

Wales needs to consider following the successful public banking model of North Dakota – Ian Jenkins

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Plaid Cymru is proposing a Public Bank for Wales but what is public banking and is it the answer to the challenges facing the Welsh economy? Dr Ian Jenkins explores



Bank of North Dakota is a long established public bank

It is fair to say that North Dakota is not the highest-profile of the States of the Union: lying on the Canadian border between Minnesota and Montana it does not have the globally impressive multi-billion GDP of a California, a New York or a Texas and in fact has the lowest per capita GDP of any US state.

Yet North Dakota has two things that none of its more heavyweight fellow states can boast – a budget surplus for every year since the economic crisis began in 2008 and an unemployment rate of 3.3%, the lowest in the US: so they must be doing something right in the Peace Garden State.

So what makes North Dakota different from other US states, allowing it to navigate the stormy seas of recession without recourse to brutal austerity measures or suffering crippling unemployment?

The first answer given is usually oil. North Dakota does have substantial reserves of oil and is currently the second largest US producer, ahead of Alaska and behind Texas.

Yet Texas will run a huge government deficit this year, despite its enormous oil wealth, and although Alaska has not declared a deficit for the current financial cycle a recent report warns that the state faces a future deficit if drastic cuts are not made.

It would seem, then, that oil alone is an insufficient explanation for the prosperity of this tiny state of just under 700,000 people; other states have oil and yet they face the pain of austerity either now or in the near future. So the question must again be asked: what makes North Dakota different?

The answer may lie, partially at least, in the existence within North Dakota of a form of a public bank

Put simply, a public bank is a banking institution owned by a state or local government which is able to make, and indeed is tasked with making, productive loans within its geographical sphere of operations.

A public bank uses the ability possessed by all banks to leverage their deposit base through fractional reserve banking (meaning effectively the ability to make more loans than they have deposits), whilst returning the profits made on the interest from these loans (the “spread”) to its government owners.

There are two broad advantages to this system: firstly, unlike private banks, public banks can be directed at their founding to make loans to the productive economy (the manufacture of new capital goods), instead of merely lending for asset price inflation and bubble creation (bidding up the price of pre-existing assets, like real estate).

Secondly, the profits from all loans, after overheads are covered, is returned to the state be spent in ways which serve the public interest.

The state government of North Dakota owns its own bank, the Bank of North Dakota (BND), which was founded in 1919 under the direction of the populists of the socialist Non-Partisan League, in order to protect the agricultural economy of the Dakotan plains from the clutches Wall Street financiers.

The BND operates an extremely conservative lending policy (no subprime lending or ‘casino banking’) and does not pay bonuses to its employees.

Following this model, and retaining an ethos of public service, the BND is able to return a dividend of around \$30m (£18.7m) a year to the state coffers, while also being instrumental in growing the economy of the state through its portfolio of productive loans to industry and agriculture.

North Dakota is only one example of the success of public banking, which worldwide accounts for 40% or more of financial institutions, with plentiful examples also existing in Europe and in the BRIC nations, where public banking is a vital component of continued economic growth and development.

So could such a strategy work in Wales? Plaid Cymru certainly seem to think so and it is difficult, in the face of the evidence of the successes of public banking models from economies elsewhere, including small regional economies analogous to that of Wales, to think of convincing reasons why such a strategy would not work, or should not be discussed and investigated at the very least.

It is true to say that the process of establishing a new bank in the UK is laborious and time consuming, but it presents no challenges which should be able to defeat the combined energies, skills and knowledge found in Wales.

What is certain is that the issue of public banking should be brought into the debate on the Welsh economy, as to ignore it would be to exclude a potentially democratising and sustainable banking system from the national conversation.

There is a widely perceived need for reform of the way in which banking operates, with the majority of people feeling that there is 'something wrong' with the way in which the economy, and particularly banking, currently functions.

Already there are calls for a public bank in Scotland, spurred on in part by anger at the damage done to the image of the nation by the actions of private banks such as RBS and HBOS.

The last few months have seen articles in the Scotsman as well as lectures at the Royal Society of Arts in Edinburgh by public banking experts such as Ellen Brown of the American Public Banking Institute.

Any campaign in Wales could surely draw inspiration, and no doubt receive support, from those calling for a public bank in our fellow devolved nation.

Plaid Cymru is, at this stage, the only party in Wales to have identified a Welsh public bank, properly instituted with all due diligence and care for regulation, objectives, sane employee remuneration and arms-length democratic supervision, as a potential direction for sustainable change in Wales and beyond, and for this it is to be applauded.

However, there is a long way to go to convince the Welsh public of the wisdom of such a plan and a campaign of misrepresentation and obfuscation can be anticipated from those on the right whose interests are allied with those of private finance.

This is in an issue on which Wales could provide leadership on an EU-wide level, a matter in which a small nation could make a big difference.

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