Solution to the Economic Crisis? North Dakota's Economic "Miracle"—It's Not Oil

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North Dakota has had the nation's lowest unemployment ever since the economy tanked. What's its secret?

In an article in The New York Times on August 19th titled "The North Dakota Miracle," Catherine Rampell writes:

Forget the Texas Miracle. Let's instead take a look at North Dakota, which has the lowest unemployment rate and the fastest job growth rate in the country.

According to new data released by the Bureau of Labor Statistics today, North Dakota had an unemployment rate of just 3.3 percent in July—that's just over a third of the national rate (9.1 percent), and about a quarter of the rate of the state with the highest joblessness (Nevada, at 12.9 percent).

North Dakota has had the lowest unemployment in the country (or was tied for the lowest unemployment rate in the country) every single month since July 2008.

> Its healthy job market is also reflected in its payroll growth numbers. . . . [Y]ear over year, its payrolls grew by 5.2 percent. Texas came in second, with an increase of 2.6 percent.

Why is North Dakota doing so well? For one of the same reasons that Texas has been doing well: oil.

Oil is certainly a factor, but it is not what has put North Dakota over the top. Alaska has roughly the same population as North Dakota and produces nearly twice as much oil, yet unemployment in Alaska is running at 7.7 percent. Montana, South Dakota, and Wyoming have all benefited from a boom in energy prices, with Montana and Wyoming extracting much more gas than North Dakota has. The Bakken oil field stretches across Montana as well as North Dakota, with the greatest Bakken oil production coming from Elm Coulee Oil Field in Montana. Yet Montana's unemployment rate, like Alaska's, is 7.7% percent.

A number of other mineral-rich states were initially not affected by the economic downturn, but they lost revenues with the later decline in oil prices. North Dakota is the only state to be in continuous budget surplus since the banking crisis of 2008. Its balance sheet is so strong that it recently reduced individual income taxes and property taxes by a combined $400 million, and is debating further cuts. It also has the lowest foreclosure rate and lowest credit card default rate in the country, and it has had NO bank failures in at least the last decade.

If its secret isn't oil, what is so unique about the state? North Dakota has one thing that no other state has: its own state-owned bank.

Access to credit is the enabling factor that has fostered both a boom in oil and record profits from agriculture in North Dakota. The Bank of North Dakota (BND) does not compete with local banks but partners with them, helping with capital and liquidity requirements. It participates in loans, provides guarantees, and acts as a sort of mini-Fed for the state. In 2010, according to the BND's annual report:

The Bank provided Secured and Unsecured Federal Fund Lines to 95 financial institutions with combined lines of over $318 million for 2010. Federal Fund sales averaged over $13 million per day, peaking at $36 million in June.

The BND also has a loan program called Flex PACE, which allows a local community to provide assistance to borrowers in areas of jobs retention, technology creation, retail, small business, and essential community services. In 2010, according to the BND annual report:

The need for Flex PACE funding was substantial, growing by 62 percent to help finance essential community services as energy development spiked in western North Dakota. Commercial bank participation loans grew to 64 percent of the entire $1.022 billion portfolio.

The BND's revenues have also been a major boost to the state budget. It has contributed over $300 million in revenues over the last decade to state coffers, a substantial sum for a state with a population less than one-tenth the size of Los Angeles County. According to a study by the Center for State Innovation, from 2007 to 2009 the BND added nearly as much money to the state's general fund as oil and gas tax revenues did (oil and gas revenues added $71 million while the Bank of North Dakota returned $60 million). Over a 15-year period, according to other data, the BND has contributed more to the state budget than oil taxes have.

North Dakota's money and banking reserves are being kept within the state and invested there. The BND's loan portfolio shows a steady uninterrupted increase in North Dakota lending programs since 2006.

According to the annual BND report:

> Financially, 2010 was our strongest year ever. Profits increased by nearly $4 million to $61.9 million during our seventh consecutive year of record profits. Earnings were fueled by a strong and growing deposit base, brought about by a surging energy and agricultural economy. We ended the year with the highest capital level in our history at just over $325 million. The Bank returned a healthy 19 percent ROE, which represents the state's return on its investment.

A 19 percent return on equity! How many states are getting that sort of return on their Wall Street investments?

Timothy Canova is Professor of International Economic Law at Chapman University School of

Law in Orange, California. In a June 2011 paper called "The Public Option: The Case for Parallel Public Banking Institutions," he compares North Dakota's financial situation to California's. He writes of North Dakota and its state-owned bank:

> The state deposits its tax revenues in the Bank, which in turn ensures that a high portion of state funds are invested in the state economy. In addition, the Bank is able to remit a portion of its earnings back to the state treasury …. Thanks in part to these institutional arrangements, North Dakota is the only state that has been in continuous budget surplus since before the financial crisis and it has the lowest unemployment rate in the country.

He then compares the dire situation in California:

In contrast, California is the largest state economy in the nation, yet without a state-owned bank, is unable to steer hundreds of billions of dollars in state revenues into productive investment within the state. Instead, California deposits its many billions in tax revenues in large private banks which often lend the funds out-of-state, invest them in speculative trading strategies (including derivative bets against the state's own bonds), and do not remit any of their earnings back to the state treasury. Meanwhile, California suffers from constrained private credit conditions, high unemployment levels well above the national average, and the stagnation of state and local tax receipts. The state's only response has been to stumble from one budget crisis to another for the past three years, with each round of spending cuts further weakening its economy, tax base, and credit rating.

Not all states have oil, of course (and it's hardly a sustainable economic basis), but all could learn from the state-owned bank that allows North Dakota to capitalize on its resources to full advantage. States that deposit their revenues and invest their capital in large Wall Street banks are giving this economic opportunity away.

This article was written for YES! Magazine. Ellen Brown is an attorney, president of the Public Banking Institute, and the author of eleven books, including Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free. Her websites are http://WebofDebt.com and http://PublicBankingInstitute.org.