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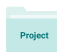

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The Public Bank Movement: A Response to Local Economic Development and Infrastructure Needs in Three U.S. States

DEBORAH M. FIGART and MARIAM MAJD

Credit is the lifeblood of growth, but it is also the lifeblood of the community. Is there need for public banks to make loans dedicated to community needs? These authors think so.

Since emerging from the Great Recession, more than twenty U.S. states have introduced bills to institute state-owned banks or to study their feasibility. Such banks would take public needs into account. Infrastructure is an obvious example of investments not being adequately made. A public agency, however, may be the best way to enable this movement to succeed.

In a market economy, credit is the oil that can help keep an economic engine purring and accelerating. In *The Public Bank Solution*, Ellen Brown (2013, 2), the founder and president of the Public Banking Institute, argues, “A functioning economy needs credit to flow freely. What impairs this flow is that the spigots are under private control.” In the private model, shareholders may live nowhere near where banks are located and profits can go anywhere, not necessarily reinvested back in the local community. Instead, she writes in a subsequent article, “The public model sees interest and profits from banking as belonging *to the community*, and the wealth they generate is re-invested in the community” (Brown 2014, 1). A select number of very large national private banks hold the overwhelming majority of state deposits. That money could be better invested locally by a public bank.

A public bank (or a state-owned bank) is one that is owned by a representative government. It is indirectly owned by the people of a locality and therefore operates under the assumption of working toward the public

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interest. The case for public banks in developing countries is that government ownership can stimulate growth when economic institutions are not sufficiently developed for private banks to meet financing needs for public infrastructure, small business loans, and other lending. In advanced economies, the case focuses on misallocation of resources by private banking institutions, leading to underfunding of public infrastructure and community redevelopment. Public banks also provide other direct and indirect (multiplier) impacts such as increases to state GDP, income, and employment. Further, state-owned banks may be able to reduce the cost of public policy by lending at lower interest rates and avoiding asset bubbles with more evened-out debt cycles. Some portion of the revenue (surplus) may be returned to supplement state budgets to enable more spending and/or reduced tax rates.

Public banks are in nearly every region of the world. (For a history of public banking, see Brown 2013.) Globally, the height of state banking for development and public infrastructure came in the post–World War II and postcolonial (independence) periods. Estimates indicate that by the late 1970s state-owned banks controlled 40 percent of combined banking assets in developed countries and 65 percent of assets in developing countries. Subsequently, state-owned banks fell out of favor in the neoliberal era. Privatization resulted in the share of assets in state-owned banks' falling to 22 percent of banking assets in developing countries and 8 percent in advanced countries (Marois 2013, 2).

The United States currently has only one state bank, the Bank of North Dakota (BND), which was established during the Progressive Era in 1919. Despite numerous accounts documenting its longstanding success (for example, Brown 2013; Fettig 1994; Harkinson 2009; Rapoport 2013; Schneiberg 2013), this exemplary model has only recently generated serious consideration by other states. The global financial crisis in 2008 contributed to skepticism about a purely market-centered paradigm for finance and renewed interest in alternatives such as state-owned banks. The political economic context, however, has changed since the early twentieth century when the first public bank took root in a nascent and decentralized financial industry. Today's public banking movement has to respond to the entrenched interests of not only existing banks, but also the myriad of existing state development agencies.

Since emerging from the Great Recession, over twenty U.S. states have introduced bills for state-owned banks or to study their feasibility (Brown 2013; Schneiberg 2013). Interest is widespread, with no geographic or demographic pattern. States pursuing measures include highly urbanized states such as Massachusetts, California, and New York; more rural states such as Maine, Vermont, and Montana; and states as diverse as Hawaii, Oregon, Colorado, and Washington State. Cities with an interest in a local, municipal bank include Santa Fe, New Mexico; the Pennsylvania cities of

Philadelphia, Pittsburgh, Allentown, and Reading; Washington State cities of Seattle and Tacoma; and San Francisco. The list is growing. These efforts are supported by progressive organizations such as the Public Banking Institute (PBI) and Dēmos. In the United States, the nonprofit PBI was founded in 2011 to promote research about state and locally owned banks. Interest in state-owned banks is fueled, in large part, by the infrastructure crisis in the United States; the American Society of Civil Engineers (ASCE) report card gives a grade of D+ (on the A to F scale), with $3.6 trillion in investment needed by 2020 (ASCE 2013). The public bank movement is also stirred by small farmers and business owners who claim that bank lending since the Great Recession has been deficient. In fact, based on FDIC data of bank balance sheets, small-business lending has decreased in both the absolute and relative sense (Mills and McCarthy 2014; Wiersch 2015). According to one Harvard Business School study, "A decades-long trend toward consolidation of banking assets in fewer institutions is eliminating a key source of capital for small firms" (Mills and McCarthy 2014, 6).

