



Public Banking Alliance - Programme for Government 2016

The **Public Banking Forum of Ireland (PBF)** has campaigned since 2013 for fundamental reform of Ireland's banking system in response, firstly to its comprehensive failure, and secondly, to the immense and unjust burden it imposes upon our economy and society. We advocate the public bank solution and have hosted public seminars and meetings to highlight the work of **Ellen Brown**, the US attorney and the leading advocate and author on public banking institutions. We have recently founded the **Public Banking Alliance (PBA)** as a means for all to support the introduction of public banking to Ireland.

The outgoing **Minister for Finance** embraced a high risk strategy leaving Ireland and its citizens heavily exposed to the risks posed by our too-big-to fail banks against the backdrop of ongoing weaknesses in the global economy. Government policy has prioritised the recapitalisation, restructuring and resale of Bank of Ireland and AIB thus restoring their market dominance and market concentration and their private quasi monopoly power over the issuance and allocation of credit in our economy. Minister Noonan put the interests of the private banks, the Bank of Ireland AIB duopoly first, and has neglected the national interest, the credit unions and the An Post network. The Public Banking Alliance is campaigning for a dependable financial system in Ireland in which public, community and coop banks fulfil a key role. These provide a vital counterbalance to the profit maximising banks which flood asset markets, such as housing, with cheap credit. Public banks prioritise sustainable lending in their region and provide countercyclical lending in the aftermath of a crisis. They provide a safe home for your money and do not speculate with it. This proposal for public banks is fundamental to our **PBA Programme for Government** and we commend this policy to all Irish political parties, for inclusion in their programme. Many political parties have now embraced public banking. A challenge is presented to all in society to make this a reality.

The PBA Programme for Government 2016: A Regional Community Public Banking System for Ireland:

The Public Banking Alliance is firmly opposed to the market concentration and dominance of the two very large, too-big-to-fail private entities in Ireland's blighted banking landscape. Because these entities are, like nuclear reactors, too large to be allowed to fail they require a permanent backstop of Government/taxpayer support and subsidy for their risk-taking. Government commitments to these entities are made at the expense of smaller competitors, would be market entrants and the consumer, who is denied fair competition and a robust, self-supporting system.

Following extensive research, meetings and ongoing dialogue with finance reform groups, academics, policy makers, credit union representatives and other relevant interests the Public Banking Alliance resolved since 2014 to promote the *Sparkassen* model of regional public savings bank in Ireland. Germany is fortunate to have 415 such local public banks and they are the backbone of the robust German financial system. These 415 local public banks have 42% of the German market. These are not just superbly reliable and highly efficient. They are also genuinely public, transparent and accountable to their regional customer base. Germany also has 1,030 cooperative banks accounting for a further 26% of the banking market.

The **Local Public Banks Ireland** 'Concept Document' prepared by the not for profit German Savings Bank Foundation (**SBFIC**) proposes up to ten Regional Public Banks for Ireland and a single Central Service Provider (CSP) for these banks. A 'Working group' composed of the German foundation and Irish interests can and will work together to develop the business plan, operational plan and the legal structure for the new Irish system.

This workgroup, under SBFIC guidance, will engage with competent regional partners, including groups of credit unions and postmasters to finalise plans and establish this regional public bank system. The Government can and should play a hands-on role in nationwide implementation, helping to empower the regions with dedicated local institutions providing greater choice, stability and resilience. The Sparkassen Foundation (SBFIC) will guide, assist, and share expertise to set up the new system but they will not become commercially involved. This process could begin with just two pilot Regional Public Banks and the central service provider (CSP). The expertise and learning thus gained facilitates ongoing development over subsequent years.

The Benefits:

- Regional public banks have regional stakeholder governance. They prioritise the prosperity of their region and the whole community within it. They are not run to maximise profits or shareholder returns.
- The regional public bank has a public/social mandate, a set of guiding principles and an ethos of service, like the credit unions, with whom they seek to collaborate.
- Because they maintain prudent reserves and do not speculate, lend outside their region or trade in complex securities they are more stable and secure.
- They provide much needed funding for local SME's, start-ups and the self-employed.
- By directing local deposits into sustainable productive lending they keep money in the region.
- Regional public banks are the best counterbalance to the risk posed by too-big-to-fail private banks.
- Public Banks take pride in the personal service they provide, and enjoy greater customer trust and loyalty. Knowing the customer and the local economy reduces risk.
- Regional banks retain more money for recirculation in the local economy of the region.
- They aim for modest sustainable returns, not speculative lending causing boom bust cycles.
- Credit creation capacity should be returned to the public domain and directed to productive purposes only.
- Maintaining rural services in towns and villages is vital. Regional public banks aim to provide services through local post offices and credit unions, supporting their role.

A Small Price to pay for Real Banking Reform

With the best expertise available internationally the costs of the preparatory and planning process have been estimated at little over €250,000. This estimate includes some detailed legal work required in Ireland. The initial investment required to capitalise each regional bank is between €5m and €10m. Options exist within each region to capitalise the banks by a range of methods. The cost of establishing the Central Service Provider is €5m. Thus, based on experience elsewhere, for an initial investment of €140m the Irish regional public bank system could be up and running. It is noteworthy that this sum equates to a total of just over €30 per capita. Thus it compares very well against the cost of €50,000 per person employed in the country to bail out our private commercial banks!

