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State-owned banks and development:

Dispelling mainstream myths

Thomas Marois

Series Editors: David A. McDonald and Greg Ruiters

ABOUT THE PROJECT

The Municipal Services Project (MSP) is a research project that explores alternatives to the privatization and commercialization of service provision in electricity, health, water and sanitation in Africa, Asia and Latin America. It is composed of academics, labour unions, non-governmental organizations, social movements and activists from around the globe who are committed to analyzing successful alternative service delivery models to understand the conditions required for their sustainability and reproducibility.

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EXECUTIVE SUMMARY

Thirty years of neoliberal restructuring have sidelined alternative financing practices, and propagated mainstream myths about state-owned banks. This paper examines these neoliberal claims, arguing instead that public financing remains a crucial part of progressive, sustainable and democratic strategies for investments in long-term development and infrastructure. Drawing on past and present case studies, as well as theoretical literature on finance, the paper points to the potential to revive – and improve – state-owned banking as a viable option for financing public services.

There is a rich history of state banking experiences that needs exploring. As far back as ancient Babylon public authorities have had a hand in finance provisioning, and in mediating the excesses of private lending. The height of state banking for development and public infrastructure came in the post-war and post-colonial period, however, as public authorities from Beijing to Washington to Cairo stepped in where private finance failed, operating effective and sustainable lending institutions. It is estimated that by the 1970s state-owned banks (SOBs) controlled 40 per cent of combined banking assets in developed countries, and 65 per cent of assets in developing economies.

The subsequent rise of neoliberal orthodoxies challenged this growth, asserting that SOBs are bad for development, leading to their restructuring along market lines or their ultimate demise; but both neoliberal theory and evidence are found wanting, rooted more in ideological presumptions than in substantiated case study experiences. And although state banks are not what they once were in terms of size and clout, they are far from out. Significant SOB assets remain with state authorities who control an estimated 22 per cent of banking assets in emerging economies and 8 per cent in advanced economies.

This study dispels nine of the neoliberal claims about state-owned banks, by demonstrating that:

- SOBs do more than just 'fill market gaps'
- A wide diversity of SOBs remain in operation today
- State ownership has many advantages over mere regulation of private banks
- SOBs are often operated better than private banks
- SOBs service a wide clientele often overlooked by private banks
- State bureaucrats and employees often make good bankers
- Large SOBs can meet the needs of small-scale clients
- SOBs are less risky than their private counterparts
- SOBs function in ways that are good for development

Many SOBs have undergone neoliberal restructuring processes such as marketization and corporatization in ways that challenge their status as 'public' banks. Nevertheless, many retain the necessary material and institutional foundations of a progressive alternative to private banks – insofar as SOBs need not be driven exclusively by profit imperatives – capable of financing public infrastructure, services and fiscal policy alongside key economic sectors such as agriculture, small trades and cooperatives. They offer distinct advantages such as making possible countercyclical lending at times of crisis, supporting the public sector and public infrastructure, and serving as countervailing force against the power of global finance. The 2008-2009 global financial crisis, resulting in trillions of dollars in public bailouts for private banks, underscores the urgency of identifying progressive public banking alternatives.

This paper looks at imperfect but telling or inspiring examples of SOBs from Brazil, China, Costa Rica, India, South Africa, Turkey and Venezuela, among others. In their wide diversity, SOBs across the globe are envisioned positively and often used in progressive ways to fund important development projects. This paper argues that there is much to commend SOBs as real alternatives to privatization and neoliberalism.

Introduction

As long as there has been money lending, public authorities have been involved in provisioning, managing and stabilizing the finance sector. But it was not until the late 19th century when state-owned banks (SOBs) became a staple of modern development. Since then, SOBs have promoted stability and financed strategic economic sectors and infrastructure. Unlike private banks, profit has not always defined a state bank's success or determined its public utility. Despite some problems and need for improvement, SOBs have often successfully enabled governments to enact policy and fund progressive development initiatives, including the development of public services and infrastructure.

With the rise of neoliberalism the credibility of SOBs has come under political and ideological assault. Mainstream finance and development experts (typically working with the tools of neoclassical economics) have promoted a series of myths that, when boiled down, assert that SOBs are bad for development. These myths often include inaccuracies buttressed by questionable empirical research that relies on ahistorical and pessimistic assumptions about individual behaviour and state actors. Inevitably the 'evidence' supports neoliberal solutions that applaud the private provisioning of finance for development. Eager to absorb SOBs as a new source of private accumulation, domestic and foreign financial investors have also advocated for their privatization. Consequently there has been a marked drop in the number of SOBs and the assets they control over the past 30 years.

Although state banks are down they are far from out. Many remain in service today. Indeed, the global 2008 financial crisis reinvigorated the debate on state banking as a serious matter of development policy. Yet currently operating SOBs are not necessarily the same as in the past. In many cases, neoliberal restructuring brought significant market-oriented changes, such as marketization and corporatization. Notwithstanding, SOBs preserve the necessary material and institutional foundations to represent a progressive alternative. Rather than being driven exclusively by profit imperatives, state bank ownership and control can enable the extra-market and political coordination of financing for public infrastructure, services and fiscal policy together with the funding of key economic sectors such as agriculture, small trades and cooperatives, alongside the conscious pursuit of financial stability, accessibility and sustainability. This is because state ownership entails a different reproductive basis than that of private banks. Whereas private banks must compete for profit to survive, SOBs can exist without having to turn a surplus. Whereas competitive imperatives lead to political and economic volatility through recurrent crises, state financing provided as a public utility can support stability and sustainability.

