

The background of the slide is a collage of US dollar bills, including a \$100 bill and a \$20 bill, rendered in a light green, semi-transparent style. The bills are slightly blurred and layered, creating a textured effect.

How California Can Create Its Own Credit: OWN A BANK!

Ellen Hodgson Brown, J.D.

**December 9, 2010, 6:30-8:00 PM
Marin County Civic Center, Room 329
3501 Civic Center Drive, San Rafael, CA**

CALIFORNIA DREAMING

Once the world's 8th largest economy – visionary,
progressive – leading producer in agriculture,
industry, technology, entertainment . . .



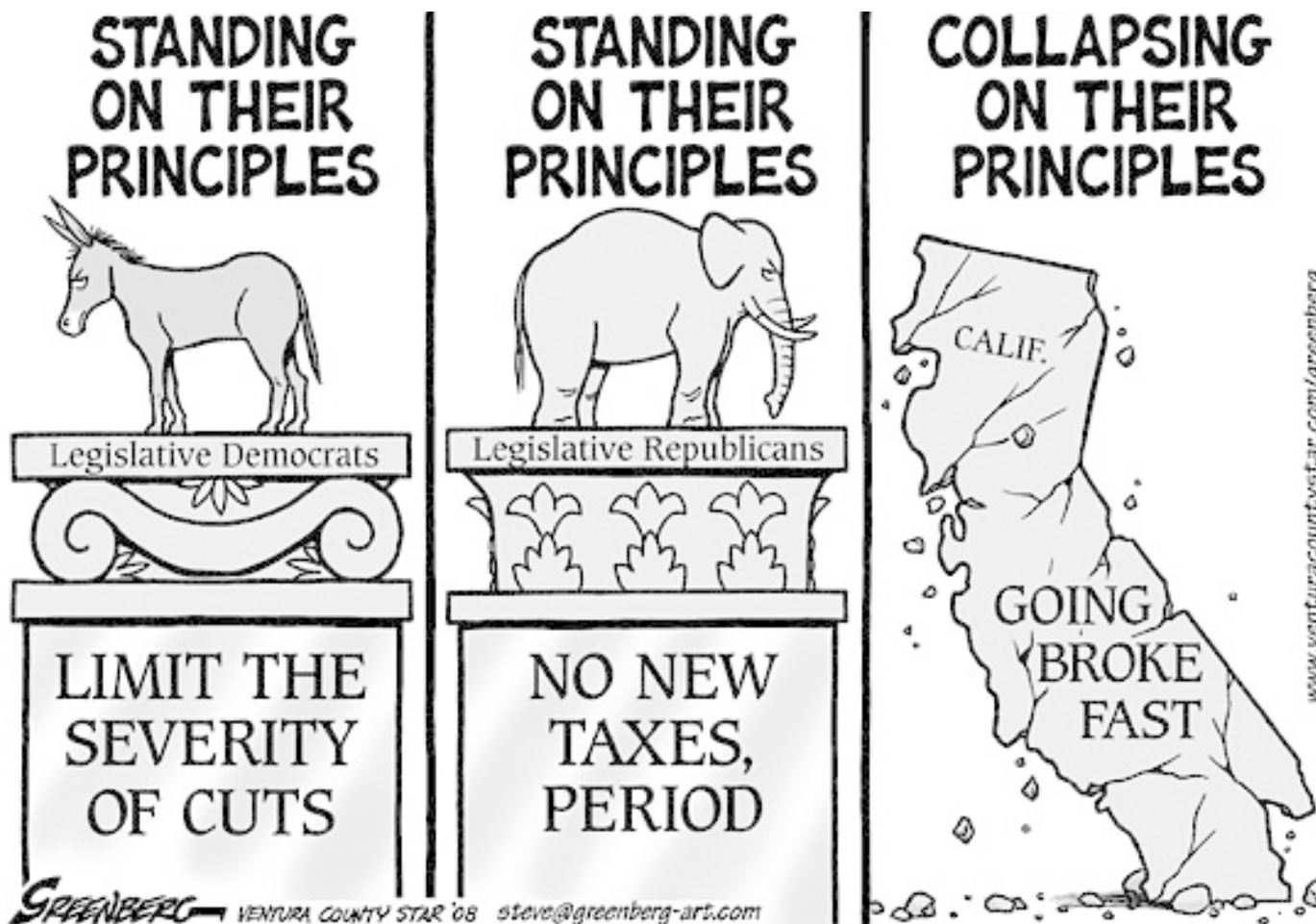
California is now a modern-day Hooverville, vying with Illinois as the most insolvent state.



In July 2010, California began a new fiscal year with a \$19.1 billion deficit. The projected deficit for 2011-12 is \$25.4 billion.



The choices being debated are all unacceptable -- slash services, raise taxes, or sell public assets.



Everything is up for sale. That could work this year, but what do we do next year?



Cities have resorted to panhandling. Rainy day funds are depleted, with no funds for emergencies.



Tuition hikes are making “public” universities unaffordable.

- UC BERKELEY:
Tuition is now
#12K/year.
- In the 1960s, it was
FREE.



Or so I remembered it. Prof. Gray Brechin, UC Berkeley Dept of Geography, confirms. His commencement speech, 2009:

- “When I tell students that when I came to Berkeley in 1967, there was virtually no tuition, you can hear their jaws hit the floor. I took it for granted then; no one told me that I was the unwitting beneficiary of New Deal idealism . . .



“ . . . [An] alternative universe is all around us, the enormous legacy of public works created by New Deal agencies in only a few brief years. . .



“By putting millions of Americans to work doing everything from laying sewers and running WPA health clinics to painting murals and planting forests, these public works began to lift the economy out of the last Great Depression.



“[They] built over eleven thousand schools and improved tens of thousands more. . .



“In 1960, aging New Dealers like **Governor Pat Brown** and **UC President Clark Kerr** put in place California’s Master Plan for Higher Education that promised free tuition in the Golden State’s then growing system of colleges and universities, regardless of income.”



Governor-elect Jerry Brown grew up with this vision. We can inspire him with it again.

- Where will we get the money?
- In the same place the Fed got \$9 trillion to bail out the banks . . .



While state economies are floundering, Wall Street is flourishing.



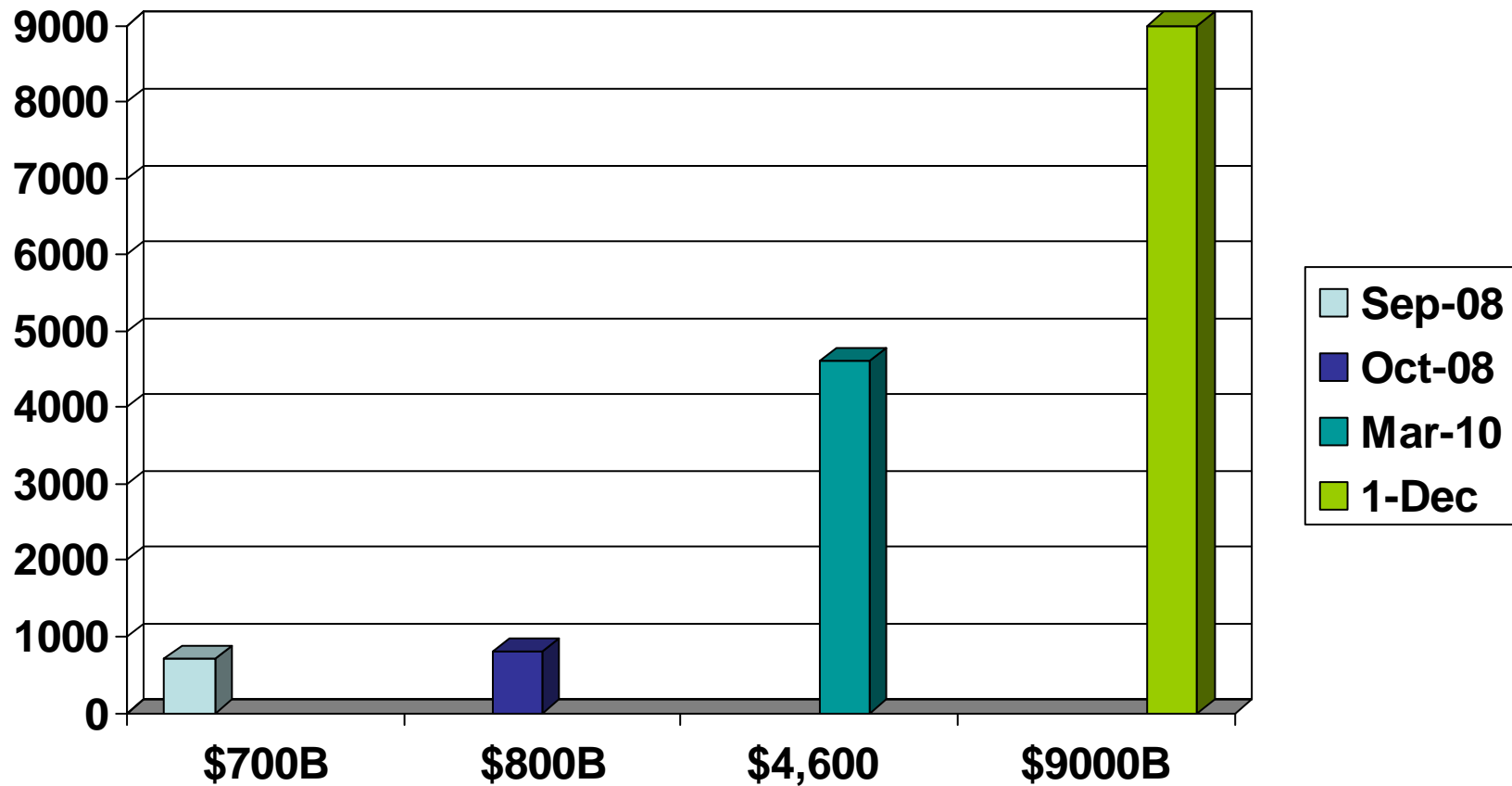
The banks that perpetrated the crisis are being lavished with bailout money; but it isn't making it to Main Street . . .