This article assesses where we are in the movement for public banks in the United States in order to help shape future policy proposals. To do this, we briefly summarize the Bank of North Dakota (BND), the reference point for the U.S public bank movement. Thus far, the BND model has not fully migrated to other states. Advocates have run head-on into an influential banking lobby in state legislatures. Nevertheless, several states have taken tangible steps that are laying the groundwork for transitioning current economic development institutions toward the public banking model. As a first step, states are conducting feasibility studies that examine credit shortages in private financial markets, funding gaps in existing economic development programs, options for sustainable public bank funding, and modes of transitioning toward new institutional forms. We summarize the measures taken by three states that have made the most progress toward establishing the second current public bank in the United States: Vermont, Maine, and Massachusetts. Our analysis covers the key players, the limited outcome(s) thus far, and the strategic implications of these forerunners.

A PUBLIC BANK IN NORTH DAKOTA: THE EMBLEMATIC MODEL?

In the early twentieth century, the North Dakota economy was dependent on farming. Statistically, U.S. counties populated by elite agricultural landowners with large landholdings had fewer banks per capita. As a result, credit was costlier, and less obtainable (Ratjan and Ramcharran 2011), hampering farmers, who need seed and supplies before a crop yield makes it to market. And a successful harvest is far from certain with the vagaries of weather. A populist movement spurred the creation of the BND to help farmers secure

access to credit "at cost" or close to it. Specifically, an agrarian reform movement called the Nonpartisan League (NPL) sought to shift power from the so-called big-money interests (in neighboring Minneapolis, St. Paul, and Chicago) to the people. Founded in 1915 originally as a North Dakota party, the NPL advocated state control of the banks and farm-related industries such as grain mills. In 1916, the NPL won the North Dakota governorship (with candidate Lynn Frazier) as well as the majority of seats in the state House of Representatives. A public Bank of North Dakota Act passed in 1919, and the BND opened on June 20, 1919, capitalized with $2 million through the sale of state bonds.

Headquartered in Bismarck, the BND currently holds over $1 billion in assets and is one of the largest banks in the state (Fettig 1994). Its primary mission was (and is) to promote state agriculture, commerce, and industry and to stimulate economic development through lending. According to former North Dakota governor Ed Schafer (1992–2000), "A development mentality is different from a banking mentality" (quoted in Fettig 1994, 4). The BND does not directly compete with private banks, and consequently the North Dakota Bankers Association endorses the BND as a complementary institution. As we will see from the case studies below, such support by traditional bankers is lacking in other states. In short, the main features of BND, gleaned from annual reports on the website, are:

- All funds of the state and state institutions must be deposited with the bank. (Most deposits come from the state.)
- The deposits are guaranteed by the state, not the federal government (FDIC). (Even so, note that FDIC insurance is limited per account holder.)
- Consumer lending is generally restricted to farming-related loans, as opposed to auto loans and residential mortgages. Yet over the decades, the BND has become a broader lender, holding a large portfolio of federally insured student loans for the benefit of students in the state.
- The bank has a bank president, but its activities are governed by an Industrial Commission (the governor, attorney general, and the commissioner of agriculture).
- BND transfers about half of its surplus funds (profits) to the legislature, and the usage of bank earnings is at the discretion of the legislature.
- So as not to compete with local financial institutions, BND neither works directly with private borrowers nor markets services to individuals, businesses, or local governments. Almost all of its business and farm loans is originated in partnership with local banks and credit unions, and its holdings of mortgage loans are those bought from these same types of financial institutions on the secondary mortgage market.

The BND also partners with private local lenders for community-based loans to stimulate local economic development. One example is a loan program titled Partnership in Assisting Community Expansion (PACE). PACE loans to businesses have added thousands of jobs, though job creation is not required for all lending. Businesses and community development associations may borrow for a variety of purposes—playgrounds and day care facilities, expansion of medical facilities, investing in green technology, affordable housing. etc. (Schmitz 2016). Through PACE, BND also aids local communities or borrowers by disbursing funds directly to the community bank that originated the loan so as to reduce the interest rate, also called an interest rate buydown.