But to begin to see these arguments with fresh eyes means dispelling the powerful myths of neoliberalism, which cloud the state banks' real and potential social developmental benefits. We tackle nine especially pernicious myths in this paper.

Myth One: State banks only fill market gaps

Supporters of private banking will often admit that SOBs played an important role after World War II by "filling market gaps," but are also quick to claim that SOBs were inefficient and ineffective in practice (World Bank 2012a, 101). This myth is misleading on two accounts: state-like banking long preceded the post-war period, and suggesting that SOBs simply filled private banking gaps oversimplifies, and therefore distorts, the circumstances.

True, the zenith of state banking came in the post-war phase of state-led development. Yet state banks go as far back as 2400 BC in ancient Babylon and Sumer where temples functioned like credit-granting, interest-charging public institutions. These city-states and ruling monarchs did not own the temples, but the temples did form part of society's 'public' infrastructure. When mounting debts threatened social stability, ruling monarchs resorted to general debt amnesties (Graeber 2011, 65).

The more recent foundations of today's banking practices link back to Medieval Italian bankers who systematized 'buy now, pay later' schemes, with very high interest rates. To protect their own interests these bankers secured political support for punitive consequences should borrowers default. This led to periodic social instability with Italian state officials occasionally stepping in to provide debt relief. Two examples of early European state banks emerged out of this context (Brown 2013, 100-3). The first was in Barcelona where governing authorities opened a state bank in 1401, which survived more than 450 years until it was merged into the Bank of Spain in 1853. The second was in 15th century Genoa where authorities opened a state bank that came to be known as the Bank of Venice, which operated for over two centuries until Napoleon's invasion in 1797. Both illustrate how authorities have had to step in early on to protect the public interest by creating alternatives to private banks.

This state intervention would take on new 'developmental' dimensions in the American colonies, notably with the British Quakers in Pennsylvania (Brown 2013, 125-6). For decades during the mid-1700s (until British bankers instigated its collapse) the colony's Land Bank lent to residents, largely farmers, and then funnelled returns back into public revenues. In other words, state banks have not only compensated for private bankers' usurious practices but have also proactively serviced communities as their preferred option.

In the late 19th and early 20th century state banking became firmly established, both in capitalist and socialist countries. National governments recognized that SOBs provided the only option for overcoming the limitations of private banking and, in many cases, countering the power of imperial bankers. As an early example, the Ottoman government created an agricultural fund in 1863 to support farmers – to evolve into Turkey's Ziraat Bank – which played a key role in shaking off European

debt dependency in the 20th century (Marois and Güngen 2013). Later in 1932 the US government created the world's largest bank at the time, the Reconstruction Finance Corporation, to fund not only the US New Deal but also the country's war efforts during the 1930s and 1940s (Brown 2013, 165-66). These are but two of many examples.

Other socialist, social democratic and even militaristic countries also experimented with state banking. In 1948 the post-Revolutionary Communist Party of China established the People's Bank as a single, large SOB to manage economic and political transformation by channelling investment funds into key economic sectors and public infrastructure. That same year amidst its own brief revolutionary period Costa Rica nationalized its banks to promote the 'democratization of credit' and national development. Some years later military leaders nationalized the Korean banks following the country's 1961 coup. In India, Prime Minister Indira Gandhi nationalized 14 large private banks in 1969 ostensibly to facilitate a socialist-oriented developmental policy. Many more bank nationalizations occurred in countries as diverse as Algeria, Egypt, Libya and Tanzania in the 1960s.

In the end, this diverse post-war history of state banking suggests complex logics at work: from creating services where none existed, to countering colonial and foreign dominance, to democratization and development, to supporting militaristic goals. By the 1970s, estimates suggest that in advanced economies state banks controlled 40 per cent of the largest banks' combined assets compared to 65 per cent in developing economies (Levy Yeyati et al 2007, 212). These SOBs did not simply step in to "fill some gaps" in some idealized market society, but formed integral parts of different countries' developmental experiences.

Myth Two: There are no state-owned banks left

It is a popular misconception that SOBs have disappeared. To be sure, neoliberal restructuring and privatization processes have led to a reduction in SOBs globally. The World Bank estimates that in emerging economies state bank ownership has fallen from 67 per cent in 1970 to 22 per cent in 2009 (2012a, 103). Patterns have varied, nonetheless. In Costa Rica, whereas in the mid-1990s more than 80 per cent of banking assets were state-owned, by 2001 it had dropped closer to 63 per cent. The Mexican banking sector went from completely public after nationalization in 1982 to fully private after 1992. Poland, too, privatized much of its state bank claim, which fell from 80 per cent in 1990 to roughly 23 per cent in 2001.

In times of crisis, however, the trend sometimes reverses as state authorities step in to rescue failed private banks via nationalization. Some examples include Sweden in 1992, Mexico in 1994-1995, Latvia in 1995-1996, East Asia in 1997, and Argentina in 2001. Following the 2008 financial crisis,

state bank ownership among developed economies increased from 6.7 per cent pre-2008 to 8 per cent overall (World Bank 2012a, 103). Individual cases are more dramatic with Ireland jumping from 0 to 21 per cent and the UK from 1 to 26 per cent from 2008 to 2010.

In many more countries SOB assets remain significant. Table 1 provides data on a selection of countries using World Bank survey data on "government controlled banks," defined as those in which government exercises control through ownership of more than 50 per cent of voting shares, or other forms of control.

