A Brief History of the Colorado Movement for Public Banking

A nonpartisan group of Colorado citizens proposes to establish a state-owned bank, and to smooth the path for cities, counties, and other political subdivisions to establish public banks. Legislation for these purposes was proposed for 2020. As a result of the COVID crisis, it was not introduced but an updated version is proposed for 2021. Some of the primary purposes of public banks are to create a strong and stable economy, a stronger banking system, to create major new sources of income without raising taxes, and to enable Colorado to meet many of its needs that are not being currently being met.

The proposed public banks are modeled on the Bank of North Dakota (BND). In this model, existing revenues of the state or political subdivision would be deposited in the public bank rather than in Wall Street banks. The public banks would lend money in partnership with local private community banks for sustainable infrastructure, small and medium sized businesses, agriculture, commerce, industry, affordable housing, home loans, education, student loans, public health, broadband, independent media, and other beneficial purposes. The public banks would also guarantee loans of community banks and act as a mini-Fed to clear their checks, similar to BND. Like the BND, it is anticipated that public banks will be able to earn about 15-20% return on equity annually. The BND has averaged 21% ROE over the last 19 years and 17.5% over the last 10 years. The public banks would not compete with community banks. They will not take deposits from individuals or from corporations but only from governmental units. Some of their joint lending will be for purposes that are presently underserved, such as affordable housing, infrastructure, small business loans, and home and business loans for racial minorities that have traditionally faced discrimination in lending.

At present Colorado receives less than one-half percent (½%) a year return on our taxpayers' money deposited in the Wall Street banks. Further, these banks have not been providing enough lending to meet the needs of small and medium sized businesses or to meet other needs in Colorado.

BND is the only state-owned bank in the U.S. It was established in 1919 on a non-partisan platform. The BND has been the primary reason that North Dakota has the strongest economy in the nation and was the only state not to suffer an economic downturn during the Great Recession of 2008. The reason North Dakota avoided the recession is that the BND in partnership with the community banks increased lending just enough to offset the decline, resulting in record years each year in 2008 and after, just as before 2008. In contrast, banks in other states, thinking primarily of their shareholders rather than the community, all decreased lending, creating a downward spiral and the Great Recession. Here is a brief summary of the superior performance of the BND over many years:

- BND has earned a significant and larger profit each year for the past 18 years, averaging 17.5% return on equity over the past 10 years.
- North Dakota has experienced no bank failures in many years
- North Dakota has by far the highest number of private community banks per capita in the country
- North Dakota has one of the lowest rates of home mortgage default, and has the lowest rate of credit card default and student loan default in the country
- The BND enabled North Dakota to reduce its taxes by $400 million in 2009, and $500 million in 2011, while maintaining or expanding public services.
- The BND helps North Dakota survive natural disasters better and faster than neighboring states: e.g. after the disastrous 1997 Red River flood, Grand Forks, North Dakota lost 3% of its residents in the flooded area, while East Grand Forks, Minnesota, equally affected and one minute away on the opposite bank, lost 17%.
- North Dakota saves up to 35-50% of the cost of infrastructure and other projects that consists of interest by paying interest to its own bank instead of to private investors on bonds.

The BCO should be able to achieve comparable results for Colorado in all these areas and support a broad range of financial needs of Colorado. A new approach being considered will provide that the bank's initial funding will come from revenue bonds. The bank should be able to repay the bonds in full within four to ten years based upon the experience of BND with its 22% annual return on equity.

Some have argued that the reason for North Dakota's success is its income from oil and gas since 2008. However, the BND was serving North Dakota for 90 years before oil was discovered and since 2008 has provided more income to North Dakota than oil and gas have. In fact, the oil and gas boom did not really hit North Dakota until 2010. Montana and Alaska have generated more income from oil and natural gas than North Dakota, but have had budget problems and high unemployment. North Dakota was unaffected by the Great Recession in 2008, which was two years before North Dakota's oil boom began.

The state-owned bank could help Colorado increase employment, strengthen its economy, and maintain a more stable economy.

In the past, the United States has fostered successful models of public control of money and lending that served us well and demonstrate beyond question that these models support strong and stable economies.

- By 1723, the original 13 colonies were given the power to issue paper money and to lend money, which produced general and unprecedented prosperity for decades. Pennsylvania was a particularly well-run example. The colonies' widespread prosperity continued until England in 1764 prohibited the colonies from exercising such authority. The prohibition on money issuance and lending soon caused widespread unemployment and poverty. Benjamin Franklin wrote that this action by England and the poverty that ensued was the real cause of the Revolution[3].
- When Lincoln needed money to fund the Civil War and the New York banks offered to lend the government the money at 24% to 36% interest, Lincoln declined. Instead he went to Congress which authorized the government to issue $450 million in currency to fund the war. Rather than borrow the money or rely upon taxes, the government issued $450 million in currency known as greenbacks to fund much of the war. Lincoln was the only president to use this fundamental power of Congress to a major extent[4].
- During the Great Depression, the Reconstruction Finance Corporation (RFC) was created as a U.S. government agency. The RFC operated very successfully as the world's largest bank, lending $35 billion into the U.S. economy from 1933-1945 at no cost to taxpayers, which greatly relieved the Great Depression and funded much of World War II. Its lending continued to boost the economy on a smaller scale until 1957[5].