Unlike private banks and finance companies, the BND never engaged in subprime lending. It did not face a credit crunch during the financial crisis. North Dakota continues to have one of the lowest unemployment rates in the United States and a continuous budget surplus (since 2008). The BND has helped play a role in these resilient economic outcomes, and bank leadership points this out whenever asked. In one interview, current BND president and CEO Eric Hardmeyer said: "We take those funds and then, really what separates us is that we plow those deposits back into the state of North Dakota in the form of loans. We invest back into the state in economic development–type of activities. We grow our state through that mechanism." In answering a follow-up question, Hardmeyer declares the BND invests a larger portion of the money into the state's economy [than a private bank would] (quoted in Harkinson 2009).

The BND model, however, is not without detractors. Critics point to numerous problems and limitations with state banks. They allege that private banks have higher profits and better balance sheets. State banks are less efficient, run by bureaucrats, putting public revenues at risk. State banks, it is argued, are also not any better for state economic development than private banks. They challenge the lack of freely flowing credit in private financial markets. Further, critics contend, the success of the only U.S. state-owned bank is due chiefly to the state's oil boom.

Individual scholars and organizations have weighed in on this debate through empirical research. Some studies have tilted against state-owned banks (e.g., various studies by the World Bank), others have shown mixed results (Yeyati, Micco, and Panizza 2007), and still others positive (Marois 2013; von Mettenheim 2012). Our intention is not to respond to this point-counterpoint. The impact of state- and locally owned banks is best ascertained by estimates provided in high-quality feasibility studies, including the ones we cite below. These studies indicate that while the institutional context has changed in the century since the BND was founded, private financial markets still do not fully address social needs and can be augmented by innovative new forms of public banking.

VERMONT: ONE STEP TOWARD A PUBLIC BANK TO SPUR ECONOMIC DEVELOPMENT

As in many U.S. states, Vermont's public infrastructure is falling apart—roads, bridges, dams, drinking water facilities, and wastewater treatment. In 2010, the U.S. and Vermont Departments of Transportation and the American Society of Engineers gave the state poor grades on its public infrastructure. Overall, Vermont received a C– rating; bridges were C–, dams were C, drinking water was C–, roads were D+, and wastewater was D+ (*Exploring a Public Bank for Vermont* 2013, 7). The story of structurally deficient or obsolete infrastructure is certainly not unique to Vermont (see ASCE 2013). Needs for public capital were great across U.S. states, even before the Great Recession. The long-term delegitimation of the state has caused skepticism about public debt and investment, as well as shortages of public funds, and even has necessitated emergency municipal borrowing at interest rates higher than the best rates for corporate customers.

In addition, most of Vermont state deposits are in large banks. Assessing bank concentration using FDIC data, Jason Judd and Heather McGhee from Dēmos (2012) calculated that four of the five largest banks are chartered out of state and control more than 57 percent of all Vermont deposits (TD Bank, Peoples Bank, RBS/Citizens, and KeyBank). The largest, TD Bank, is home to more than 22 percent of all Vermont deposits. But, as Judd and McGhee show, TD Bank has loaned relatively little to small businesses through the Small Business Administration (SBA) loan program. Further, big-bank interest rates are too high for business loans, municipal loans, and credit card interest, Judd and McGhee assert.

Vermont came close to establishing a state bank in 2014, and in the process its advocates developed an innovative plan for converting existing economic development agencies into a state bank. Although the ultimate result was one step shy of institutionalizing a public bank, the groundwork laid by these activists is instructive. A coalition of organizers, businesses, and individuals called Vermonters for a New Economy came together to support a movement for a new public (state) bank. A public bank, it was argued, would be better able to fulfill the state's unmet capital needs. Advocates pointed out that for decades, the state of North Dakota has been reaping the benefits of the only public bank in the United States; Vermont could, too. Their champion in the Vermont legislature was State Senator Anthony Pollina (D) of Middlesex in Washington County, a former adviser to U.S. Senator Bernie Sanders.

Besides introducing bills outright for a state-owned bank, Senator Pollina also introduced bills in the 2011–2012 and 2013–2014 sessions to study the impact of a state bank in Vermont. Interest was spurred by a citizens committee for a Vermont Partnership Bank/State Bank as well as studies by the

Vermont Legislative Joint Fiscal Office (2010), the then Center for State Innovation (Judd and Munger 2010) and Dēmos (Judd and McGhee 2012). Vermonters for a New Economy and the League of Women Voters of Vermont helped raise funds for a public bank economic impact study. The Vermont Bankers Association was critical of even studying the issue in the first place, later testifying against public lending in the Vermont legislature.