TABLE 1:
State-owned banking assets, select countries, percentage of total, 2008-2010

	ARGENTINA	BANGLADESH	BRAZIL	BURUNDI	ECUADOR
2008	37.7%	37.8%	39.8%	49.1%	11.77%
2009	39.1%	35.2%	44.1%	48.1%	16.18%
2010	43.6%	34.1%	43.5%	48.9%	16.53%
	EGYPT	**GERMANY**	**INDIA**	**INDONESIA**	**REP. OF KOREA**
2008	49.30%	35.44%	69.85%	38.20%	22.20%
2009	48.50%	36.08%	71.88%	39.70%	22.40%
2010	---	31.52%	73.70%	38.41%	22.30%
	KYRGYZSTAN	**LATVIA**	**POLAND**	**PORTUGAL**	**RUSSIAN FED.**
2008	17.50%	10.50%	17.00%	21.04%	38.00%
2009	81.00%	17.10%	21.00%	21.73%	40.60%
2010	20.30%	15.50%	22.00%	22.64%	40.80%
	SIERRA LEONE	**SRI LANKA**	**THAILAND**	**TURKEY**	**VENEZUELA**
2008	41.49%	55.50%	22.20%	30.50%	11.90%
2009	38.62%	57.80%	21.70%	32.20%	22.01%
2010	37.71%	59.10%	17.50%	31.60%	33.06%

Source: World Bank 2012a.

It is also true that many of the largest and well-run banks remain in state hands (see Micco et al 2004, 9). But this has led to mainstream criticisms that governments hold on to the biggest and best-run banks for nefarious purposes (Boubakri et al 2005). Neoliberals argue that these large SOBs are a drag on the economy and hotbeds of political corruption. By contrast, others see these remaining institutions as offering an important material basis and institutionalized form of social power that needs to be defended and improved.

Myth Three: Better to regulate private banks than own state banks

Neoclassical economists and neoliberal advocates see private ownership as innately superior to state ownership (Shleifer 1998; Vanberg 2005), arguing that it is better to regulate private banks than to own public banks (Barth et al 2006; World Bank 2012a, 3). In the field of banking and finance the so-called 'private interest' view took root starting in the late 1970s, arguing that the attribution of any progressive public ethos to state ownership was both idealistic and naïve (Barth et al 2006, 34-5). Rather than replacing markets, it was argued that government regulation should support market actors and market discipline, which is the best guarantor of socially desirable results (Barth et al 2006, 14; Hayek 1984, 365-381). In World Bank speak, policymakers should work with markets "to align private incentives with public interest" (2001, ix).

More than three decades of neoliberalism have yet to substantiate mainstream hopes that private regulation is sufficient. Bank privatization and financial liberalization have left major gaps in the financing of development and public services – from water to health to electricity generation to agriculture (see Bayliss and Adam 2012, 330; Davis 2008; Fine and Hall 2012, 64-65; Hathaway 2012, 356; McDonald and Ruiters 2012; Sengupta 2012, 195). Private finance often baulks at financing long-term, complicated projects and imposes conditions on their loans that protect their interests over and above that of the project's viability and sustainability, not to mention the public good. There remains great need for financing without neoliberal conditionalities, for financing that is subordinated to public service delivery and social developmental needs (Balanyá et al 2005; Fine and Hall 2012, 46; Malaluan 2012, 258).

The shortcomings of neoliberal idealism vis-à-vis regulating private incentives is perhaps most evident with mainstream responses to the global financial crisis (e.g. Acemoglu 2009; Demirgüç-Kunt and Servén 2010; Mishkin 2009). As even the *Financial Times* recognizes, attempts to re-regulate private banking and finance following the US sub-prime debacle and global crisis have failed miserably, leading to larger and more systemically powerful banks, thus creating "an insane financial system" (Tett 2013).

This crisis has revived deep interest in state-owned banking across the academic spectrum and among some development institutions (see Blackburn 2011; Brown 2013; Buiter 2009; Butzbach 2012; Culpeper 2012; Lapavitsas 2009; Marshall 2010; OECD/ECLAC 2012; Veltmeyer 2010; von Mettenheim and Butzbach 2012). What these authors share, however diverse their analyses, is a realistic appreciation that private finance always finds ways to supersede regulatory barriers in pursuit of its own interests. Hence, current circumstances demand direct government ownership as a necessary condition for viable finance alternatives.

Myth Four: Research shows that private banks are better

Privatization initiatives are most often shaped by neoclassical research methodologies that claim to provide solid, evidence-based support for policy decisions (Barth et al 2006; World Bank 2012a, xiii). The most influential neoclassical projects on SOBs are usually large-scale samples seeking statistically relevant correlations (see Megginson 2005, 316).

Perhaps the most influential such study compared ownership of the largest banks in the 1960s and 1970s to that in 1995, across 92 different countries (La Porta et al 2002). The authors concluded that state-owned banking correlates with countries that are not only "inefficient" and "less democratic" but also "backward," "poorer," "statist" and "financially underdeveloped." A series of follow-up empirical studies have extended these findings, each recommending bank privatization as the preferred policy (Boehmer et al 2005; Boubakri et al 2005, 2008; Otchere 2005).

In the process, neoclassical researchers have failed to respond to a wide array of methodological criticisms that question their assumption that markets are neutral, their narrow focus on property rights, and their ahistorical perspectives (Ankarloo 2002; Hodgson 1986, 213). Critical scholars contend that the deductive approach begins by presuming the answer (that is, state banks are inferior to private banks) and by then imposing private banking assessment criteria onto state banking operations. Furthermore, their large-scale studies draw together countries with radically different histories, systematically hiding more about state banking than the studies can reveal (Stallings 2006).

