

# Creating our Own Credit: The Growing Movement for Publicly-Owned Banks

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As the states' budget and credit crises deepen, four states have initiated bills for state-owned banks, and candidates in seven states have included that solution in their platforms.

"Hundreds of job-creating projects are still on hold because Michigan businesses and entrepreneurs cannot get bank financing. We can break the credit crunch and beat Wall Street at their own game by keeping our money right here in Michigan and investing it to retool our economy and create jobs."

-Lansing Mayor Virg Bernero in the [Detroit News](#), May 9, 2010

Michigan has an unemployment rate of 14% and has been particularly hard hit by the nation's economic downturn. Virg Bernero, mayor of the state's capitol and a leading Democratic candidate for governor, proposes that the state relieve its economic ills by opening a state-owned bank. He says the bank could protect consumers by making low-interest loans to those most in need, including students and small businesses; and could help community banks by buying mortgages off their books and working with them to fund development projects.

Bernero joins a growing list of candidates proposing this sensible solution to their states' fiscal ills. Local economies have collapsed because of the Wall Street credit freeze. To reinvigorate local business, Main Street needs a heavy infusion of credit; and publicly-owned banks could fill that need.

A February [posting](#) tracked candidates in five states running on a state-bank platform and one state with a bill pending (Massachusetts). There are now three more bills on the rolls - in Washington State, Illinois and Michigan - and two more candidates on the list of proponents (joining Bernero is Gaelan Brown of Vermont). That brings the total to seven candidates in as many states (Florida, Oregon, Illinois, California, Washington State, Vermont, and Idaho), including three Democrats, two Greens, one Republican and one Independent.

The Independent, Vermont's [Gaelan Brown](#), says on his website, "Washington DC has lost all moral authority over Vermont." He maintains that:

"Vermont should explore creating a State-owned bank that would work with private VT-based banks, to insulate VT from Wall Street corruption, and to increase investment capital for VT businesses, modeled after the very successful State-owned Bank of North Dakota."

The Bank of North Dakota, currently the nation's only state-owned bank, is the model (with variations) for all the other proposals on the table. The Bank of North Dakota acts as a "bankers' bank," including doing "participation loans" with other banks, allowing them to compete with larger banks. In a participation loan, the community bank originates the loan and takes responsibility for it, while the participating bank contributes funds and shares in the risk and profits. The Bank of North Dakota also makes low-interest loans to students, farmers and businesses; underwrites municipal bonds; and serves as the state's "[Mini Fed](#)," providing liquidity and clearing checks for more than 100 banks around the state.

### Three New Bills Pending for Publicly-owned Banks

Proposals for publicly-owned banks in other states have now gone beyond the campaign talk of political hopefuls to be drafted into several bills.

#### The Michigan Development Bank

The Michigan bill has gotten the most press. Introduced into the legislature earlier this month, it mirrors Bernero's state bank idea. According to a [press release](#) issued by Senate Democrats on March 9, the bill's aim is to "keep Michigan's money in Michigan" by putting tax dollars into a proposed "Michigan Development Bank". The Bank would function like a traditional bank but would focus on economic development rather than profit. The press release quoted Senator Gretchen Whitmer (D-East Lansing):

"Investing in the state's economy is the greatest way to create jobs, and this proposal will provide small businesses and entrepreneurs the funding they need to invest and grow. Our economy has stagnated due in part to stale thinking in Lansing, and this is just the type of innovative idea we need to create real economic change, using our own money to rebuild the state."

Senate Democratic Leader Mike Prusi (D-Ishpeming) stated:

"Michigan's economy has been suffering, and working families in the state have had difficulty keeping up with credit card bills, college tuition prices and mortgage payments. Establishing the Michigan Development Bank will keep our hard-earned dollars right here in the state to invest in small business, create good-paying jobs to get people back to work, and help protect the middle class."

Also quoted was Senator Hansen Clarke (D-Detroit):

"With the current state of our economy, every dollar counts, yet we're depositing our money in other people's pockets by investing in big corporate banks without seeing much lending in return. It's time for the Mitten State to lend itself a helping hand and establish a bank that is willing to invest in our small businesses and offer the financial support necessary to see job growth."

For startup capital, Senate Democrats suggested that Michigan could sell voter-approved bonds. With an initial capitalization of \$150 million, they estimated the bank could lend up to \$1 billion to small businesses, students and farmers, and offer low-interest credit cards to consumers. For deposits, the bank could follow the model of the Bank of North Dakota and

use state revenues. So says Gene Taliercio, a Republican candidate for the state Senate, who has also put his weight behind the Michigan Development Bank. In a video clip on the website of the local [Oakland Press](#), he says:

“We’re talking about restructuring the whole tax system, in the sense that the way its set up is that all taxes are going to go into this central bank. . . . Every dollar that the state of Michigan makes goes into this bank.”

#### The State Bank of Washington

A similar [bill](#), HB 3162, was introduced to the Washington State Legislature on February 1. The bill has generated so much interest that Steve Kirby, chair of the Financial Institutions and Insurance Committee, has scheduled a special work session on it. According to [John Nichols](#) in *The Nation*, the State Bank of Washington was formally proposed by House finance committee vice chair Bob Hasegawa, a Seattle Democrat. Nichols quotes Hasegawa:

“Imagine financing student aid, infrastructure, industry and community development. Imagine providing access to capital for small businesses, or otherwise leveraging our resources instead of having to do it with tax incentives. Imagine keeping our resources local instead of exporting them as profits, never to be seen again—that’s what this bank could do.”

Leveraging rather than taxing is how private banks have been creating “credit” for centuries. States could do the same thing, cutting the middlemen out of the equation, saving significant sums in interest and fees and generating revenue for the state.