www.BlackCommentator.com

[Click to view larger printer friendly version of cartoon](#)

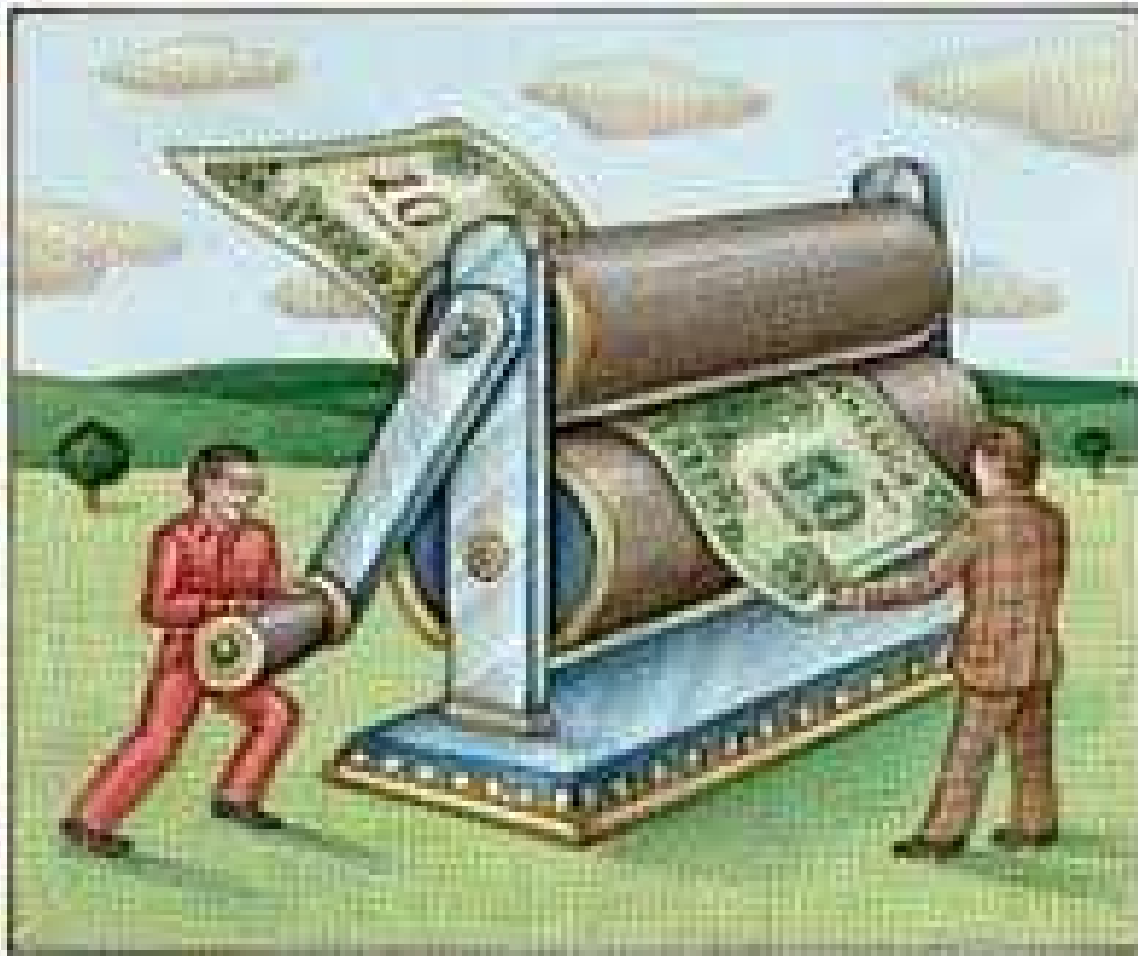
Meanwhile, the bailouts are out of control.



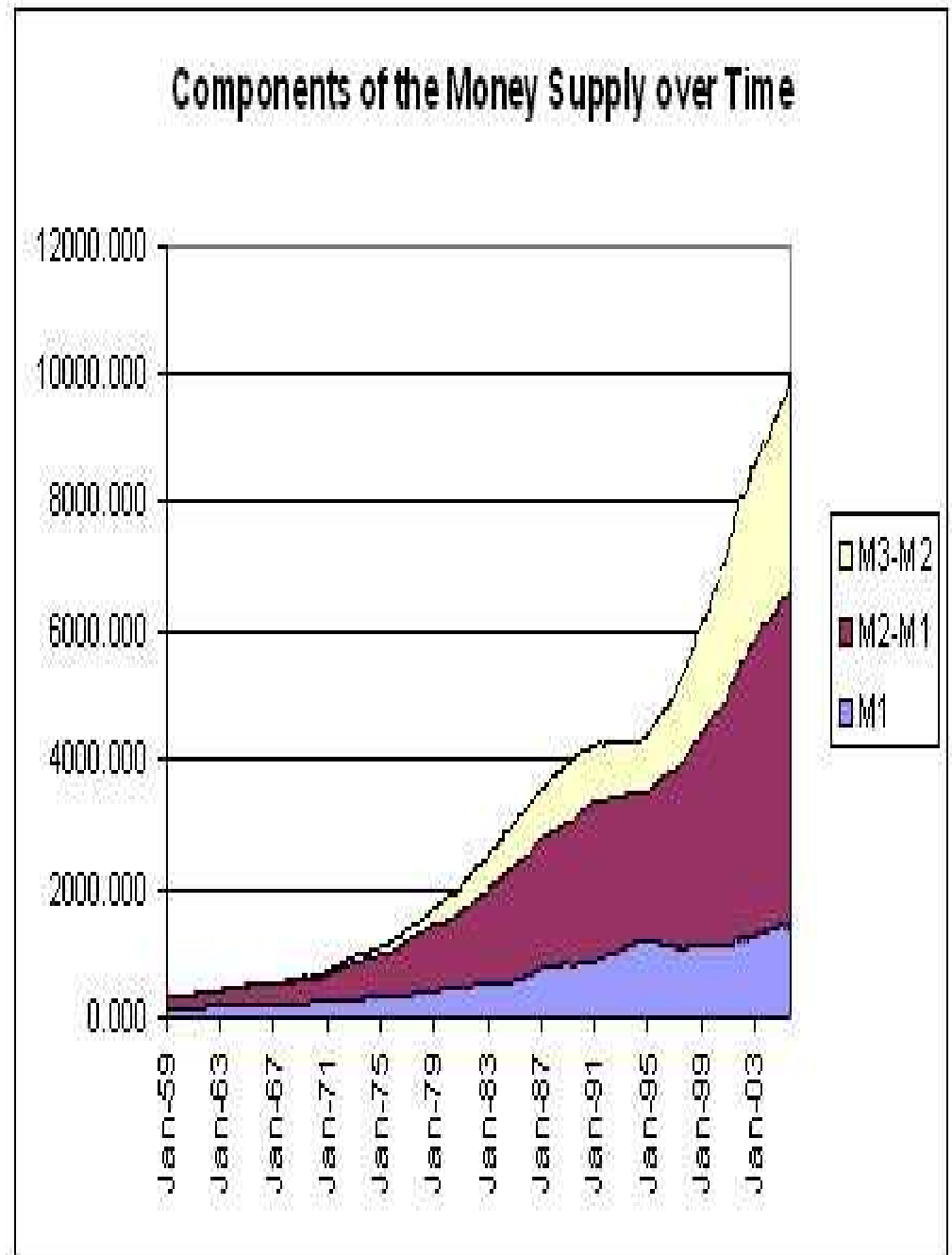
Where did all this money come from, when Congress approved only \$800 billion?



“We make money the old-fashioned way: we print it.”
-- Art Rolnick, former Chief Economist, Minneapolis Fed



- States aren't allowed to print money, but they're allowed to own banks, and banks are allowed to create money on their books.