It can also be argued that neoclassical researchers are often disingenuous about the limits to their evidence. While claiming that their policy prescriptions are not intended as 'one size fits all', state bank ownership is ruled out a priori as an unviable long-term policy option (Barth et al 2006, 5; World Bank 2001, 29). As von Mettenheim writes, neoclassicals "fail to consider how government banks may succeed, as banks, as agents of public policy and as essential parts of political and social economies" (2010, 15). In the end, neoclassical economists "approach the analysis of social reality armed with inappropriate tools" (Lawson 2013, 972), leading to ideologically charged and distorted policy recommendations based on empirical evidence that fits their predetermined agenda. In other words, it is not a reliable foundation upon which to build evidence-based policy.

A genuinely historical research program should seek to understand specific local differences within an analytical framework capable of recognizing wider global development structures and financial processes (see for example the 'variegated capitalism' approach of Peck and Theodore 2007). This is best achieved through strategies of inquiry that are qualitative and case study-oriented, which

experts on methodology suggest are best able to generate original evidence-based policy recommendations (see Creswell 2009; Mabry 2008; Marois and Güngen 2013). Case study research also helps to reveal power structures, social imbalances, and their effects – concerns that have become increasingly important with the growing influence of private financial institutions today.

Myth Five: State banks only lend to their cronies

SOBs often have a reputation for lending money to big businesses friendly to government, with East Asia being frequently cited as an illustration of why state banks do not work (Bird and Milne 1999; Lim 2012; Woo 1991). It is true that tight state-industrial group relations (so-called crony capitalism) contributed to the private sector amassing huge state bank loans that partially contributed to the 1997-1998 East Asian crisis and subsequent public losses. Yet the problem of crony lending in East Asia (and elsewhere) has not been limited to SOBs. Private banks regularly lend to big businesses friendly to their own interests and accumulation strategies. Nonetheless, it is a powerful myth that SOBs are the real culprits in this regard, regularly reproduced in mainstream media. Taking aim at China, for example, *The Economist* quotes a young Chinese businessperson saying that the "[public] banks here only give money to big companies" (2012).

TABLE 2:
Selected development banks and mandates

Development bank (100% state-owned)	Mission	Sub-sectors granted credits	Government-backed lending?
Fiji Development Bank (FDB) (1967)	To provide finance for projects that contribute to the development of the Fiji economy and improve the quality of life for the people of Fiji. Loan funds are provided for agricultural, small and medium enterprises, corporate and micro projects. The government also uses the FDB, as a financial instrument in its development projects/plans and special assistance programs that may be necessary from time to time.	Agriculture; construction; industry; services; mining infrastructure; energy; education; health.	Yes
North Rhine-Westphalia (NRW Bank, Germany) (2004)	To support the federal state and its municipal corporations in meeting their public tasks, particularly in the fields of structural, economic, social and housing policy.	Agriculture; construction; services; mining infrastructure; other.	Yes

Uganda Development Bank Limited (1972)	Development finance institution; to provide financial support to short, medium and long-term projects geared toward economic development of the nation.	Agriculture; construction; industry; services; mining infrastructure; energy; education; health; other.	Yes
Vietnam Bank for Social Policies (1996)	To help reduce the poverty rate and improve the environmental situation in Vietnam.	Agriculture; construction; industry; energy; education; other.	Yes
Mexico's Bank of Public Works and Services, National Society of Credit (1933)	To finance or refinance public or private investment projects in infrastructure and public services such that it aids in the institutional strengthening of the federal, state, and municipal governments.	Services; infrastructure; other.	Yes

Source: World Bank 2012b.

In reality, SOBs do much more. In 2010, China's SOBs offered 316,000 loans to small rural startups equalling RMB 14.14 billion (roughly $2.3 billion) with plans to extend such loans to urban centres (CBRC 2010, 49). These loans are facilitated by thousands of smaller city and rural commercial state banks, and rural financial institutions (which equalled about 20 per cent of all assets in 2010) that have a client base extending well beyond big business (CBRC 2010, 26). This wider pattern of lending is not limited to China either. As Table 2 illustrates, state-owned development banks – old and new, from large advanced and small developing economies alike – are mandated to lend to many different sectors, including agriculture, construction, public services, energy, education, health, SMEs, municipalities, infrastructure, and so on. These lending practices are not perfect by any means, but they challenge the mainstream claim that SOBs are inherently and extensively corrupt.

Myth Six: Bureaucrats make bad bankers

According to the World Bank (2001) SOBs are run by bureaucrats who pursue personal and political gain, leading to sub-optimal performance (also see Demirgüç-Kunt and Servén 2010, 98-99). This myth is problematic because it simplistically assumes that state ownership confers unmediated control over state banks to bureaucrats and that bureaucrats are active in bank management (see for example World Bank 2001, 123). This myth erases real world diversity, distorting the actual operational functioning of SOBs.

Indeed, such neoliberal assumptions ignore the multifaceted day in, day out work and agency of hundreds of thousands of frontline bank workers, mid-level supervisors, branch and regional managers, and senior executives in addition to the many mid-level bureaucrats serving in financial authorities (bank regulators and supervisors, central banks, treasuries, and so on). We are expected to believe in some abstract, all-powerful, and resolutely self-interested abstract 'bureaucrat' when state banks are institutions in fact run by diverse people, individually and collectively. Particular bureaucrats may have power over certain banks or they may not. When bureaucrats do have institutionalized control, they may or may not exercise it, with positive or negative or neutral effects. Regardless, all policy decisions are implemented, and therefore mediated, by bank workers and managers who may support or resist certain directives. Moreover, this worldview sidesteps the ongoing neoliberal restructuring of SOBs that instils the very market-oriented ideology so dear to neoliberals – notably, corporatization and marketization. A few case examples help to illustrate the diversity obscured by neoclassical mythology.