A nonpartisan [analysis](#) of the Washington bill prepared for the state legislature noted that the bank would be the depository for all state funds and the funds of state institutions, and that these deposits would be guaranteed by the state. The bank would be run by a board of 11 members and would be chaired by the State Treasurer. It would have the same rules and privileges as a private bank chartered in the state. To get the bank off the ground, voters would have to approve amendments to the state Constitution, since current law prohibits the state from lending credit and investing in private firms.

#### The Community Bank of Illinois

A third bill, introduced by Illinois Representative Mary Flowers, is on its way through the legislative process in Illinois. According to the Illinois General Assembly website, the [Community Bank of Illinois Act](#) would establish a state bank with the express purpose of boosting agriculture, commerce and industry. State funds and money held by penal, educational, and industrial institutions owned by the state would be deposited in the bank and would serve as reserves for loans. The bank could also serve as a clearinghouse for other banks, including handling domestic and foreign exchange; and it could buy property under Eminent Domain. All deposits would be guaranteed with the assets of the state. The Bank would be managed and controlled by the Department of Financial and Professional Regulation, with input from an advisory board representing private banking and public interests.

An amendment to the initial bill would enable the Community Bank of Illinois to make loans directly to the state’s General Revenue Fund, helping the state cope with its current budget challenges.

## A Massachusetts-owned Bank

On March 12, the [Associated Press](#) reported that a jobs bill sponsored by Massachusetts Senate President Therese Murray also includes a call to study a Massachusetts-owned bank. She told a business group that a state-owned bank has worked in North Dakota, helping to insulate that state from the worst of the recession while also keeping its foreclosure rate down. A state-owned bank could spur job creation and free up lending to Massachusetts businesses.

## Grandfather of the Concept: The Bank of North Dakota

All of these proposals take their inspiration from the Bank of North Dakota, which was founded in 1919 to resolve a credit crisis like that facing other states today. Last year, North Dakota had the largest budget surplus it had ever had; and it was the only state that was actually *adding* jobs when others were losing them. In March 2009, when 46 of 50 states were in fiscal crisis, North Dakota was in the enviable position of discussing tax cuts and looking for ways to spend its [surplus](#).

By January 2010, according to a [National Public Radio](#) news clip, only two states could still meet their budgets - North Dakota and Montana. On February 8, however, the Montana paper the [Missoulian](#) reported that the Montana State Legislature's chief revenue forecaster foresees a budget deficit by mid-2011, leaving North Dakota the only state still boasting a surplus.

North Dakota's riches have been attributed to oil, but many states with oil are floundering. The sole truly distinguishing feature of North Dakota seems to be that it has managed to avoid the Wall Street credit freeze by owning and operating its own bank. According to the North Dakota [Department of Commerce](#), the BND turned a profit in 2009 of \$58.1 million; and this money goes into the state's General Fund. North Dakota's economy is ten times smaller than Michigan's, suggesting that Michigan could generate \$500 million per year in this way; and Washington State and Illinois present similarly inviting possibilities.

That defuses the objection raised in a March 15 editorial in [The Detroit News](#), arguing that Michigan can ill afford the \$150 million capital investment to start a bank. If operated like the BND, the Michigan Development Bank would soon be a net generator of state revenues. There are other possibilities besides a bond issue for providing the capital to start a bank, but that subject will be reserved for another article.

The BND's 90-year track record of prudent and profitable lending defuses another objection to state-owned banks: that a public agency cannot be trusted to act responsibly in managing public funds. The *Detroit News* editorial concluded that Michigan should "leave banking to the bankers," but it is precisely because the bankers have destroyed the economy with their reckless lending practices that the public needs to step in. We need a "public option" in banking to set standards and keep private banks honest.

## The True Potential of Publicly-owned Banks

North Dakota broke new ground nearly a century ago, but the true potential of publicly-

owned banks remains to be explored. *Nearly all* of our money today is [created by banks](#) when they extend loans. (See the Chicago Federal Reserve’s “[Modern Money Mechanics](#)”, which begins, “The actual process of money creation takes place primarily in banks.”) We the people have given away our sovereign money-creating power to private, for-profit lending institutions, which have used it to siphon wealth from the productive economy. If we were to take that power back, we could generate the credit we need to underwrite a whole cornucopia of projects that we don’t even consider because we think we lack the “money.” We have the labor and we have the materials; we just lack the “liquidity” necessary to put them together to create products and services.

Money today is just a ticket, a receipt for work performed and goods delivered.□ We can fund the work we need done by creating our own credit. The real promise of publicly-owned banks is not that they can bail out subprime borrowers but that they can jumpstart the economy by creating *real wealth*. They can provide the liquidity to put labor and materials together, allowing the economy to build and grow. Our private, profit-driven banking sector has been bleeding wealth from the rest of the economy. Public-interest banks can transfuse the economy with the credit it needs to flourish and be productive once again.

For more updates on the movement for publicly-owned banks, see <http://www.public-banking.com>. To sign a petition for a citizen-owned bank in California, go to [http://www.change.org/actions/view/help\\_the\\_terminator\\_save\\_california](http://www.change.org/actions/view/help_the_terminator_save_california).

**Ellen Brown** developed her research skills as an attorney practicing civil litigation in Los Angeles. In *Web of Debt*, her latest of eleven books, she turns those skills to an analysis of the Federal Reserve and “the money trust.” She shows how this 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 [www.webofdebt.com](http://www.webofdebt.com), [www.ellenbrown.com](http://www.ellenbrown.com), and [www.public-banking.com](http://www.public-banking.com).

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