So said **Wright Patman**,
Chairman of the House
Banking and Currency
Committee in in the 1960s:

“When the Federal Reserve
writes a check for a
government bond *it does
exactly what any bank
does, it creates money, it
created money purely and
simply by writing a check.*”



Treasury Secretary Robert B. Anderson in 1959:

Photo # NH 17324-8N Robert B. Anderson, Secretary of the Navy, 1953-54

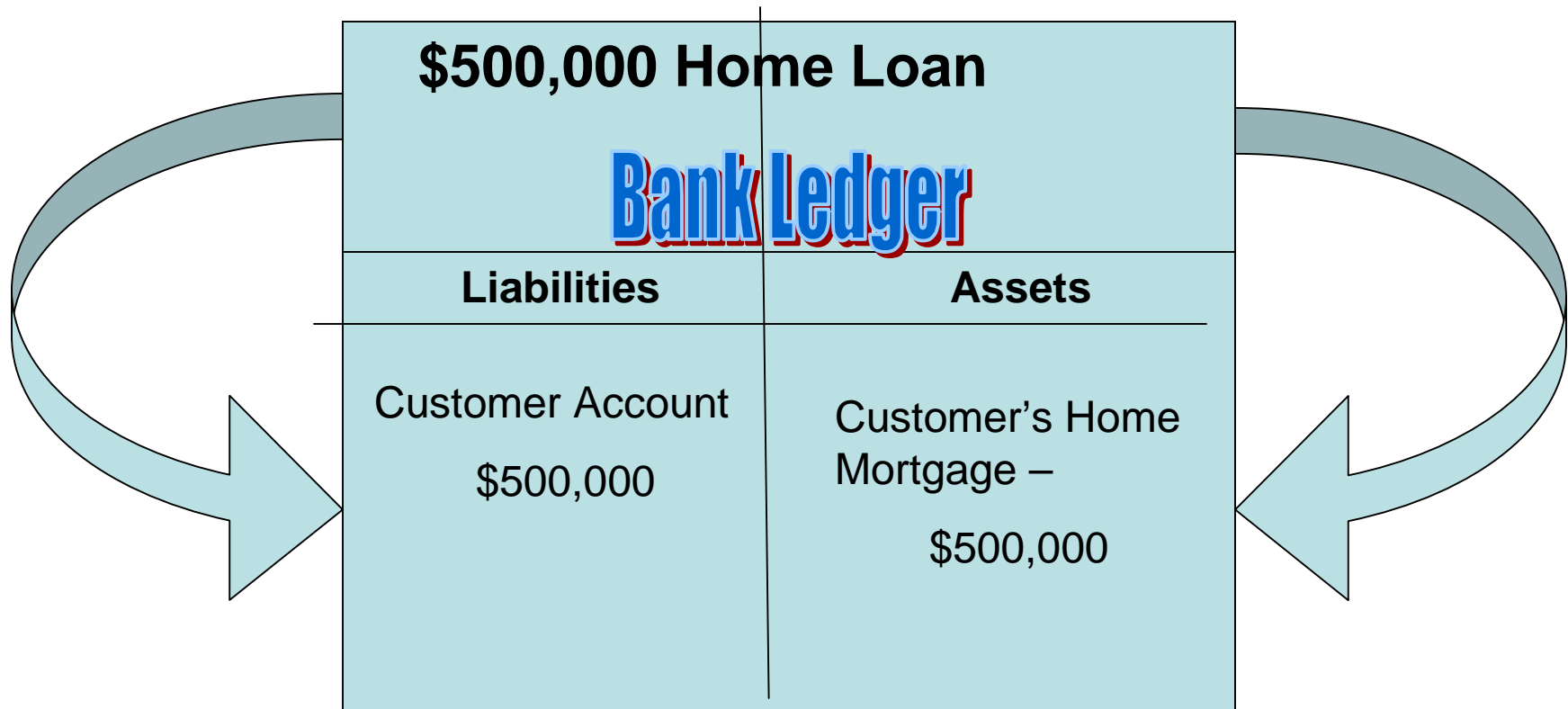


“[W]hen a bank makes a loan, it simply adds to the borrower’s deposit account in the bank by the amount of the loan. *The money is not taken from anyone else’s deposit; it was not previously paid in to the bank by anyone. It’s new money, created by the bank for the use of the borrower.*”

As explained by the Chicago Federal Reserve in “Modern Money Mechanics”:

- “The actual process of money creation takes place primarily in banks.” [p3]
- “[Banks] do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created.
- *What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers’ transaction accounts.*
- Loans (assets) and deposits (liabilities) both rise [by the same amount].” [p6]

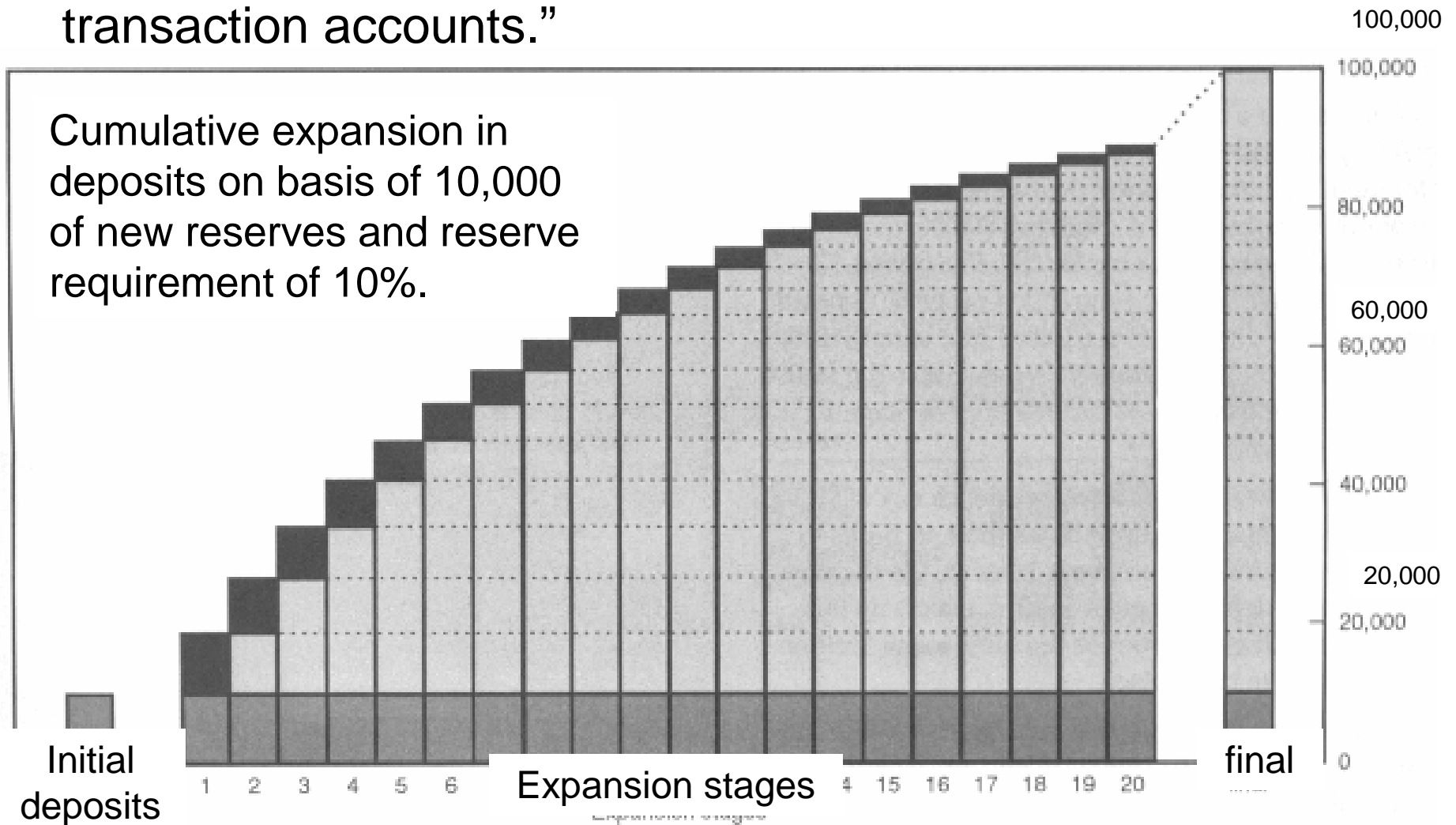
The loan money is created by double-entry bookkeeping.



Net result: 0.