The State Bank of India: Corporatized but social developmental

The State Bank of India (SBI) is India's oldest and largest bank controlling roughly 20 per cent of the banking sector (Chakrabarti 2012, 250-252). Its operations are nationwide, with over 21,500 branches in 2009. In 2005 about a third of all bank employees in the country worked for the SBI. The government retains overall control but with a diversified Board. For example, the Board includes two government-appointed bank workers and management directors in addition to directors appointed because of their specialized expertise in cooperative institutions, rural economy, commerce and finance. At the same time the SBI must contend with the demands of a highly organized and militant bank workers' movement, whose million-people strikes and multi-day walkouts shut down the banking sector. Market-oriented restructuring since the 1990s, moreover, has meant the Board must respond to a dual mandate: (a) 'profit-maximizing' for the shareholders; and (b) government developmental directives (e.g. offering rural financial services and financing fiscal policy) (Chakrabarti 2012, 253). Control over the SBI is thus both corporatized and social developmental in orientation.

The Development Bank of South Africa: Independent but neoliberal

The Development Bank of South Africa (DBSA) is one of four state-owned development banks in the country and is fully state-owned (Beck et al 2011, 153). Established in 1983 amidst the global neoliberal turn, the government mandated the DBSA to promote economic development and growth (World Bank 2012b). The DBSA began working closely with the World Bank in the mid-1990s and was staffed by a neoliberal technocratic wing of the government (Bond 2000). The Board and management personnel are formally independent and while the Treasury takes an active shareholder role it, too, is neoliberal in orientation. Presently the DBSA manages assets in excess of $6 billion, realizes returns on assets (ROA) of two to four per cent, and is involved in financing infrastructure, agriculture, construction, industry, energy, education, and health alongside providing technical assistance and grants to low-income municipalities. As such, the DBSA does not seem to confirm

neoclassical myths about bureaucrats being bad bankers. Rather, it appears to have quite good neoliberal bureaucrats – if not good progressive alternative bankers – to the extent that the World Bank cites the DBSA's governance structure as a model of success (Beck et al 2011, 153).

European savings banks: Small but socially responsible

European savings banks are typically small-scale decentralized public banks often created by local governments or organizations; that is, they are not owned by central governments unlike most of the state banks discussed here (Butzbach 2012, 36-7). The savings banks are interesting because of their alternative ownership and control models, which mandate them to perform in a broadly defined public interest. On the one hand, the banks integrate local stakeholders into their governance decisions and certain profit imperatives to ensure operational sustainability. On the other hand, the banks pursue not-for-profit public mandates (von Mettenheim 2012, 18). For example, the French savings banks must dedicate half of their returns to social responsibility programs, which are managed by bank staff alongside social and political representatives. Spanish savings banks are mandated to contribute on average about a quarter of their returns to social welfare programs. While relatively small-scale, the savings banks illustrate important alternative governance practices that internalize explicit social mandates and community integration often missing in larger state-owned banks. In this case, bureaucrats and public officials do well offering socially oriented banking services.

Banco Popular, Costa Rica: Collectively run and socially responsible

Our final example is not a state-owned bank (although three large SOBs exist in Costa Rica). Rather, the *Banco Popular* (BP) is a public bank that is worker-owned and controlled.[1] Uniquely, the bank's collective 'Assembly of Workers of the Popular Bank and Communal Development' governs its operations and ensures that the bank's missions to protect the economic welfare of workers and to promote development are met. The ownership and control framework is inclusive. A participatory model of decision-making is facilitated through workshops for national delegates. This collective model has allowed for important extra-market targets. For example, the BP embodies explicit gender equity norms, which are protected by the Permanent Women's Commission. The BP workers' assembly has also ensured the bank is profitable and stable. In 2012 the BP earned $74 million and boasted a triple-A rating from Fitch. In doing so the BP anticipated providing about $820 million in consumer and development credits in 2013 – which is significant for this small country. While not a state-owned bank the public BP offers important governance lessons for participatory, democratized, alternative forms of financing for development.

These brief case examples demonstrate that SOBs are historically specific institutionalizations of power and class that differ according to context – not the timeless and invariably 'bad bureaucrat banker' myth suggested by neoclassical theory. There is great real world diversity in cases of state bank ownership and control, and evidence-based policy-making should not presume particular outcomes.

Myth Seven: Small is beautiful

International financial and development institutions, together with many governments, have embraced microfinance schemes as a new form of financial access and inclusion seemingly able to unleash individual entrepreneurial drive and developmental forces. Framed in this way microfinance fits well with neoliberal developmental strategies. The World Bank champions it because it leaves credit assessment and allocative decisions to the private sector (World Bank 2001, 67; 2012a, 103). The only role for the state is to enable these new credit markets.

For many scholars, however, the benefits of microfinance have been grossly oversold and misrepresented. Not only do microcredit schemes fail to offer a silver bullet for development but its various disciplinary mechanisms create new community and gendered debt problems (see Bateman 2010; Duffy-Tumasz 2009; MacLean 2012). Microfinance often embeds and deepens pre-existing unequal social relations of gender, power and class between finance capital and the poor, workers and peasantry (Soederberg 2013; Weber 2004).