The Gund Institute of the University of Vermont and the Political Economy Research Institute at the University of Massachusetts completed the technical analysis for the state bank economic impact study. *Exploring a Public Bank for Vermont: Economic Impacts, Capital Needs, and Implementation* was released in December of 2013. Using standard input-output analysis and assuming $236.2 million in public bank lending, the Vermont report estimated the following potential benefits: 2,535 new jobs; $192 million added to gross state product; $342 million increase in state output (due to multiplier effects); and savings of $100 million on interest costs over twenty years. These were considered lower-bound estimates since many of the potential positive benefits related to student loans and municipal bonds (ratings and interest rates), and partnerships with large private banks were not factored into the analysis.

In order to remain objective and be responsive to potential criticism, *Exploring a Public Bank for Vermont* also investigated whether public bank credit would be additional lending or would simply reduce private bank lending proportionately, due to the withdrawal of state funds from private banks. The report found no evidence to support the hypothesis that public bank lending would simply crowd out private bank lending. Rather, it would add to total lending in the state. According to the report

> A fundamental question we have tried to answer is whether or not credit created by a public bank in Vermont would be new credit that was not previously being loaned by private banks. We have provided evidence that it would be, and have done a projection of the impact of $236 million of new loans in the state of Vermont, showing the job and output metrics are significant. (2013, 27)

Finally, the report estimated that lending for state capital financing could save $100 million in interest costs over twenty years. And the return from loans made by a public bank goes back to the state, not to shareholders in other states and countries, keeping more of Vermont money local.

Notwithstanding the results of the economic impact analysis, the official recommendation to the legislature was just shy of endorsing a public bank. Instead, the report recommended an innovative approach that draws upon capacity that exists within existing lending agencies, especially the Vermont Economic Development Association (VEDA). Vermont's current economic

development programs receive very high ratings on transparency and accountability from Good Jobs First, but a few large businesses have received substantial subsidies ("AccountableUSA—Vermont" 2016). VEDA already had the capacity to function as a state depository, with assets comparable to those of the BND. Therefore Vermont could charter VEDA as a bank and direct a larger portion of state funds to VEDA to lend. Then, over time, a VEDA bank could absorb more state deposits and expand the credit capacity of the state.

The legislature watered down the proposal, avoiding chartering VEDA as a bank. In 2014, after hearing testimony from dozens of witnesses, the Vermont legislature passed and the governor signed Vermont Act 199 (S.220). The legislation created a [Vermont] Local Investment Advisory Committee (LIAC) within the Vermont Economic Development Authority (VEDA). LIAC was reauthorized in 2015 and again through July 1, 2018. A Vermont Entrepreneurial Lending Program was incorporated into the bill to allow lending to businesses that "have a demonstrable effect in achieving other public policy goals of the State, such as creating jobs in strategic sectors, location in a designated downtown, energy and thermal efficiency practices, or offering livable wage jobs" (Vermont Act 199: Sec. 4.c).

In lieu of a state bank, the goal of LIAC is to increase economic development activity in Vermont and create jobs by committing up to 10 percent of the Treasurer's Office's average available cash in local investments. The first round of proposals was considered in early 2015. A second round was open until May 2016. Available funding was $3.75 million for housing, energy, and neighborhood revitalization projects, and $350,000 for municipal infrastructure projects (Vermont LIAC 2016). Those eligible to apply for funds include municipalities, school districts, social services providers, state agencies and authorities, regional planning commissions, and similar organizations. All financing proposals and approvals are noted in LIAC minutes published by the Office of the State Treasurer. As examples, VEDA expended funds to invest in the following: child-care subsidies to lower-income households and jobs in the child-care industry; renewable energy and energy efficiency; and new housing units. While not a full public bank, "nowhere have the steps toward public banking been more successful than in the state of Vermont .... [Activists] combined savvy organizing with data-driven reports and policy briefs to prove the benefits of a public bank—like avoiding fat interest payments to Wall Street banks—for the state's economy" (Goldstein 2015).