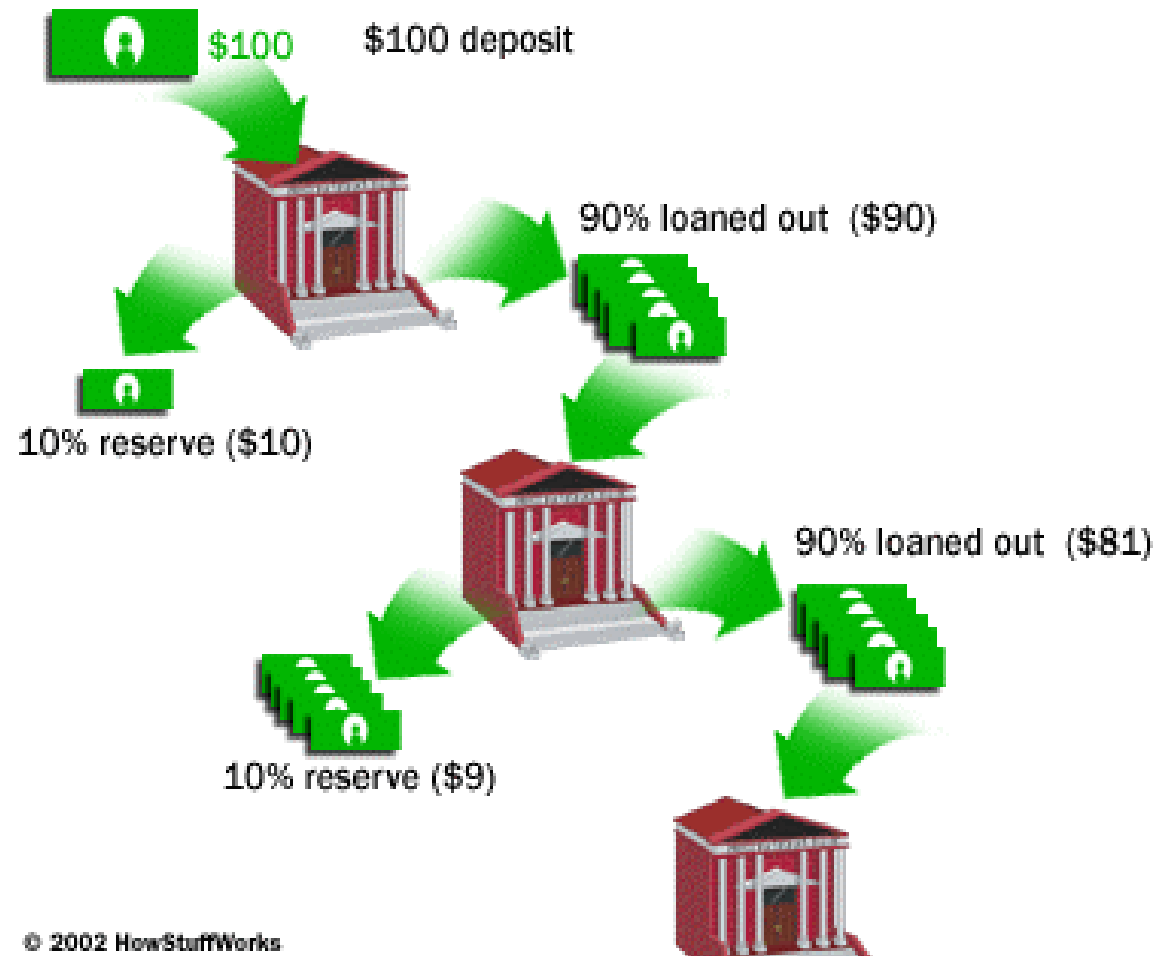
Modern Money Mechanics, p. 49:

“With a uniform 10 percent reserve requirement, a \$1 increase in reserves would support \$10 of additional transaction accounts.”

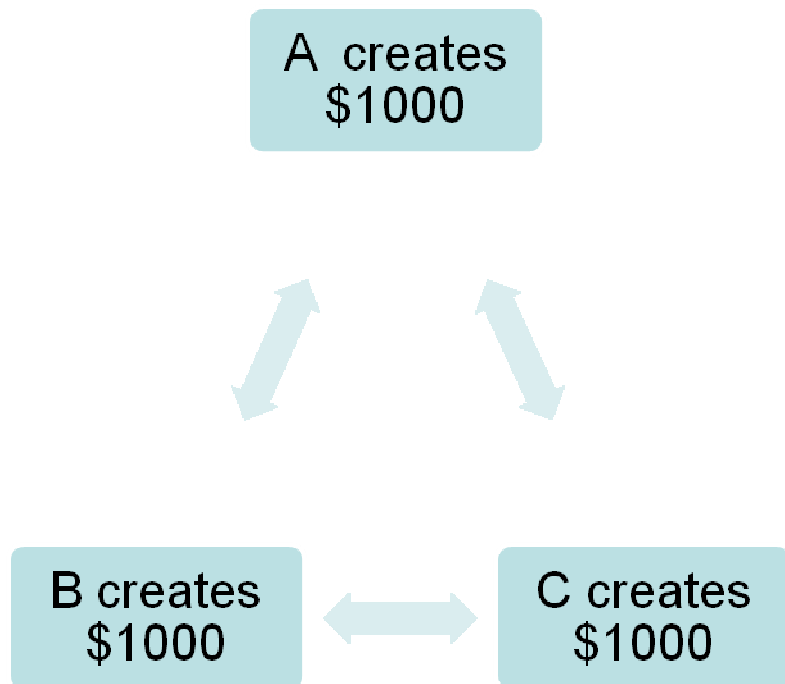


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Loans become deposits . . .
become checks . . .
become deposits in other banks.



Banks actually create the loans FIRST, then borrow to refill the reserve pool.



- Banks can originate all the loans they can find creditworthy borrowers for.
- But they need incoming deposits to clear the checks .
- If they don't have the deposits, however, they can borrow them.
- In effect, they borrow back the money they just created.

This makes the reserve requirement obsolete.
What DOES restrain credit creation today is --

- The lack of creditworthy borrowers
- The cost of borrowing funds to clear the checks
- The capital requirement (Basel I, II and III).



The capital requirement

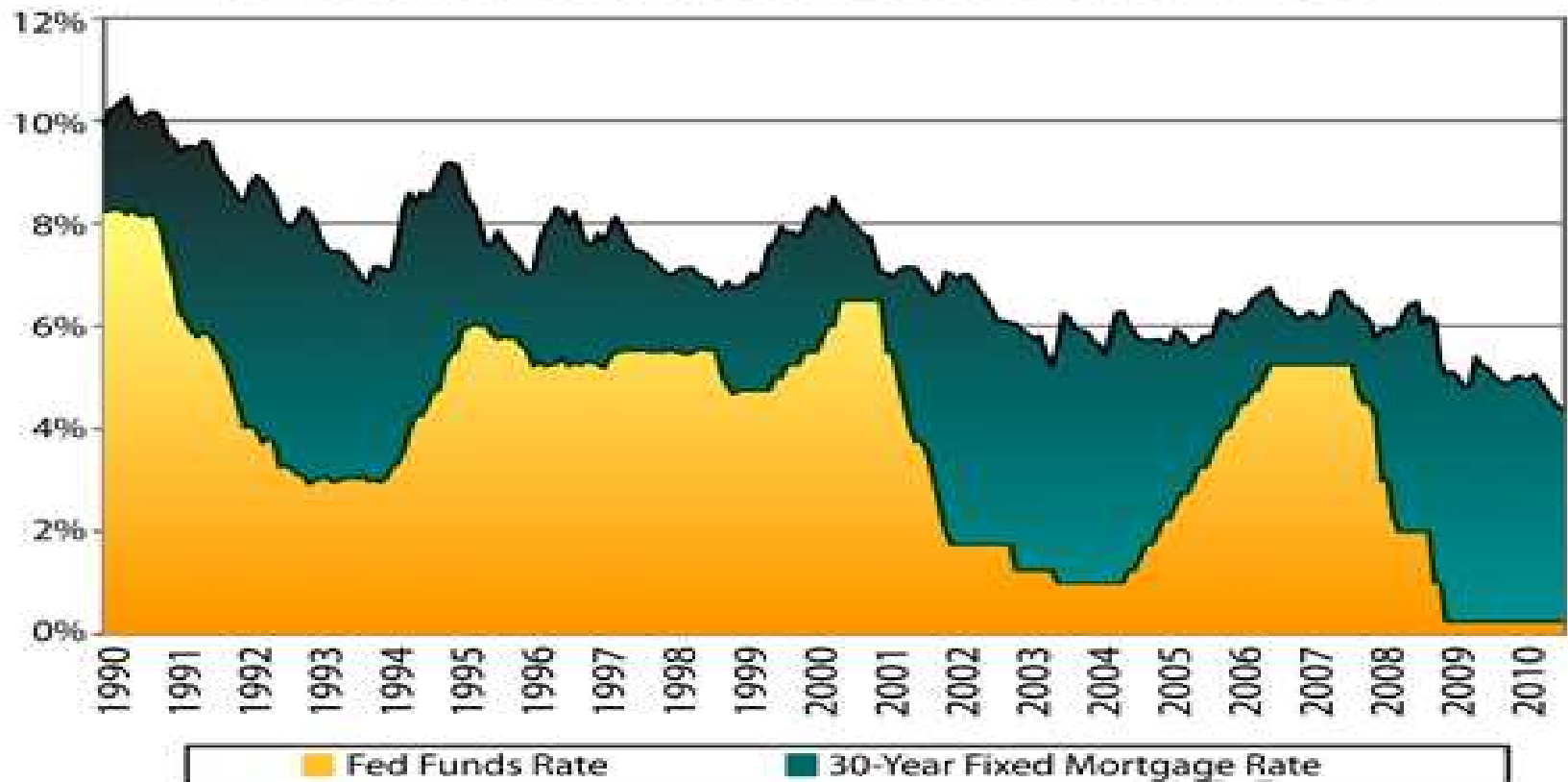
- Established in 1988 by the BIS in Switzerland for international lenders
- \$8 of capital required per \$100 of loans
- “Capital” means the bank’s own equity, not the money of depositors.



