

Dear Laure Garcia,

I would like to make a submission on this topic in a personal capacity.

I will be brief in my remarks as I know your department is already aware of models of public banking and in addition I have no doubt others will be using this consultation process to make very detailed submissions.

The model I support

I think it would be beneficial for Irish society and its economy if we can bring into being a series of local public banks modelled on the successful German Sparkassen banks, with necessary adaptations.

To be clear about how they might work I have pasted below (just to limit my submission to one document) an article that I wrote late last year on the topic. This was published in Village magazine in November.

I would make the following additional points:

- It has never made sense to me that a society should place a vital social function like money in the hands of private businesses to be run primarily for their benefit (profit maximisation). Public banks would have the good of the local economy as their primary focus.
- There is an undoubted difficulty for small business in obtaining credit. Public banks would be an additional source of business finance.
- Existing banks are gradually withdrawing services from smaller communities and loan decisions are becoming more centralised. Public banks would be locally based and more in a position to understand the actual businesses seeking credit.
- Above all **there is really nothing to lose by facilitating the setting up of a series of local public banks.**

Thank you for the opportunity to add my voice to the cause of public banks and I look forward to following the issue.

Yours Sincerely

John Bolger

Transcript of article published in Village magazine on Public Banks

BANKS TO LOVE

Most of us dislike banks, some more than others. And we do so for different reasons, for example because they treat us so badly when we deal with them. Or more generally because of the economic devastation they have inflicted on society. And we feel there is very little that can be done about the current structure of banking services in Ireland.

But the really wonderful news is that right now there are moves afoot to establish a number of new regional “public” banks, with the specific primary purpose of fostering regional economic development. Now isn't that a magnificent objective for a bank instead of maximising shareholder value?

These type of public banks have existed in Germany for 200 years (they're called Sparkassen) where they have built up extensive expertise and they play a huge role in financing small and medium sized businesses, which are the backbone of the country's industrial success. And now the international consulting arm of these German public banks, the SBFIC (never mind the acronym), is reaching out to countries such as Ireland to help set up similar banks here. This can only be good news for small Irish businesses many of whose development are curtailed because it is so difficult to borrow money.

The new public banks (about 10 around the country) will have a number of distinctive features. First, each will have a legal structure such that it is not actually owned by any shareholders and also with a legal structure that prohibits the sale of the bank. The trustees of such a legal structure might be, for example, the regional local authorities. This will avoid the pressure on the bank to make quick profits based on risky lending in order to pay dividends. Also future governments or the trustees will not be able to sell them off to raise revenue. Second, and very importantly, each regional public bank will have a “public mandate”. Its main objectives will include: the provision of finance to small and medium sized business; provision of normal banking services to everyone in their region; and the promotion of savings. Note no mention of profit maximisation. Of course a public bank will have to be viable and operate in a sustainable way. But annual surpluses will be used partly to fund social and cultural projects in the region with the balance retained to strengthen the bank's balance sheet.

A third and interesting feature of the proposed public banks is that each will be limited to its own region. For example, in the south east one public bank might cover the counties Kilkenny, Carlow, Wexford and Waterford. Its operations would be confined to those counties, taking deposits and lending only within that catchment area. This “regional principle” has important implications for regional development. Depositors will know that their savings are helping to finance proper businesses in their own area rather than some speculative development in God knows where.

Public banks have a lot in common with credit unions. Both focus on the local population and the local economy. It is anticipated that they will operate in close co-operation and possibly share services such as IT. Public banks will operate somewhere between credit unions and commercial banks. They will lend to business, farmers, environmental projects and to individuals. It is expected that loan amounts will be in the range €15,000 to €500,000. For the last three years Irish Rural Link (which represents about 600 community groups around the country) has been raising awareness of public banks. It has persuaded government departments and political parties of the merits of promoting such a new banking force. On 16

November next the RDS in Ballsbridge will host a major conference entitled “A New System of Banking for SMEs”, dealing with the topic of public banks and how they would benefit this country. Speakers will include Seamus Boland, CEO of Irish Rural Link, Heinrich Haasis, chairman of SBFIC, mentioned above, as well as notable Irish Academics. Admission to the conference is free but must be booked through the RDS website. Just search the site for “banking”.

It is not going too far to say that the setting up of a number of new regional public banks will represent a new dawn for our economy.

The writer is an accountant and has, until recently, lectured in the Business School of IT Carlow. He was formerly chairman of the Housing Finance Agency.

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John Bolger