MAINE: RESOLUTE EFFORTS BY TWO ELECTED STATE OFFICIALS

Over a four-year period from 2011 to 2015, Maine House Representative of Portland Diane Russell (D) introduced a public bank bill in successive legislative sessions. In committee, the bill received no support and then only one

vote in favor, Russell's. But by the end of 2015, the idea for a public bank in Maine had mobilized more than twice as many proponents than opponents at the bill's public hearings, had generated three in-depth reports on the specific benefits of a state-owned bank, and had inspired twenty submissions of written testimony from legislators, small businesses, and regular citizens touting the benefits of public banking. The Maine Small Business Coalition and the Alliance for a Just Society (2011) disclosed findings of a survey of 109 small businesses and family farmers in Maine in which 68 percent of respondents reported experiencing credit-term deterioration and 72 percent expressed support for the creation of a state-owned bank.

Despite the disappointing outcome, there are aspects that make the Maine journey worth examining. Given the notorious conservatism of the administration of Governor Paul LePage (R), the development of public banking in Maine illustrates the limits to grassroots efforts operating in an inimical political climate. Indeed, that a bill to merely investigate the benefits of a public bank was rejected in 2013 (L.D. 1078 2013) might suggest that the challenges facing proponents extend beyond providing substantiation and are ultimately political in nature. Additionally, because the proponents in Maine have experienced a number of failed attempts, their experience reveals some common reasons for opposition, providing lessons for proponents in other states. Finally, and perhaps most importantly, the resilience of public banking advocates in Maine serves as a model in perseverance to those who may be likely to face the same opposition.

As is common in the public banking movement, the aftermath of the Great Recession provided an impetus, and this is especially the case for Maine. By 2010, a sustained decline of overall tax revenue was reaching unprecedented levels, due in part to the loss of almost 30,000 nonfarm jobs. The unemployment rate reached 8.1 percent in February 2010, the highest level for nearly thirty years. At the same time, outstanding long-term debt of primary government activities increased appreciably, as did interest costs for debt service. In 2011, Standard & Poor's reduced the outlook on Maine's AA general obligation bond rating from stable to negative ("Maine Voices" 2011; State of Maine Legislature). By 2013, Maine had the second-worst rate of real income growth among all states, mortgage delinquency rates still remained well above pre-recession levels, and the state's credit had been rated Aa2 with a negative outlook, the second decline in two years (State of Maine CAFR 2013). In 2014, as a result of shifts toward a more regressive tax policy, Maine experienced a decrease of $50.2 million in tax revenue, contributing to a $12.3 million loss of revenues in the general fund (State of Maine CAFR 2014).

It was in this constrained fiscal environment that Representative Diane Russell (D) presented public bank bills in 2011 (L.D. 1452), 2013 (L.D. 1508), and 2015 (L.D. 24). The nearly identical proposals called for the immediate creation of a state-owned bank with four stated purposes: (1) to

increase access to capital for businesses and farms within the state by partnering with local financial institutions; (2) to provide financial stability to the state without competing with other financial institutions; (3) to reduce costs paid by the state for basic banking services; (4) to return excess profits to the Maine Budget Stabilization Fund—a rainy day fund created in Maine in 1985 with the purpose of offsetting any general fund shortfall.

In most ways, Representative Russell's public bank looked a lot like the Bank of North Dakota (BND), with a five-member board of directors appointed by the governor and including the state treasurer and the commissioner of administrative and financial services as nonvoting members, and essentially the same regulatory structure. The proposed institution would also operate as a "banker's bank," meaning that it was only authorized to engage in banking activities (i.e., accept deposits and make/participate in loans) with financial institutions and not with private individuals or legal entities. Thus, the Maine Street Development Bank would have been authorized to make, purchase, guarantee, modify, hold, or participate in loans originated by any financial institution authorized to do business in the state. As a result, it would have extended the lending power of local community banks and financial institutions headquartered in Maine.

State Senator Chris Johnson (D) introduced an alternate bill (L.D. 1078) in 2013; rather than request the creation of a bank outright, his step-wise approach only called for a twenty-one-member task force to be assembled to determine the conditions under which a partnership bank might be feasible. Citing heavy consolidation of the banking sector in Maine, low intra-state lending levels to small businesses and family farms, and out-of-state migration of loan revenue as justifications for the bill, Senator Johnson outlined a straightforward objective for the task force: develop a proposal for a public state bank that has as its mission keeping revenue generated from public funds in state and leveraging its funds in partnerships to increase access to capital for small business and family farmers. The task force was to determine the governing structure of the bank, its scope of powers, initial capitalization requirements, oversight measures, and best methods to expand the economic development tools employed by Finance Authority of Maine (FAME), a quasi-public government institution providing commercial financing and loan guarantees to Maine businesses.

