Publicly Owned Banks: Two Approaches

Much attention is being paid to the banking industry, its role in precipitating the economic crisis and the attempts to fix banks and get credit flowing again.

However, many believe that trying to bail out the very people who caused the problem in the first place makes as much sense as trying to put out a fire with gasoline. A good case can be made that the private banking industry has reached the end of the road as the primary source of money creation, and that we need to adopt a different approach to satisfying our credit needs.

Many advocate that banking be taken out of the hands of private owners and returned to public ownership, as was the case in the earliest days of our country. In states like Pennsylvania, the colonial economy thrived under publicly owned banks.

One of the leading voices for a return to publicly owned banks is attorney Ellen Brown, author of the book Web Of Debt. Ellen advocates that governments, from the federal to the local level, establish their own banks modeled after the bank owned by the state of North Dakota, not coincidentally one of only two solvent states in the country. Her book and numerous articles build a very good case for why publicly owned banks are the right solution for our economy.

However, there is another way to achieve the public ownership objective — through the use of non-profit corporations that can own banks dedicated exclusively to the public's benefit. One example is the CalGreen Bank concept under the CEED Program, the rationale for which is described in the article "Publicly Owned Green Banks."

Both the government and non-profit approaches brings benefits and challenges:

1 Government-Owned

Nearly all governments own substantial assets and would not need to raise any additional capital in order to satisfy national and international banking guidelines. From a financial standpoint, they could establish a bank quickly. However, that speed might be offset by the time required to obtain legislative approval. And once formed, they would probably have to focus their efforts on their own credit needs, thus not providing solutions for everyone.

2 Non-Profit-Owned

Non-profit-owned banks can be established by ordinary citizens without requiring legislative approval. And they can be designed to address very specific objectives, like supporting green businesses. However, such efforts normally require raising $10-20 million in order to establish a proper capital base. Thus, even though the corporate structures could be formed quickly under existing statutes, the capital requirements could take time to assemble.

Non-profit organizations could be more flexible in addressing specific community objectives and allow for more direct community involvement than a government-run organization. This is the case with the CalGreen Bank project of the CEED Program. It has been designed to specifically focus on the need for credit to support the greening of our communities by providing loans to green companies and their customers. Communities wishing to adopt the CEED Program locally and incorporate a local green bank option as part of that effort may work with CalGreen Bank to rapidly provide local green credit.