The banks' cost of funds:

The Fed funds rate has been dropped to 0.2%, but this windfall isn't passed on to us. States are borrowing at 4-5% and the rest of us at higher than that.

Tracking 30-Year Fixed Mortgage Rates To The Fed Funds Rate Since 1990



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Data: Board of Governors of the Federal Reserve System, Freddie Mac. Assumes conforming loan traits.

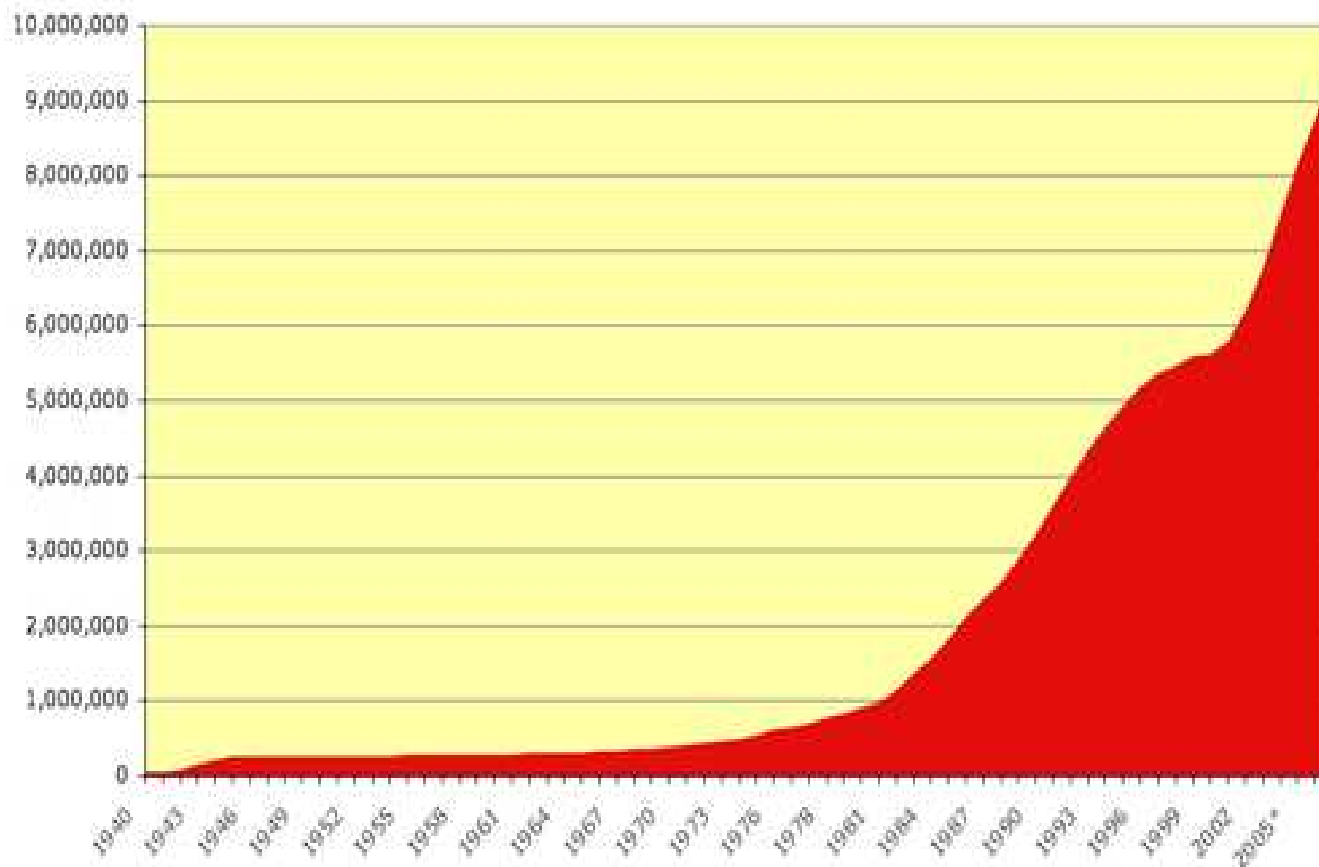
Idea! What if the state owned its own bank?

- It too could borrow from other banks at 0.2%, or from the Fed's discount window at 0.75%.
- Only one state actually has its own bank – and it's the **ONLY** state to escape the credit crisis.
- But more on that later . . .



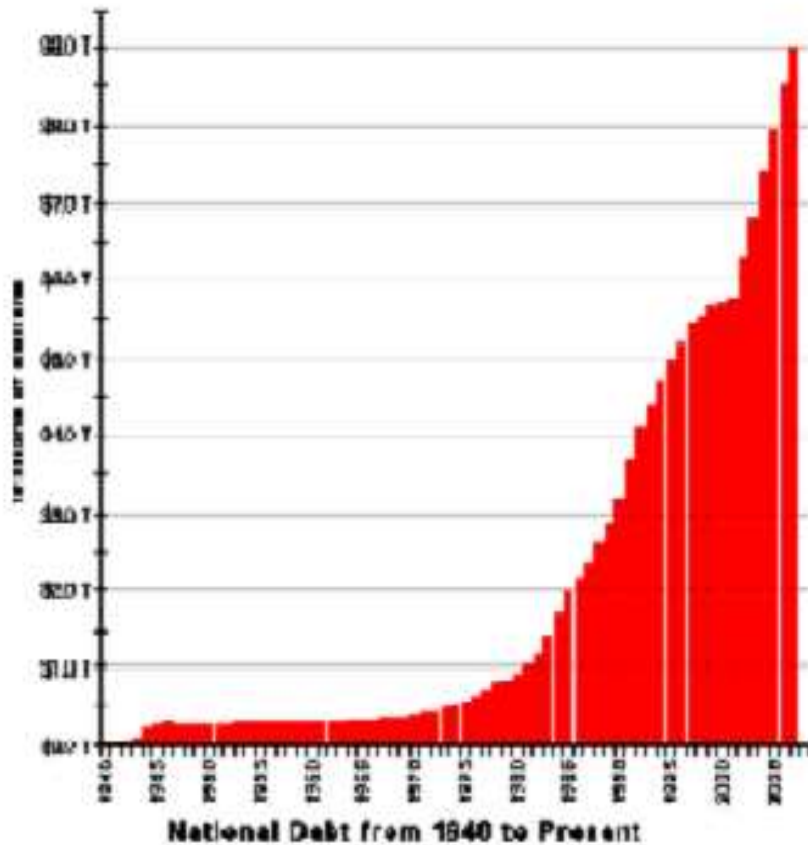
The federal government is allowed to roll over its debt indefinitely.

United States Gross Federal Debt: 1940-2007
Millions of (Unadjusted) Dollars
2004-2007 data estimated