Viable state-owned banking alternatives for small-scale lending exist, which provide financial access without the highly exploitative practices of microfinance institutions. As a Bank for International Settlements report acknowledges, in emerging markets as diverse as Argentina, Brazil, Russia and Thailand only the "state-owned banks are willing to serve customers in remote areas" (Hawkins and Mihaljek 2001, 15). Case study research supports this claim. In Brazil the SOBs have taken a lead in increasing access to rural and remote areas (von Mettenheim 2010, 24, 49). In China, financial authorities have encouraged state-owned small and medium-sized rural financial institutions to extend access across the country, prioritizing villages and towns (CBRC 2010, 47-8). In Turkey the state-owned agricultural bank, Ziraat, has been present in small towns and rural villages for decades (Marois and Güngen 2013). Likewise, state-owned post office banks, which accept deposits but provide fairly basic financial services, can help offer financial services without the problems associated with microfinance schemes. They provide accessible money transfer services, a safe haven for savings, and banks that can help fund fiscal policy. Examples exist in Benin, Burkina Faso, Gabon, Mauritius, Tanzania and South Africa, including a new state-owned postal bank that opened in the spring of 2013 in the Congo (*AFP* 2013). Even advanced economies such as the UK and New Zealand have set up postal banks to help deliver banking services to the poor and to rural areas (Hawkins and Mihaljek 2001, 15).

Myth Eight: State-owned banks put public revenues at risk

> Banks have proved themselves to be the most hazardous economic institutions known to man… It is tempting to conclude that banks should simply be abolished. Unfortunately, that is unlikely to be possible. Banks seem to be necessary. (*The Economist* 2003)

All banking activity involves risk of monetary loss since it usually implies lending now in order to be repaid later with interest. This is true for both state and private banks. Under neoliberalism, however, private banking has become much more volatile, and when crises strike the risks tend to be paid for with the public purse: "a now generalized process by which state authorities diffuse the worst and most costly financial risks onto workers in society through the state apparatus" (Marois 2014). While SOBs have at times put public revenues at risk, so too have private banks, and at a far greater magnitude as the 2008-2009 crisis exemplified.

An IMF report on systemic banking crises lists dozens of them since the 1970s, some of which involved SOBs. Country cases include, but are not limited to, India in 1993, Costa Rica in 1994, Vietnam in 1997, and China in 1998 (Laeven and Valencia 2008, 32-49). Brazil and Turkey also experienced banking crises that implicated their SOBs (Marois 2011; von Mettenheim 2010). The IMF report emphasizes that SOBs are "common in crisis countries, with the government owning about 31 per cent of banking assets on average" (while failing to underscore that the other 69 per cent are, of course, private assets) (Laeven and Valencia 2008, 19). The frequency of banking crises has increased dramatically with neoliberal restructuring and privatization: from 1970 to 1980 there were four banking crises worldwide, but this increased to 120 from 1980 to 2007 (not including the current crisis) (Laeven and Valencia 2008, 56). These crises, due disproportionately to private banking, cost the public purse on average 13.3 per cent of GDP to resolve, with authorities, on average, only recovering 18.2 per cent of the socialized costs (Laeven and Valencia 2008, 24). State banks are not without risk, but it is private banking in general and its aggressive profit orientation that are the real threats in a neoliberal era.

The US sub-prime crisis and subsequent global financial meltdown is a case in point (McNally 2011). Some estimates put the overall cost of the crisis, including lost output, at nearly $13 trillion (Khimm 2012). The hardest hit countries were the advanced economies of the US and UK (followed by Iceland and then Italy, Portugal, Ireland, Greece and Spain), which are dominated by private banks. As Robin Blackburn writes: "The banks' heedless pursuit of short-term advantage led to the largest destruction of value in world history during the Crash of 2008. Government rescue measures were to offer unlimited liquidity to the financial sector, while leaving the system largely intact" (2011, 35). As even the Governor of the Bank of England, Mervyn King, was to recognize in a 2011 address to British MPs, "[t]he price of this financial crisis is being borne by people who absolutely did not cause it" (Inman 2011). The increasingly popular phrase 'privatizing profits, socializing risks' comes to mind.

Myth Nine: State banks are bad for development

In a recent review of the global financial sector the World Bank (2012a, 101) argues: "The empirical evidence largely suggests that government bank ownership is associated with lower levels of financial development and slower economic growth. Policy makers need to avoid the inefficiencies associated with government bank ownership." This view is held irrespective of the recent global

failure of private banks (Demirgüç-Kunt and Servén 2010).

Yet outside neoliberal circles the "evidence that the prevalence of state ownership in the banking sector conspires against its ultimate development… appears to be weaker than suggested by previous studies" (Levy Yeyati et al 2007, 237-38). Studies on India and Turkey, for example, both found that SOBs are the more efficient banks (Aysan and Ceyhan 2010; Bhattacharyya et al 1997; Kök and Ay 2013). Moreover, many of the highest growth emerging economies over the last decade also have among the highest levels of state bank ownership (e.g. Brazil, Russia, India, China and Turkey). The archetypes of modern liberalized private finance, the US and UK, by contrast, have been mired in crises and economic stagnation. This is not to suggest SOBs are a cure-all for economic woes but simply to dispel the myth that SOBs necessarily lead to underdevelopment and therefore should be privatized with all possible haste.

There are further reasons why SOBs are in fact quite good for financing public services and development. These include countercyclical lending at times of crisis; support for the public sector and public infrastructure; and serving as countervailing force against the power of global finance.

Countercyclical lending

In times of crisis, private banks tend to withdraw lending to reduce risks and protect profits (deleveraging), thereby worsening the crisis. That is, private banks are pro-cyclical. By contrast, SOBs are able to and often do lend counter-cyclically during a crisis (Hawkins and Mihaljek 2001, 15). Even the World Bank had to begrudgingly accept this, as the private banks withdrew credits during the global financial crisis and the SOBs stepped in to offset the impact (World Bank 2012a, 102).

A country's SOBs also facilitate counter-cyclical trends through their holdings of Treasury bonds (i.e. financing the government), which tend to be more stable than when the private sector holds public debts (von Mettenheim 2010, 51). This helps hold down public debt costs and extend the terms. Even a Federal Reserve Bank of Boston report recognizes that, while not without complications, owning a state bank can be useful for public policy, especially when economic downturns, instability and budget shortfalls arise (Kodrzycki and Elmatad 2011, 18). That SOBs can effectively lend in difficult times has gone a long way to reviving support for them in development circles.