In general, opponents of the Russell and Johnson bills clung to three main contentions. First, they claimed there was no demonstrated demand or need for increased lending to small business that was not already fulfilled by way of existing local and national banks, state quasi-public agencies, and/or federal programs. Second, opponents alleged that a state bank would jeopardize public funds by using them to engage in financial ventures too risky for the private sector. Finally, they expressed concern that a state bank would compete with local financial institutions and the private sector (see, for example, Hayes 2015).

In response to the first point, proponents maintained that benefits of a state-owned bank extended beyond *whether* demand was currently being fulfilled to *how* it was fulfilled. Ben Chin—political engagement director of the Maine People's Alliance, a grassroots community-action organization—thought the lack-of-demand argument levied by opponents "misse[d] the point" (Chin 2013, 2) since, he claimed, loan opportunities would increase as the Maine economy recovered from the recession (see also Jackimovicz 2013). He further argued that meeting this demand via a state-owned bank would reroute profits from out-of-state financial institutions back into Maine. Representative Russell also raised this "economic leakage." Noting that 40 percent of most public-project expenses went to interest costs, she suggested that if a municipality were to sell bonds to its own bank instead of a large out-of-state bank, then any interest paid on bonds would be essentially returned to state coffers. She also cited the success of North Dakota in housing its funds in state and returning on average almost $10 million to the general fund per year. In contrast, the majority of Maine's state funds were kept in short-term transactions with national banks, depriving the state of the maximum revenue that could be generated by those funds.

Responding to the claim that public banks put state funds at risk, Representative Jeffrey Evangelos (I)—a cosponsor of L.D. 1078—noted that BND loan losses were less than half of what other commercial banks were experiencing in North Dakota. In fact, Senator Johnson made a distinction between the roles of the quasi-public agency, FAME, and lower-risk public banking: "While I envision the Maine Partnership Bank being an expansion of FAME, the wall between the conservatively managed Maine Partnership Bank and the riskier economic development programs within FAME is important" (2013, 2). Offering concrete examples of how to safeguard public funds, Ben Chin suggested that a Partnership Bank could invest safely by helping local banks extend federally guaranteed loans and by buying these types of loans in the secondary mortgage market. Finally, on the issue of a state bank competing with other state and local financial institutions, Senator Johnson was quick to debunk the claim and remarked that a larger bank acting in partnership with smaller financial entities would be nothing new, as it was indeed exactly what banks were currently doing. The only difference is that the state-owned bank would be limited in its participation in loans that were originated by a state-chartered financial institution, meaning a financial institution small enough to be regulated by the state.

Despite the proponents' responses, however, none of the public banking bills presented to the Maine legislature successfully emerged from the Committee on Insurance and Financial Services. In the meantime, Maine's economy has continued to conform to the conservative fiscal management policies of the LePage administration as funding for public services is decreased at the same time that tax obligations for top income earners is cut. Unsurprisingly, there is still considerable support for a state partnership

bank among farmers, business owners, and other community members in Maine who hope that Representative Russell is correct that "Sometimes a bill has to die before it gets a life" (O'Brien 2013, 1).

MASSACHUSETTS: A DUEL OVER NEED AND ECONOMIC IMPACT

As it did in the great majority of states, the Great Recession took its toll on the Massachusetts economy. By 2009, unemployment had risen to its highest level since the early 1990s, home values appeared to hit a nadir, and state finances were in disarray. In addition and perhaps as would be expected during a downturn, tax revenues for the state declined by 12.6 percent, net assets (the difference between what the government has and what it owes) decreased by over $3.5 billion, and state GDP fell by 2.7 percent. Governmental Fund balances—funding everything from basic operation to infrastructure improvements and health and human services— were not doing well either, as they decreased by over $2 billion and were not expected to recover in the near future. At the same time, the state increased the sales tax, levied a tax on alcoholic beverages, and increased fees for services (State of Massachusetts 2009). While consumers were paying more, a plan had been put into motion to gradually reduce the corporate and financial institution tax rate (see Massachusetts Budget and Policy Center 2009; "Substantial Surpluses to Dangerous Deficits" 2009; Johnson, Collins, and Singham 2010).

Public banking proponents failed in their first attempt to get a favorable recommendation from a state commission, but are now closer to achieving their goal. In 2010, two state senators introduced a new way of engendering state and economic fiscal health. Senator Therese Murray—president of the Massachusetts Senate at the time—and Senator Karen E. Spilka presented "The Massachusetts Sunset Act." The goals were to promote economic development and better coordinate economic development funding in the state (Sunset Act 2010). Concerned with the need to ensure that state agencies were using federal and taxpayers' funds in a way that promoted both state economic development and profitable returns, one focus of the proposed bill was to increase accountability, transparency, and oversight of state and quasi-public agencies and state contracts. In fact, Massachusetts garners relatively low rankings from the organization Good Jobs First on their accountability measures (see AccountableUSA—Massachusetts). The proposed act also contained a number of provisions to assist small businesses, including $25–$50 million to lend.

