

Could Prefectural Banks Modelled on the Bank of North Dakota Aid Regional Economic Growth in Japan?

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North Dakota is the only state in the USA which has a State Bank, the Bank of North Dakota (BND), established in 1919. North Dakota is also the only state in which the economy is growing, unemployment is low, and the state government has a large financial surplus. Since most other U.S. states are in economic crisis, there is a growing movement to establish State Banks modeled on the BND in other states, in which state governments have record fiscal deficits, and are cutting public services.

Among the rules governing the BND, important ones include that the state government keeps all of its funds in the State Bank; it invests only within the state; and most of its loans are made in partnership with private banks. This latter rule greatly reduces the risk of its loans becoming non-performing.

It is proposed that establishing Prefectural Banks in Japan, modeled closely on the BND, could help to revive regional economic growth, which is very weak due to decades of declining local populations. In recent years the central government in Tokyo has been reducing its direct intervention in regional economies and giving prefectural governments more autonomy. It is hoped that those with detailed local knowledge and connections will be more effective in stimulating local investment and innovation than officials based in Tokyo. Establishing Prefectural Banks which use fractional-reserve banking to expand local economic activities, like the BND, would seem to match this policy well.

The counter-example of the recently established New Tokyo Bank is discussed, including the reasons for its lack of success to date. It seems possible that following the successful practices of the BND could help the New Tokyo Bank, and so Tokyo businesses and private banks, to prosper. It is suggested that, at a time when central government finances are under severe pressure due to its heavy debt load, establishing State Banks in the USA and Prefectural Banks in Japan could be a politically feasible step towards improving the current over-centralised financial system. They could also be a step away from the present situation in which the banking system receives the benefits of seignorage, which in the past was recognised as the privilege of the government (and earlier, the sovereign).