Stable long-term support

State banks have the advantage of being able to provide stable, long-term financing without the immediate short-term profit imperatives that private banks face. As such, SOBs can provide longer term credit to fund infrastructure and social investment than private banks as well as providing a powerful fiscal advantage by making use of the fractional reserve system (i.e. bank lending over cash reserves held) (von Mettenheim 2010, 11, 21-22). Put otherwise, SOBs can help realize public financing of development strategies at 10 per cent of the fiscal cost compared to direct funding. There are many examples.

The 100 per cent state-owned *Banco de Costa Rica* (BCR) is the most profitable of the country's three SOBs (BCR 2011). The BCR mission statement is to promote "social development, competitiveness and sustainability by offering customers a public financing conglomerate with innovative and excellent services." The BCR has an explicit social responsibility policy and actively funds projects of national economic interest. For example, its current projects include the Garabita Thermical for electricity generation, a hydroelectric station, and other large infrastructure projects. Together with the two other SOBs, the *Banco Nacional de Costa Rica* (BNCR) and the *Banco Crédito Agrícola de Cartago* (Bancrédito), they offer a safe haven for domestic deposits and mobilize their domestic savings-based funding for the public good. In 2008 the government mobilized the SOBs toward more explicit developmental goals through the Law to Create a System of Banks for Development (No. 8634). The Law requires the SOBs to dedicate resources to a 'mega fund' for sustainable finance. Bancrédito is charged with administering this fund, which collectively supports state fiscal and developmental policy.

In the United States, much has been made since the 2008-2009 crisis about the Bank of North Dakota (BND, established in 1919), the only US state with a SOB. The BND emerged in response to the monopoly power of large turn-of-the-century financial institutions and was mandated to provide affordable credit for local farmers, ranchers and businesses (Kodrzycki and Elmatad 2011, 4-5).[2] The BND continues to service these sectors, but it is also integrated into North Dakota's public sector and provides certain services. The BND assets are backed by the state and authorities are required to deposit all public revenues in the bank. About two-thirds of the bank's earnings, in turn, flow back into the state contributing about 0.75 per cent of revenue (Kodrzycki and Elmatad 2011, 9). The state's legislature guides the BND on important budget decisions such as salaries, employee numbers, major projects, and so on. The bank's public orientation thus includes offering low-interest student loans, supporting public policy, and periodically helping to fund local governments by purchasing municipal bonds. The BND has even been mobilized to provide emergency support to the community in the aftermath of natural disaster (for example, during the flood of 1997). As the financial crisis was unfolding in the US, the BND increased loans and offered letters of credit to local banks to support liquidity from 2007 to 2009 (Kodrzycki and Elmatad 2011, 4).

In India the National Bank for Agriculture and Rural Development (NABARD, established in 1979) is a fully state-owned development bank mandated to facilitate credits for agricultural and rural development and to support related rural economic activities (World Bank 2012b). With assets of around $23 billion in 2009, the NABARD has a nationwide presence (28 regional offices). The NABARD has an intermediary role helping to finance other smaller lending institutions in rural areas while assuming a public regulatory role over client banks and other cooperative banks.[3] The NABARD also supports public infrastructure investment and collaborates with other government agencies in the planning of rural development. Some of NABARD's infrastructure projects since 2011 include: managing the Rural Infrastructure Development Fund (which targets irrigation, rural roads and bridges, health and education, soil conservation, drinking water schemes, flood protection, and forest management projects); establishing the new Infrastructure Development Assistance credit program; and managing the Watershed Development Fund. NABARD provides these major initiatives with the long-term

stable financing they require.

The Brazilian federal SOBs have helped to fund public policy as well. Lending to the federal government (excluding SOEs) reached more than BRL 8 billion as the global crisis spread in 2008-2009. Lending to state and municipal governments has averaged about BRL10 billion per year since 2008 (von Mettenheim 2010, 34-37). Historically, the state-owned commercial bank, Caixa, provided infrastructure support (water, sewer, transportation) for municipalities (von Mettenheim 2010, 128-130). The better known public development bank, *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES), is the federal government's principal instrument for investment policy and the distribution of long-term financing (World Bank 2012b). As a development bank, it does not accept public deposits but draws resources from government pension funds and official savings funds. For this reason, BNDES has access to a low-cost funding base that in turn enables BNDES to offer below-market interest rates for agriculture, construction, industry, services, mining, infrastructure, energy, as well as to other SOEs (von Mettenheim 2010, 49).

In China, the SOBs are at the heart of financing infrastructure and development (debt from capital markets is comparatively small). As in many emerging economies, domestic deposits provide the chief source of capital (about 70% of resources). The government finances development both directly and indirectly. For the direct funding of infrastructure, the China Development Bank (large projects) and the Agricultural Development Bank of China (agricultural and rural projects) have been especially important (CBRC 2010, 33; Chiu and Lewis 2006, 202). The China Development Bank, for example, provided the long-term capital for both the massive Three Gorges hydroelectric project and China's new high-speed railway system (Martin 2012, 17). In 2010 alone it lent over $66 billion to develop coal, electricity, oil, telecommunications, transportation and public infrastructure. The China Banking Regulatory Commission (CBRC) can also help direct credit regionally for development purposes. For example, in 2010 the CBRC directed SOB resources to the western region of China to mitigate risks and promote development (CBRC 2010, 46). Authorities also employ indirect policy measures to finance development (Chiu and Lewis 2006, 203-204). Indirect funding policy tools include managing the exchange rate, setting growth targets for the money supply, and using differential reserve requirement ratios (RRRs) to help channel funds into preferential sectors (Turner et al 2012). The government uses these indirect mechanisms, among other reasons, to direct large credits toward the SOEs and state infrastructure projects. The fact that ownership and control remain largely in the hands of government authorities also means that these policy tools (direct and indirect) are more effective in their implementation.