On first reading, one could almost miss the portion of the proposed Sunset Act that dealt with public banking. Section 144, near the very end of the bill, called for the creation of a commission to "study the feasibility of a bank owned by the Commonwealth" and was specific about who was to serve on it. Members would be made up of the secretaries for

Administration/Finance and Housing/Economic Development; the treasurer; the comptroller; members of state government (including one senator and one representative); the executive directors of the state's quasi-public agencies; members of the Massachusetts Bankers Association; representatives of community banks, small business, and the state's employers; and one university professor who had published extensively on banking (Sunset Act 2010). In addition to its general feasibility, the commission also was to specifically identify whether a state-owned bank could fill lending gaps in the state and to examine the lending behavior of the state's quasi-public agencies. It had one year to report its findings to the public by way of a report that would be published on the official website of the commonwealth.

On August 5, 2010, the bill emerged as Senate Bill No. 2582 and was signed by Governor Deval Patrick with the requirement to create the state-owned bank commission as proposed. A series of six public meetings spread roughly a few weeks apart were held in Boston, beginning on May 3, 2011, gathering approximately twenty to thirty attendees each time. Aside from about fifteen commission members, other attendees had a variety of affiliations, including the Public Banking Institute, state small businesses, the Massachusetts Bankers Association, and The Brennan Group (a lobbying firm). On August 8 of the same year, the commission released its report and conclusively recommended that the legislature "not pursue establishing a bank owned by the Commonwealth" (*Report of the Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth* 2011; see also Summary of Senate Session 2010).

In reaching its conclusion, the commission relied heavily upon the findings of a report published by the New England Public Policy Center (NEPPC) titled "The Bank of North Dakota: A Model for Massachusetts and Other States?" (Kodrzycki and Elmatad 2011). Adopting the NEPPC's methodology, the commission's first reason for opposition was that the benefits do not justify the costs, which were roughly calculated to be \$3.6 billion dollars. This estimate was obtained by taking the number used to capitalize BND in 1919 (\$2 million), adjusting for inflation (\$25 million), adjusting for growth in the size of the national economy over almost a century (\$325 million), and "scaling up" to account for the larger size of the Massachusetts economy relative to the nation (\$3.6 billion). This was probably an upper-bound cost estimate, since, as the report goes on to argue, the institutional context in Massachusetts differs from that of North Dakota. On this point, the authors of the NEPPC report claim that "larger private banks already exist to meet the credit and other service needs that smaller banks are unable to satisfy" (Kodrzycki and Elmatad 2011, 17). Although the commission acknowledged that a lending gap existed for small businesses, it claimed there were sufficient programs, agencies, and financial institutions within Massachusetts to adequately address it; the misallocation of credit could be alleviated within the current institutional structures.

While the NEPPC had observed that the BND "puts a high priority on managing public funds prudently and conservatively," had returned a profit each year since 1971, and "consistently produced high returns on its assets compared to similarly-sized private banks" (Kodrzycki and Elmatad 2011, 11), the Massachusetts commission made the opposite claim. The commission concluded that public funds used by a state-owned bank would not be put to good use, as they would be exposed to high risk, used to provide risky gap-financing, and allocated toward uses that would provide a lower return than if those funds were managed by the state treasurer.

In relying on the NEPPC report, the Massachusetts commission dismissed an alternative analysis provided in response by Dēmos and the Center for State Innovation (CSI). The NEPPC, according to this study, undervalued the degree to which BND-like profitability could contribute to the health of the Massachusetts economy:

> Unfortunately, the report spends much of its time raising concerns—in many cases spurious—regarding the BND, rather than examining the model's potential in the state. And while the methodology of the analysis is generally reasonable, a number of assertions in the report are at best misleading and at worst, lack any foundation. (Judd 2012, 1)

The response resumes by addressing three main objections that they summarize to form three headings: "There's no need," "It can't work here," and "It's too risky." These are analogous to the three objections raised in Maine.