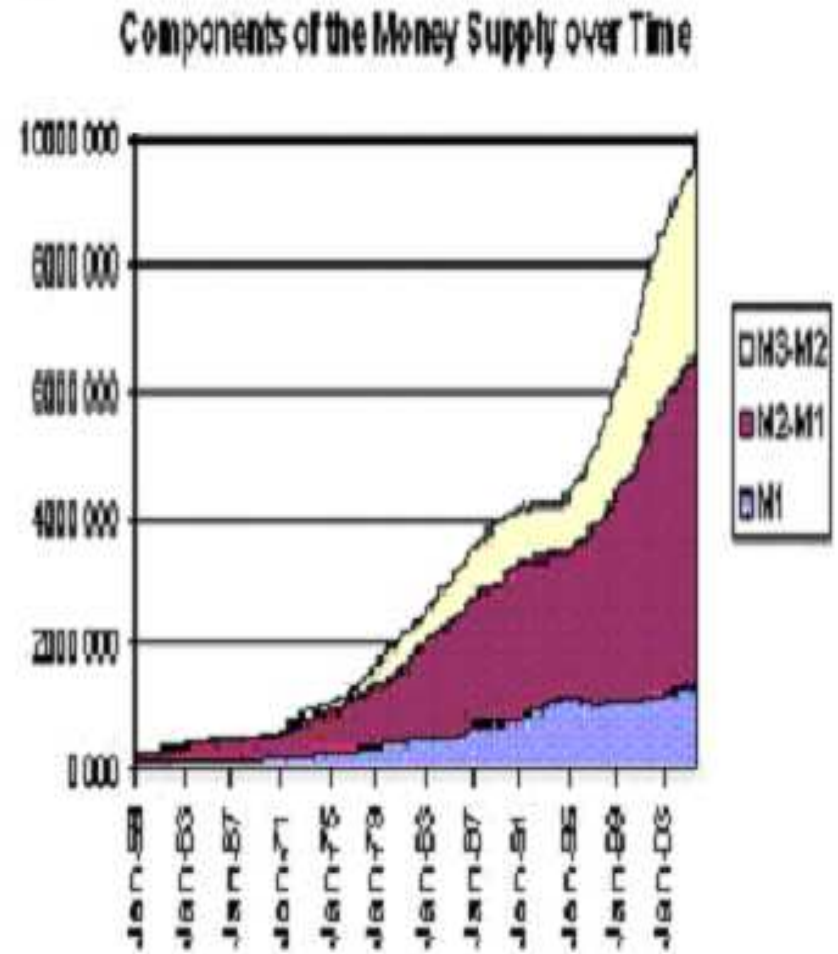


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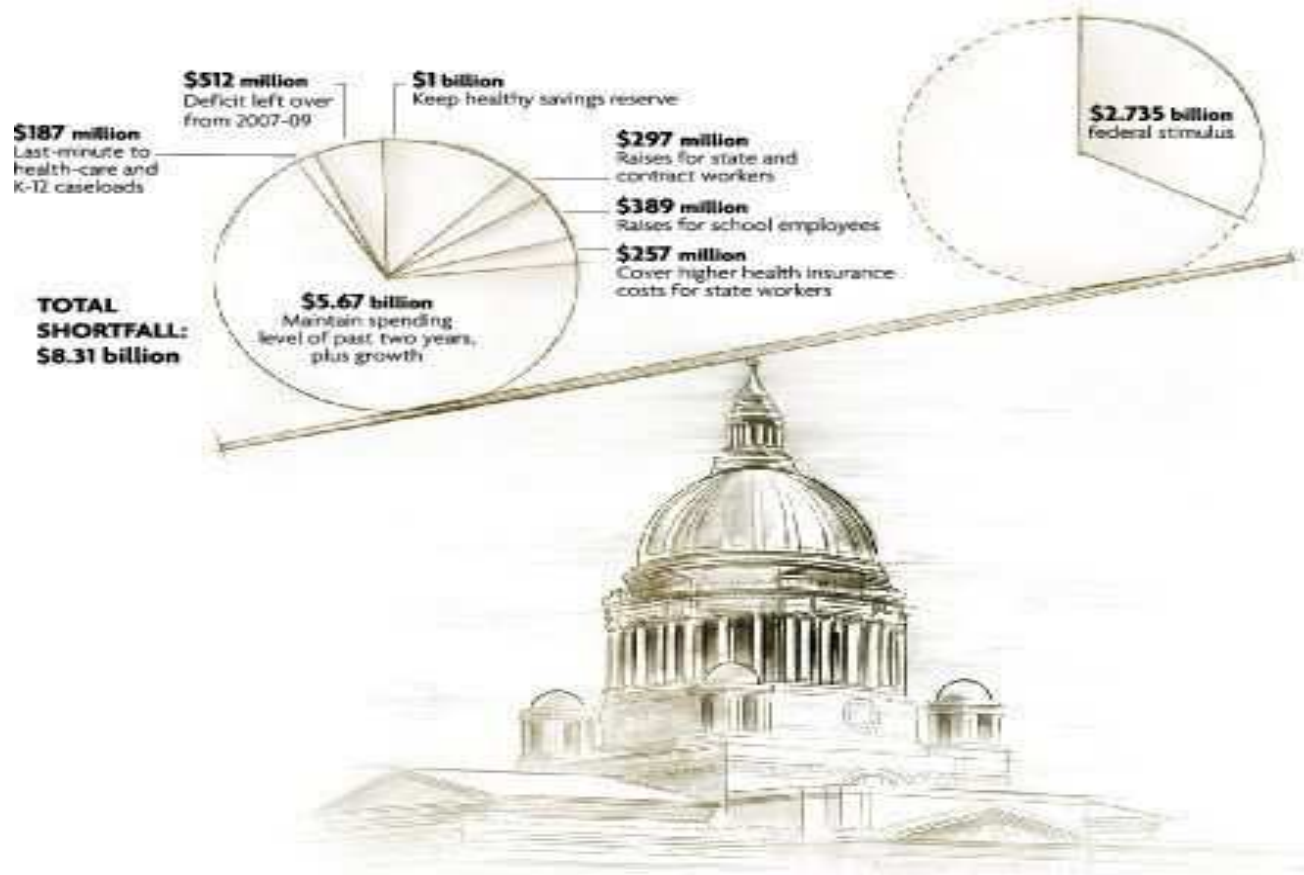
In some sense, the money supply IS the federal debt.
Unlike private debt, the federal debt is never repaid.



Source: U.S. National Debt Clock
http://www.brillig.com/alex_dadit



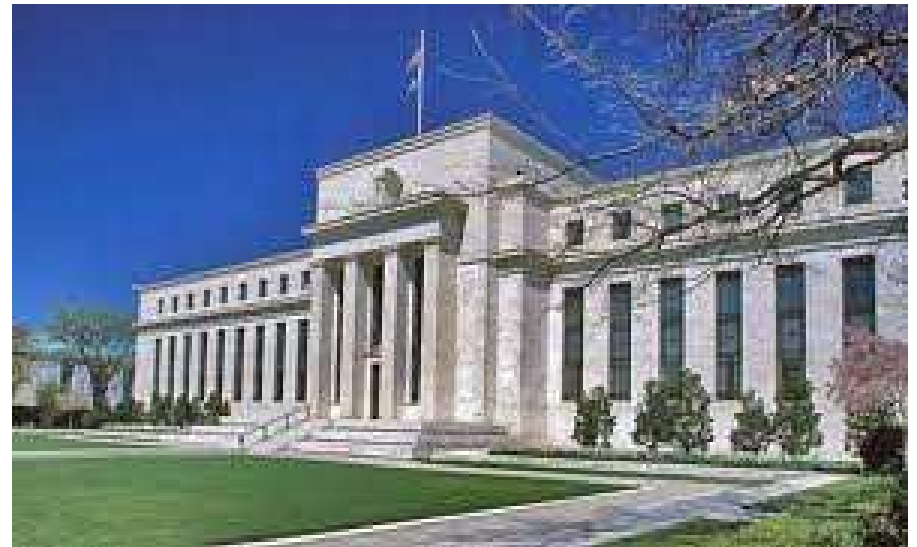
The federal government can roll over its debt indefinitely, but states have to balance their budgets. If they don't, they can go bankrupt.



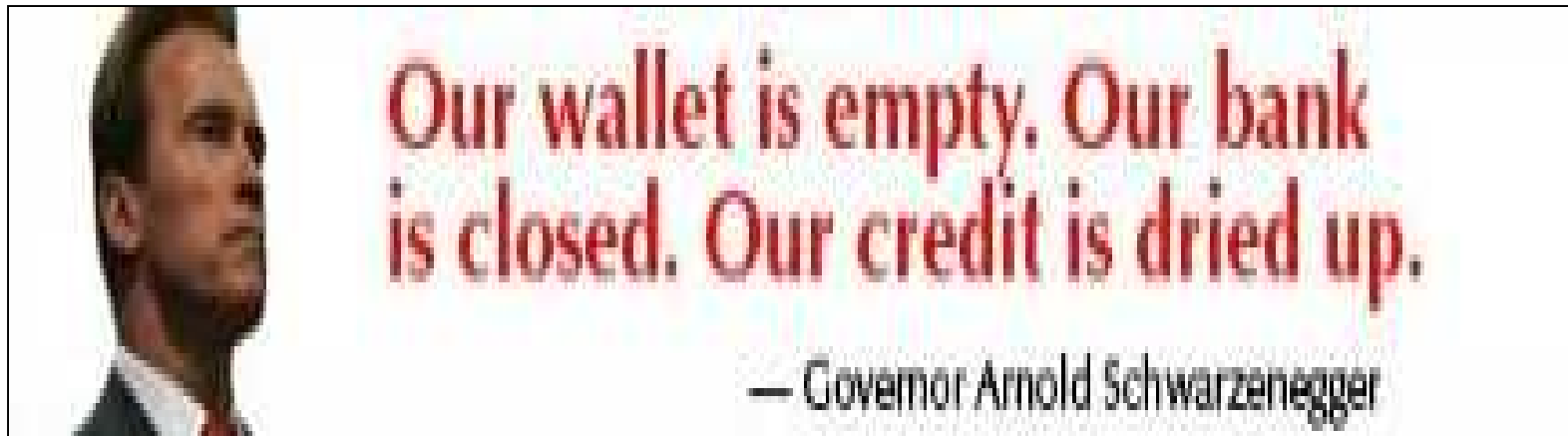
- From the News Tribute, Tacoma, Washington, March 15, 2009

The federal government has its own bank, the Federal Reserve.

