

Bank of North Dakota—a Commie plot?

By Elisa Barwick

The only functioning US public bank, the Bank of North Dakota, is recognised as a beacon of success for state banking, but it wasn't always so.

North Dakota was largely settled by farmers, but with a sparse population the state was a banking desert. Local farmers were at the mercy of big banks in financial capitals in neighbouring states. In 1915 a political movement called the Nonpartisan League (NPL) was born at the hands of farmers A. C. Townley and Fred B. Wood. The idea was to be completely independent of Democratic, Republican or Socialist parties. Over time 100,000 members were recruited and within four years the League controlled state government. The central proposal of the League was to create a state-wide network of state-run rural credit banks and infrastructure vital to farming, including packing and cold storage plants, grain elevators and flour mills. They also established mandatory state-provided hail insurance and regulations over farming.

While in the early days League organisers talked about “a system of rural credit banks operating at cost”, it was not until 1918-19 that a booklet was published calling for a “State Bank which will act in a similar capacity for our state as does the Federal Reserve and Farm Land Banks.” Enabling legislation passed the state legislature in 1919 and a three-member Industrial Commission set up the bank, hiring a banker with 20 years commercial experience as manager. The bank opened its doors with 46 employees on 28 July 1919.

As Alvin S. Tostlebe wrote in a history of the Bank of North Dakota, the bank's purpose “was to furnish ... credit to the public primarily through the medium of the local banks which would rediscount with the Central Bank; it was to be intimately connected with the fiscal operations of the state, for it would have charge of the sale of state securities and would be the sole legal depository of all public funds.”

The bank and its founders soon attracted negative attention. As the BND Story website (thebndstory.nd.gov) states: “The idea that simple farmers could chart their own destiny and win honest election to the highest offices in North Dakota appalled establishment institutions not only in North Dakota but across the United States. It was unthinkable that farmers had the intelligence, the political instincts and talent, and the organisational skills to change the trajectory of life on the northern Great Plains.” The Dayton Press in Washington State compared the farmer founders to “the Bolsheviks in Russia”, including for their apparently lax bathing habits. The BND website summarised: “The most forceful of the attacks on the Nonpartisan League were that it was the vanguard of a socialist movement designed to imitate in America the goals and methods of the Bolshevik Revolution in Russia, and that its leaders



Illustration from 20 May 1919 edition of *The Nonpartisan Leader*. Photo: thebndstory.nd.gov

showed disloyalty at a time of international emergency. The NPL endorsed the American war effort in World War I, but reserved the right to question the aims and actions of the United States.” A campaign to overturn the BND launched by the Independent Voters Association was pre-empted by the North Dakota Governor with a state-wide referendum which re-affirmed the BND by a majority of 23,256 votes.

The League was perhaps an imperfect instrument, wrote the BND Story site, because with key founder A.C. Townley being a socialist, “it was born out of the Socialist Party, which most North Dakotans did not support”. However its motivation was clear—addressing the exploitation of North Dakota farmers and workers by “out-of-state entities”. The farmers got their funding and their infrastructure. “The farmer citizens of North Dakota did not really seek a socialist economy; they merely wanted redress of grievances.” But some were convinced the League was “flirting with authoritarianism”.

With a mission to improve the lives of the local people rather than make profits, the bank provided credit at a lower than commercial rate of interest and with a more flexible collateral protocol. Wrote BND Story: “The very existence of the Bank of North Dakota would put traditional commercial lenders and other capitalist entities on notice that the people of North Dakota were prepared to take matters into their own hands and engage in bold social experimentation to improve their lives.”

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Nevertheless, attacks on the League and its bank continued: “NPLers were accused of being socialists, communists, anarchists and losers who preferred to seek government handouts rather than do the hard work of succeeding at farming. League supporters, especially political candidates, were subject to intense commercial discrimination in their hometowns.”

The constitutionality of the BND was contested in the US Supreme Court in April 1920. During proceedings, one Justice demanded to know, “Why shouldn’t the state operate a bank? ... why should not the state go into business?” He didn’t receive adequate reason and the court ruled in favour of the League.

The state-controlled Industrial Commission was also the subject of rabid attack. North Dakota’s Independent Voters Association and Minnesota’s Commission of Public Safety decried the “un-American and undemocratic philosophy”, as one historian put it, of such state control. They preferred control by unelected, private administrators! As BND Story commented: “If creating a state-owned bank was un-American, what about Alexander Hamilton’s Bank of the United States?”

These agencies worked with financial interests to boycott the bank and reduce it to a farm loan agency only. The show-down came in October 1921, when the Governor of North Dakota and the other two Industrial Commission members were “recalled” (ironically, a measure implemented by the



The Nonpartisan League’s plans for state banking and vital economic infrastructure were hotly contested. Says the BND Story website: “North Dakotans did not want to be labeled as radicals, subversives, or members of the Socialist Party, but—it turns out—they were not afraid to embrace a handful of ‘socialist’ solutions to their chronic economic problems.” Photo: thebndstory.nd.gov

League to allow for direct democracy) and replaced, but the people rejected a measure to abolish the bank, and it survived. These actions temporarily damaged the bank’s reputation, but today its success is widely recognised and there are no serious efforts to remove it. The bank allowed North Dakota to escape the worst of the 2008-09 and COVID-19 recessions; during 2020 the bank tripled its loans to the commercial and agriculture sectors, as other states tightened the strings. There are almost six times as many banks in North Dakota, per capita, as in the entire country, and the state budget has never gone into the red.