families, local businesses, and the provision of public infrastructure and public services; and

Whereas, the current system of banking and finance has proven incapable of sustaining such credit supply; and

Whereas, said failure has left many families and local businesses without necessary means to return to full employment and prosperity; and

Whereas, our State and various local jurisdictions therein raise public funds by means of taxation levied upon us; and

Whereas, tax jurisdictions outside _____ (STATE) have demonstrated that in addition to paying for public infrastructure and public services, such funds can also be utilized to sustain an affordable credit supply for the purpose of creating local jobs and stimulating local economic growth; and

Whereas, the creation of a “Public Bank” is the means by which said jurisdictions ensure a sustainable supply of affordable credit for families and local businesses; and

Whereas, public funds, instead of being so utilized in _____ (STATE), are transferred to, held in and invested by out-of-state banks, thus benefiting economies other than our own and profiting out-of-state banks instead of the People of the State of _____;

Therefore, be it resolved that _____ supports the creation of a Public Bank in the State of _____ to serve the public interest, capitalized with existing funds currently underutilized by being held out-of-state; and

Therefore, be it resolved that all profits of said Bank of _____ (STATE) shall annually be returned to the General Fund of the State of _____ and/or reinvested in said Bank of _____, by such formula as the State Legislature shall direct; and

Therefore, be it further resolved that this resolution be distributed to members of the _____ State Legislature, the Governor, the Lieutenant Governor and the State Controller for immediate evaluation and action thereon.

G. DID YOU KNOW?

1. Public funds deposited in private banks creates credit that mainly serves the banks' interests.
2. Public banking creates credit that fully serves the public interest: economic expansion, jobs creation, increased opportunities for families, individuals and businesses, and tax relief.
3. Public money belongs in a public trust. Public banks keep local money—and credit— local.
4. Public banks may be formed at the municipal, county, state, or even national level.
5. Public Banking can provide communities with affordable credit.
6. Public banking can provide enormous revenues that do not come from taxes, and in fact reduces the tax burden of the community.
7. Public banks are audited. There is real transparency in their books and real accountability to the people.
8. Public Banking is non-partisan.
9. Public banking is not socialism; it is a function of government, as stated in the constitution. It is the banks working for the people, not the people working for the banks.
10. The United States has a history of public banking, including the 92 year-old state-owned Bank of North Dakota.
11. A state bank makes the state economy stronger by making local investments.
12. Public Banks work well with privately held banks, such as community banks and credit unions, to provide credit to businesses and individuals.
13. Public Banking strengthens a states economy, which strengthens the national economy.

THANKS!

This information will be continually changing as the public banking movement gains momentum and as we respond to requests from you. The Public Banking Institute and Move Your Money will keep you informed through our respective websites and on the returntoprosperity.org website.

We aim to learn from you as you learn from us, and we look forward to the dialogue. We will do our best to be responsive. We are already seeing remarkable success, generating serious attention from legislators, news media and people like you. All this has generated a lot of activity for our volunteers; we'll be as prompt as we can when responding to you. If there's an urgent matter, please be sure to alert us to the urgency.

And thank you for your interest, inspiration and actions. Together we can help return our communities to prosperity by putting our tax dollars to work through public banking.

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