- The Fed is not publicly-owned, but it DOES rebate its profits to the government.
- The Fed could fund the government interest-free.
- And with QE2, that's what it is doing.
- States could do the same thing with their own banks.



In 2009, Governor Schwarzenegger declared --



“I understand that these cuts are very painful and they affect real lives. This is the harsh reality and the reality that we face. Sacramento is not Washington – *we cannot print our own money. We can only spend what we have.*”

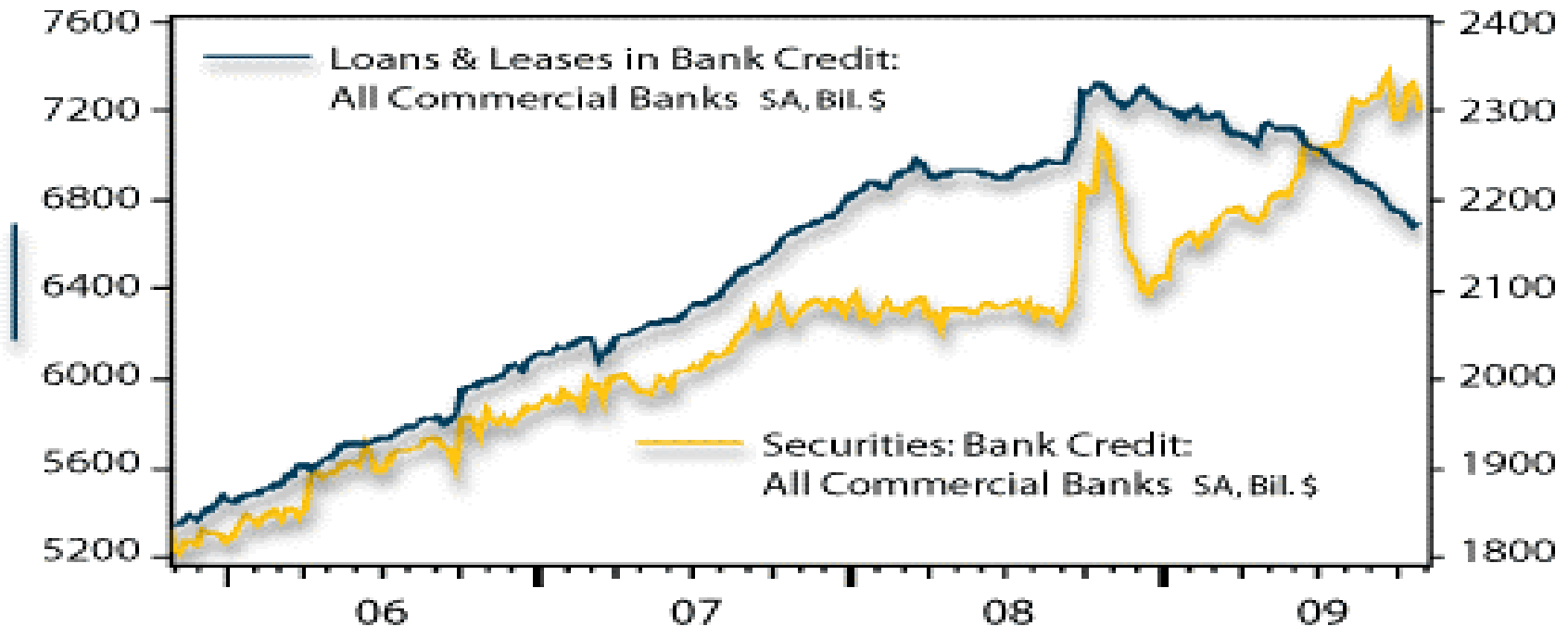
– Governor Schwarzenegger quoted in Time, May 22, 2009

True, we cannot “print” money like the Fed can. But we can own a bank, which can create credit on its books just as private banks do.



Wouldn't that be inflationary? No, because today virtually all money comes from bank debt, and bank debt is shrinking.

Bank Loans Keep Shrinking



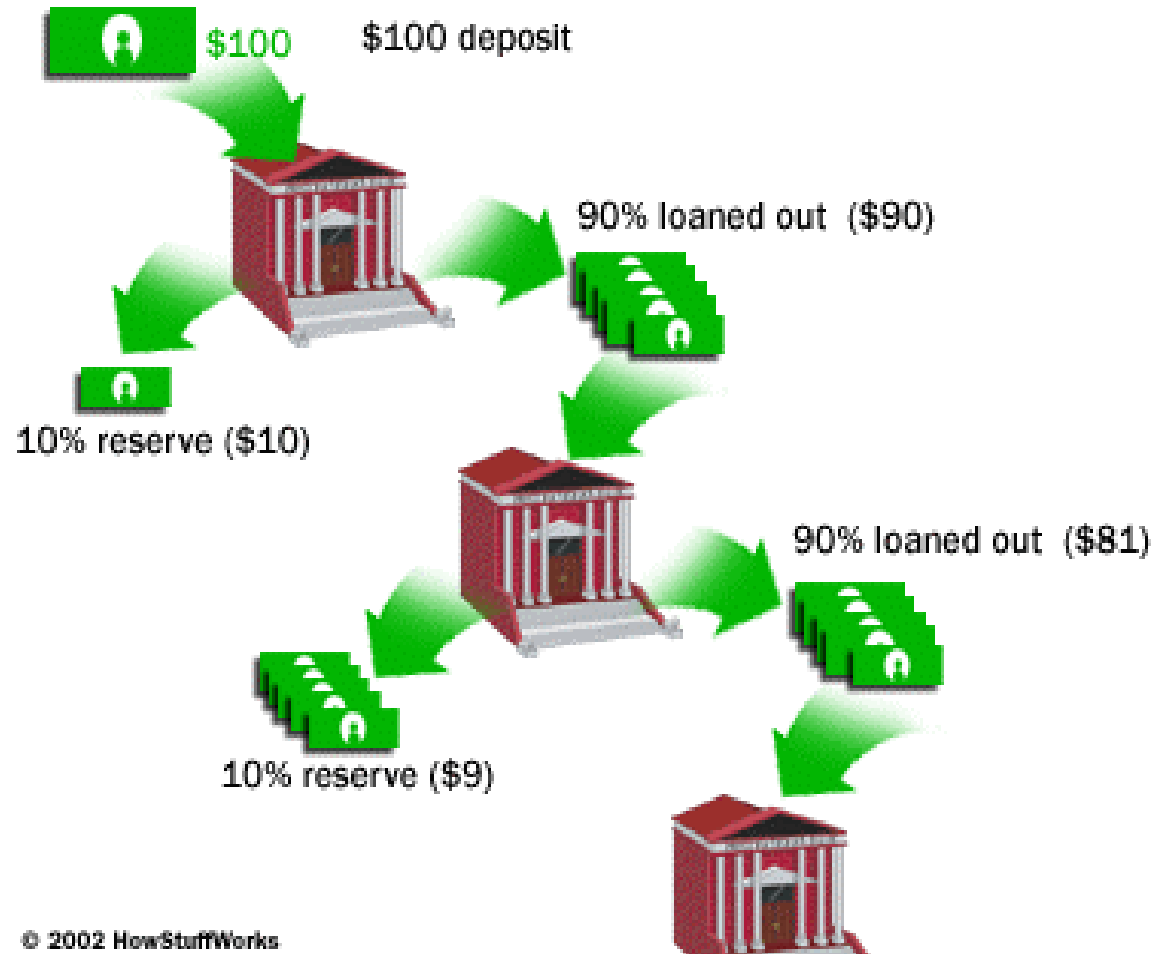
Sources: Federal Reserve Board/Haver Analytics

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Banks are “deleveraging.”

The money multiplier effect is working in reverse.