Countervailing political force

Political battles for control over a country's money, financing, and debt have figured prominently in many struggles for national liberation, revolution and development. The nature and outcomes of these struggles, of course, vary considerably. However, most share some collective goal of achieving

greater domestic political autonomy by minimizing the power of private financial capital. Some of the most famous cases include the Russian, Chinese and Cuban revolutions (see, respectively, Lenin 1917; Chiu and Lewis 2006; Central Bank of Cuba[4]). Lesser known, but likewise inspired, struggles were seen in Costa Rica (1948) and Vietnam (see Brenes 1990; Spoor 1987). Such examples are not relegated to history, however.

Venezuela offers a different portrait of a society actively seeking to craft an alternative banking system, albeit within the constraints of neoliberalism. In 2001 Venezuela created a new development bank, the *Banco de Desarrollo Económico y Social de Venezuela* (Bandes) to help finance public sector entities, support infrastructure building, and offer technical advice with the goal of creating more equitable regional development (World Bank 2012b). The government has also increased state-owned commercial bank assets from under 12 per cent in 2008 to over 33 per cent in 2010. This began with the Hugo Chavez administration's nationalization of the Bank of Venezuela on July 31, 2008. The political intent was to subordinate the bank's operations to national developmental strategies and to strengthen the 'Bolivarian revolutionary' process by bolstering domestic monetary capacity and the public financial sector, simultaneously weakening the power of foreign financial capital.

A corruption scandal among private bankers in late 2008 led to the failure, liquidation and state takeover of eight other smaller banks. Four of these were merged into the state-owned *Banco de Fomento Regional Los Andes* (Banfoandes) to craft a new powerful public investment bank, the *Banco Bicentenario* (controlling about 20 per cent of deposits). The bank supports alternative productive processes and, in particular, more accessible housing credits. The SOBs also fund the central government budgeting process by purchasing state bonds and, by institutionalized mandates, lending to the public sector. The Venezuelan example is significant because it illustrates the importance of political will for an alternative vision of development. Social and political forces understand the government's move into banking as necessary to mitigate the power of financial capital in Venezuela and as a way to mobilize domestic resources for the Bolivarian social developmental process.

The so-called BRICS Bank is an even more recent initiative to create a multilateral state-owned development bank (March 2013). Perhaps unsurprisingly, given their capacity with state banking and experiences with international financial institutions, the BRICS countries (Brazil, Russia, India, China and South Africa) envision this new bank as a counter to the power of IFIs and foreign financial capital by supporting local infrastructure and sustainable development, trade and financial stability among developing economies. The initial agreement fell short of dedicating startup capital, although media reports suggest that the opening injection will be around $50 billion and that the BRICS Bank agreement should be finalized in early 2014 at the Sixth BRICS Summit in Brazil. In their wide diversity, then, SOBs across the globe are envisioned positively and used in progressive ways to fund important development projects.

Conclusion

Neoliberal mythology portrays state-owned banks as bad for development, unmediated by history, circumstance or popular democratic aspirations. Privatization is sold as the only true improvement. But when this proves unworkable in reality, IFIs and neoliberal advocates push for market-oriented restructuring in attempts to make SOBs operate as if they were private, profit-maximizing institutions. Both strategies have been successful in neoliberal terms, as SOB numbers have fallen and SOBs have been corporatized.

Yet important SOBs remain in operation globally. Contrary to neoliberal mythology, there exists remarkable diversity as well, as each state bank is an institutional crystallization of historical and contemporary social relationships of political economic, and class relationships of power. Understood in this way there are no necessarily good or bad SOBs. Individual state banks must be assessed according to criteria relevant and valid for each particular case, while accounting for overarching structural forces such as neoliberalism. Thus, by jettisoning the a priori and negative hypotheses of neoclassical economics we can recognize that there is much to commend in SOBs as potential and real progressive alternatives to privatization and neoliberalism. Not least among these reasons is because state banks, unlike private banks, can be released from profit imperatives and directed to serve the public good. Saying this does not gloss over the problems SOBs face, but it does suggest that societies can address such challenges democratically and with an open view to the role people and state institutions can play in determining the collective nature of finance.

The stakes could not be higher. Unlike any other sector of the economy, banking and finance are key to all modern forms of development, capitalist or socialist. Non-private and democratized financial coordination capacity must figure prominently in the pursuit of any alternative developmental strategy (for strategies of innovation and defence, see Marois and Güngen 2013). More to the point, there is no hope of creating a structural alternative to neoliberalism without first gaining democratic control over society's money resources. At this particular conjuncture, state-owned banks offer the most viable alternative.

Endnotes

1 The following comes from the Banco Popular website, including its audited financial statements and president's directives; see https://www.popular-enlinea.fi.cr/bpop/ (accessed November 26, 2013).

2 Also see www.publicbankinginstitute.org.

3 See www.nabard.org.

4 Go to www.bc.gob.cu.

ABOUT THE AUTHOR

Thomas Marois is a Senior Lecturer of Development Studies at SOAS, University of London and author of the book *States, Banks and Crisis: Emerging Finance Capitalism in Mexico and Turkey* published by Edward Elgar in 2012. His research currently focuses on alternatives to the private provisioning of finance for development in emerging capitalisms..

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