Most people find it hard to believe that a bank can earn an annual return of 20% on equity. However, this is common for banks because they create money out of nothing when they make loans. People may also find that hard to believe, but it is true because banks generally are permitted to lend up to 10 times more "money" to borrowers than they have as reserves. Contrary to a common misconception, when a bank makes a loan to a borrower it does not actually lend money already in the bank. The borrower's agreement to pay back the loan is considered an "asset", so the bank enters a deposit on their books equal to the amount of the loan, thus "creating" the money out of nothing, and the deposit is then considered an asset under double-entry bookkeeping. When we realize that a bank can lend 10 times as much money as it has in reserve, it is easier to understand that they have created money out of nothing and how they can routinely earn 20% or more annual return on equity. Actually, this power to create money out of nothing is the great secret of banking which private banks do not want the public, the media, or even economists to understand or talk about. If people understood it, they would demand to know why we would allow private banks to create our money out of nothing and collect all the interest on it when we taxpayers can create our money through a publicly owned bank so that the interest comes back to the taxpayers. The income could then be used to support more lending for public benefit, or spent into the economy to pay for essential goods and services, or refunded to taxpayers.

A potential problem with the BND model, whose board of directors consists of the Governor, Attorney General, and Agriculture Commissioner, is that it may be unduly influenced by corporate interests whose objectives may conflict with the public interest. This could result in the BND helping to fund projects that may harm the environment and human health. Our proposed amendment provides for off-year elections of a board of directors whose candidacy would be managed online through the Secretary of State's office. In addition, our amendment authorizes the bank to fund "sustainable" projects, which arguably would prohibit lending for projects that would damage the environment.

The initiative provides that employees and officials of the bank will be paid civil service salaries and that commissions and bonuses will be prohibited. The measure also prohibits lending for speculative products such as derivatives such as credit default swaps and mortgage-backed securities. These restrictions will help protect against the creation of asset bubbles such as stock or housing that brought down the U.S. economy in the Great Depression and the Great Recession, respectively. Such restrictions will also help insulate Colorado's economy from a national collapse like the 2008 Great Recession.

A new approach being considered for the bank is to make it a "TABOR enterprise" under Art. X § 20 (2)(d) of the Colorado Constitution. In order to be a TABOR enterprise, an entity must be government-owned and largely self-sustaining because it cannot receive more than 10% of its revenue each year from government. It also must be authorized to issue revenue bonds to sustain operations, secured by the revenue in the form of interest to be earned by the bank. As a TABOR enterprise, the bank would be exempt from the income and expenditure limits of TABOR. Its excess income could then be paid to the Colorado general fund, which could be used for essential needs of the state or to be paid to taxpayers, as the General Assembly and state officials decide.

Like the BND in North Dakota, the bank could strengthen local community banks by partnering with them in making loans, and by guaranteeing their loans. This would enable the community banks to undertake larger loans, and would require the Wall Street banks to become more competitive. Moreover, the bank would provide a means of raising major revenue to meet the state's needs without any new taxes or fees.

The proponents of the Colorado initiative see its approval as a multi-year project. Our only opponents have been the Colorado Bankers Association and the Independent Bankers of Colorado. They have raised mostly technical objections, although it appears their real concern is that they will lose fees and interest income. Our present plan is for the Title Board and Supreme Court of Colorado to approve the initiative with petitions ready to be signed by the electorate sometime in 2015 or early 2016, with the vote on the measure in November 2016.

The measure authorizes the bank to capitalize itself through the issuance of bonds.

In order to obtain 115,000 signed petitions within six months of the start date (to ensure the 86,105 minimum required) it is considered necessary to use paid petition circulators, for which the anticipated cost is about $250,000. In addition, education and publicity to ensure passage will be essential, as well as exit polls to ensure the integrity of the election.

— Earl Staelin, Co-Sponsor

Notes

[1] Ellen Hodgson Brown, *The Public Bank Solution: From Austerity to Prosperity* (Third Millennium Press, 2013), p. 363.
[2] Ibid., pp. 368-369.
[3] Ibid., pp. 122-130.
[4] Ibid., pp. 143-145.
[5] Ibid., pp. 165-176.