How and Why Public Regional Banks Save us Money

There is ample evidence that public savings banks, cooperative and non-profit-maximising banks outperform the private commercial banks. Ireland's private banks lost €106 billion (or around €50,000 per person employed in the economy) according to 2011 calculations by author Michael Lewis and economist Morgan Kelly. Public banks, like credit unions, steer clear of the speculative lending that is typical of the commercial banking sector. Hence they have a lower failure rate. Throughout much of Europe banking systems are built on three pillars; private banks, savings banks and cooperative banks. In recent decades the savings and cooperative banks have maintained and increased their market share. This has happened contrary to the expectations of the experts who assumed many would decline or become privatised following market liberalisation in the 1990's. Academics like *Mettenheim and Butzbach* (2011) have now begun to highlight and investigate the sources of the public bank's competitive advantages.

Regional Public Banks save you money because:

1. Public and local stakeholder governed banks and credit unions maintain more prudent capital reserve policies. While private banks embrace higher risk for higher yields as they seek to maximise profits, the savings and cooperative banks are focussed on achieving modest returns and long-term profit sustainability. Moreover, the modest surpluses they generate go primarily towards increased lending. They are not run to enrich shareholders, or to pay huge bonus payments and salaries.

2. The public savings banks, cooperative banks and credit unions are less product diversified.

They convert local savings into local loans and do not speculate, lend or invest outside their region. They are also closer to their customers and focus on relationship banking. This customer proximity results in greater mutual trust and loyalty which can reduce risk. So, public banks are less risky, more secure.

3. Unlike many private commercial banks the local public savings and cooperative banks and credit unions successfully weathered the crisis and its aftermath without becoming insolvent or requiring external support. After the 2008 crisis, the German public savings banks increased lending to SME's by 17% between 2009 and 2011, providing countercyclical funding support to their regions. By lending in downturns, they counteract austerity and finance the necessary 'stimulus'.

4. In terms of cost efficiency, because they spend less on advertising, sales commissions, high salaries and bonus payments, public banks can also pass on savings to customers through lower transaction costs. By collaborating in specialist areas like insurance, IT and product development the public savings banks tend to achieve savings without losing their autonomy or participatory local stakeholder governance.

5. The alternative non-profit banks keep depositors money working within their region and so interest payments are not a drain on the economy. Contrast that with the commercial banking system which continually takes between 30% and 40% of the profits of the economy (Prof. Steve Keen). Earnings of the non-profit banks are used to increase sustainable lending and the public bank seeks to enhance the competitiveness of their region.

There is also evidence emerging that regions that have local and public savings banks enjoy a competitive advantage over other developing regions. With local institutions, capacities and initiative, it is logical that regions can secure greater competitiveness.

6. Having a diversity of banks with contrasting business models would also appear to enhance economic stability. Real estate lending accounts for c.75% or more of all bank lending and is typically backed by collateral values. As collateral values rise private banks compete intensively for growth and market share, thus fuelling cycles of boom and bust in property prices and credit supply. Those gains are privatised and temporary, but the costs of speculative excesses can be astronomical. Too often they fall on households, workers and taxpayers in the form of a bail-out or bail-ins. Irish policy makers and regulators have failed abysmally to safeguard the nation from that risk.

Conclusion:

In conclusion, public savings banks can save taxpayers and the wider economy a lot of money. The evidence shows public and stakeholder governed non-profit banks are highly competitive and generate a range of cost savings and economic and social benefits for their customers and regions. They are the key to a balanced, stable financial system, providing lending during downturns. These institutions can empower regions to develop, and help them to secure more sustainable prosperity. They also provide financial social inclusion, foster thrift and make investments that benefit the whole community.

The Public Banking Alliance promotes the expansion of the services of the Credit Unions and the retention of the full vital Post Offices network. We also seek their cooperation together with local community initiatives to develop the regional public banks. The Irish financial sector is dominated to the extent of c. 95% by commercial banks; contrast that with Germany where the commercial banks have only 12.5% of the market. The opportunity to develop and expand our not-for-profit social credit institutions is immense.

For an initial investment of around €140m Ireland can establish a network of secure, efficient and ethical Regional Public Banks with the explicit purpose of promoting the prosperity of their region, serving local businesses, communities and households. These Public Banks will not take private profits from the community, nor pay shareholders dividends, nor pay exorbitant salaries to employees. In essence this is banking in the public interest.

The public savings bank system has existed in Germany for over 200 years; Ireland ironically had over 60 such banks in the 1820's. There is no obstacle in EU or Irish legislation restricting or preventing us setting up our own Irish public banking system. We simply need to get on with it!

This programme is essential for Ireland's recovery, autonomy and stability into the future; it is incumbent for all in Irish society to endorse and support it to a successful conclusion.

{Further details of the Regional Public Banks for Ireland proposal are contained in the 'Concept Document' produced by the non-profit German Savings Bank Foundation for International Cooperation (SBFIC). Please contact the Public Banking Alliance for more information.} JG/GD 16

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