On the first issue, that of demonstrating need, Dēmos and CSI challenge the assertions that the lending gap could be met by either quasi-public institutions or other banks. The gap exists because private banks are not suited to fill them, as demonstrated by a drop-off in lending to small business by the three largest banks in Massachusetts (in terms of deposit share). The response points out that even with regard to lending in general, only the smallest of these three banks is lending at a "respectable pace" with a loan-to-asset ratio (a figure representing a bank's total loans outstanding as a percent of its total assets) of 69 percent. With regard to whether a state-owned bank could work in Massachusetts ("It can't work here"), Dēmos and CSI argue that though the two localities may differ, there is no reason to conclude that an economic tool is by definition inapplicable:

> A Partnership Bank should be thought of as an economic tool—much like a private bank—where the specific loan portfolios and levels of loan loss provision will depend very much on the unique economy in which it is working . . . . This does not mean that the model of a publicly-owned bank . . . could not be applied in any state." (Judd 2012, 5)

Specifically, one of the benefits of a state-owned bank as opposed to a quasi-public agency is the ability to support private banks in their lending capacity.

Such partnerships with other smaller banks they claim contributed importantly to North Dakota's ability to weather the recession better than most states (see, for example, State of North Dakota 2015). One of the ways BND provides fiscal stability is by providing profits to North Dakota's general fund; these analysts assert that a contribution equal in scale from a state-owned bank in Massachusetts—roughly $300 million—would be a weighty contribution to the state's coffers. Finally, regarding risk, BND has demonstrated that public banks are less inclined to risky endeavors than what we have witnessed in private financial markets.

The Massachusetts commission did acknowledge public banking advocates' claim that a lending gap exists in the state for very small businesses and infrastructure. The point of resistance was creation of a new institution. As in Maine, the commission recommended that rather than create a state-owned bank, the legislature should seek to strengthen the already existing quasi-public economic development institutions. They then did propose that the state take a number of actions to accomplish the goal of spurring economic development. But most of their recommendations were geared to aid small business and did not address public infrastructure needs.

An opportunity for further evaluation would come about four years later on January 20, 2015, when House Bill No. 934 was presented by Representative Byron Rushing (D) to, once again, establish "a commission to study the feasibility of establishing a bank owned by the Commonwealth" ("An Act establishing a commission" 2015). On July 13, 2016, the Committee on House Rules recommended that the bill should pass and referred it to the Committee on House Ways and Means. Adding to the potential fruitfulness of this opportunity is the fact that Massachusetts has a new state treasurer who is open to the idea of a state-owned bank. Treasurer Deborah B. Goldberg, who has served the state since 2015, has even publicly announced her desire to "renew efforts to establish a state-owned bank" and has touted the potential of a state-owned bank to provide "critical funding for our transportation, infrastructure, schools and local economies statewide" and "economic security and financial power to families and businesses in this tough economy" (Goldberg 2016). With a new feasibility study and support of the new state treasurer, Massachusetts may soon support a state-owned bank.

CONCLUSION

We are still relatively early in the revived public bank movement in the United States. Public banks can help redress the lack of *social balance* identified by John Kenneth Galbraith in his 1958 book *The Affluent Society*. Galbraith asserted that overreliance on private-sector market mechanisms intrinsically leads to underfunding of public infrastructure—not only roads

and bridges but also parks, education, public services, and mass transportation. Optimal social balance between private and public goods and services requires countervailing power embedded in democratically responsive institutions. Such institutions are more responsive to social needs than to for-profit businesses. Public banks can accomplish this by investing government funds locally and returning profits to the state to replenish its coffers. The deregulation of banking in recent decades has intensified the rationale for public banking, since financial institutions are far less grounded in localities than they were in a more regulated era.

What we infer from the cases of Vermont, Maine, and Massachusetts is that institutionalizing new public banks will require a step-wise approach. Transitioning to public banks is likely to proceed incrementally, perhaps using the economic development authority route, as in the state of Vermont. Because the Bank of North Dakota was created in a far different era and its existence has shaped the historical development of financial institutions in that state, it is a hard sell to simply push it as a model for other states to follow. A first step, therefore, is encouraging states to commission unbiased feasibility studies by credible scholars. These studies can document the gaps left by current private financial markets and public economic development initiatives and explore ways to move toward public banking that make sense in the local context. When only partisan players debate the pros and cons of public banks, policy makers may be reluctant to upset the status quo. When such reports are done using highly regarded modeling and are deemed objective, legislators can be swayed. Each of these state cases also shows the need for a legislative champion and local grassroots activists and lobbyists on the ground, but they do not gain legitimacy by working alone.

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