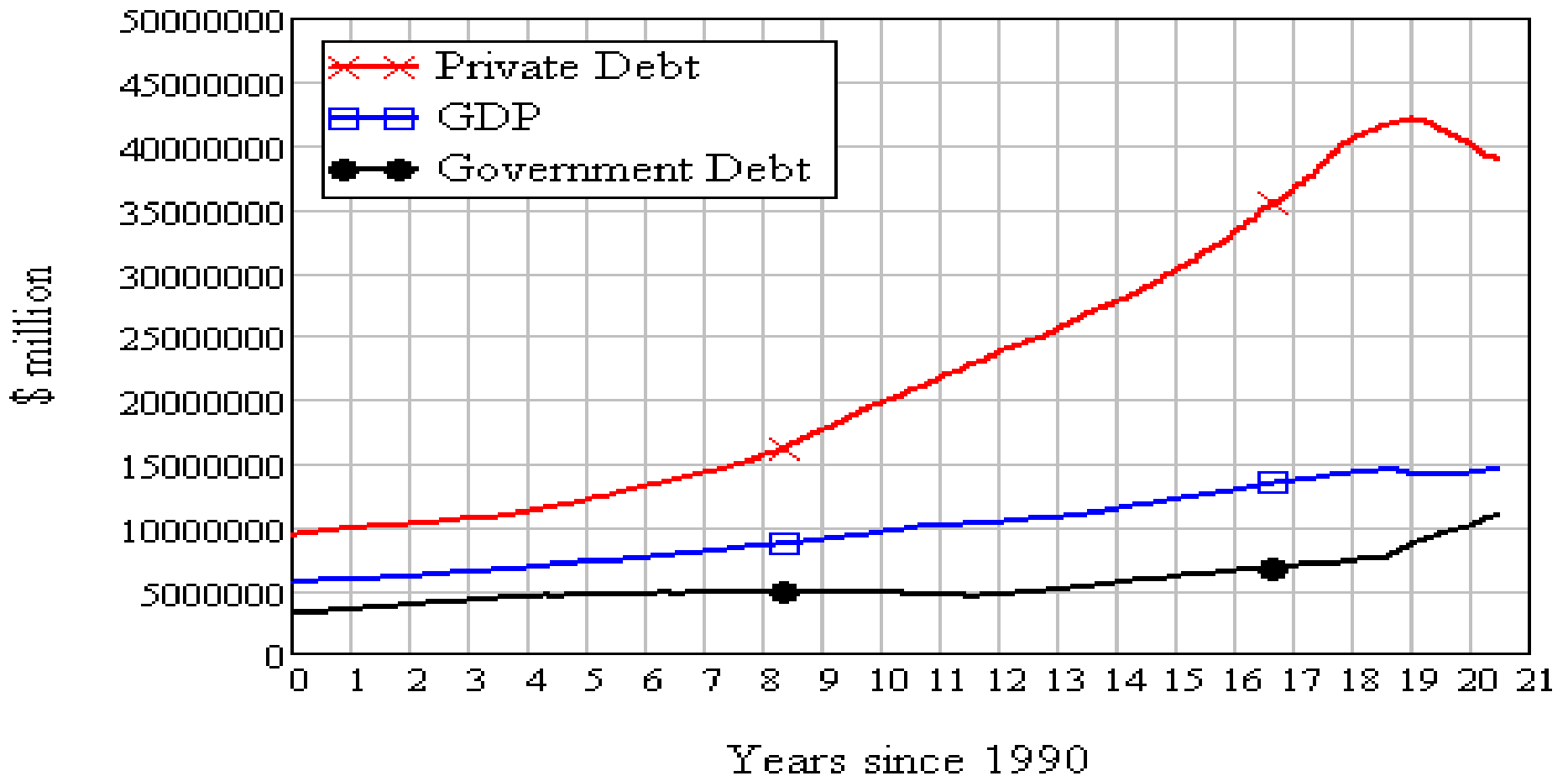
The loss of \$8 in capital removes \$100 in loans.



At the federal level, the Fed's QE2 is just replacing the money lost from the collapse of private debt.

Chart from Steve Keen

US Debt and GDP 1990-2010



States too could fill the credit gap with their own banks. Most states are facing major budget shortfalls.



Center on Budget and Policy Priorities, Oct 2010

The one state that actually owns its own bank is North Dakota.

- As of Feb. 2010, ND was the only state boasting a budget SURPLUS.
- In 2009, while other states floundered, ND had its largest budget surplus ever.
- In 2008, the BND returned a 26% dividend to the state.
- ND has the lowest unemployment rate and lowest default rate in the country.
- It also has the most local banks per capita in the country.



North Dakota has had its own bank since 1919, when farmers were losing their farms to the Wall Street bankers. They organized, won an election, and passed legislation.



The BND has a captive deposit and capital base. It's a dba of the state, and all state revenues are deposited in it by law.



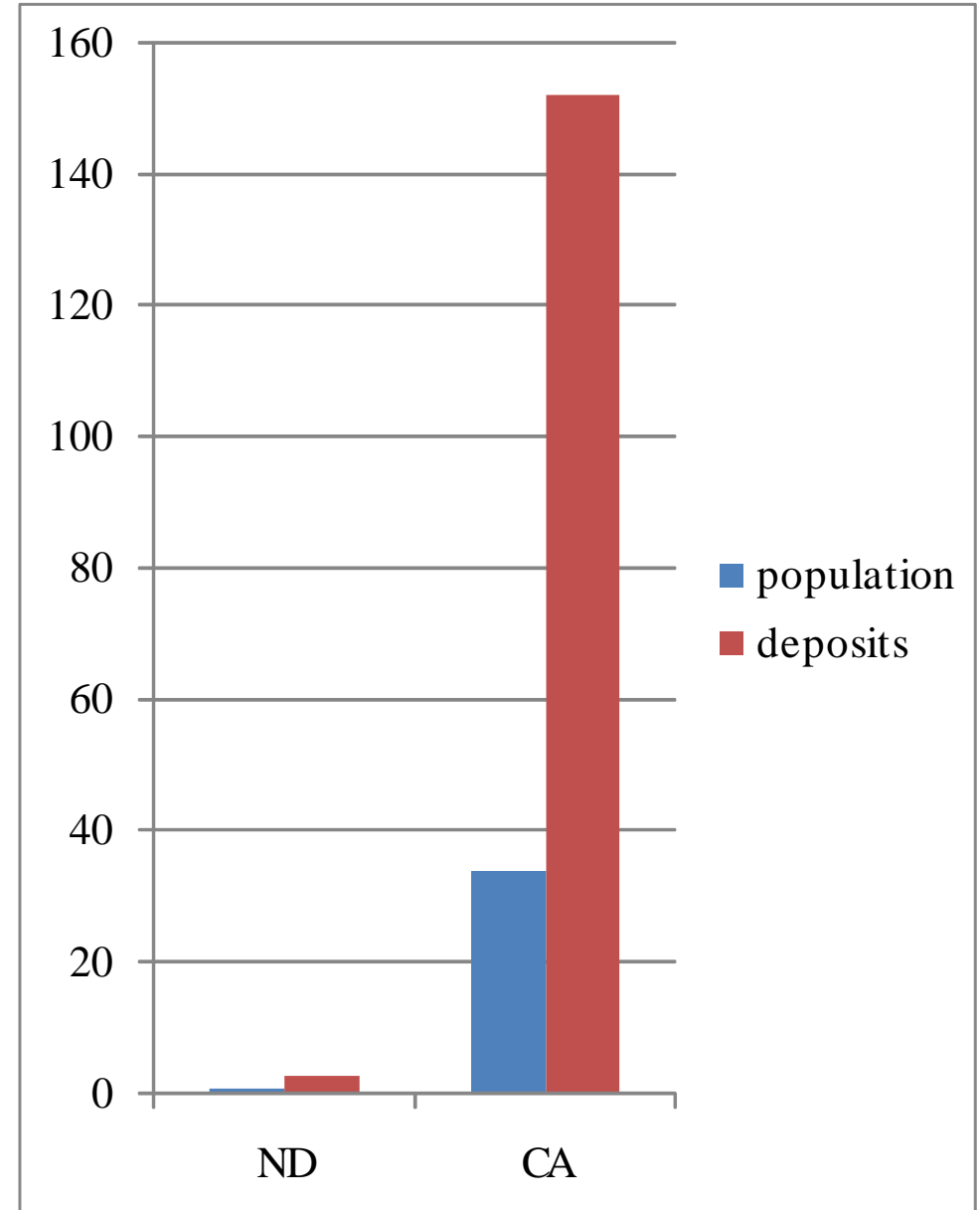
Consider the potential for California --

North Dakota:

- Population 647,000
- Deposits \$2.7B
- Deposits per capita -- \$4000
- Loans \$2.6B

California:

- Population 37,000,000
- At \$4000/person, deposits = \$152 B
- Potential loans = \$150 B



For the capital requirement --

- CA has funds stashed in an investment pool managed by the Treasurer of *\$71 billion*, earning an average of *2.24%* interest as of Aug 2009.
- At 8% equity, only *\$12 billion* of this pool invested in a state bank could back a potential loan portfolio of *\$150 billion*.
- The BND returned a *26%* dividend to the state in 2008, substantially better than the CA fund's 2.24%.



What could CA do with \$150 billion?

- Fund the deficit at 0% interest = \$25 billion.
- Fund infrastructure and other public projects interest-free. Cutting out interest reduces project costs by 30-50%.
- Partner with local banks, guaranteeing and sharing in loans.



A much better deal for the states

- States rated AA now pay an average of 4.45% on 20 year fixed bonds.
- CA and IL are rated A-, along with Estonia and Libya, and just above Greece.
- CA pays 4.7% on its \$85 billion debt.
- IL pays 12% on late payments.
- With their own banks, states could acquire the funds to back their loans for --
- As low as 0% on their own deposits
- 0.2% on interbank loans at the fed funds rate
- 1.27% on brokered 6-month CDs

Advantages to local banks:

- In North Dakota, the BND serves as a “banker’s bank,” partnering with local banks and helping them with capital requirements. Risky loans to students and startup businesses can be underwritten by the state.

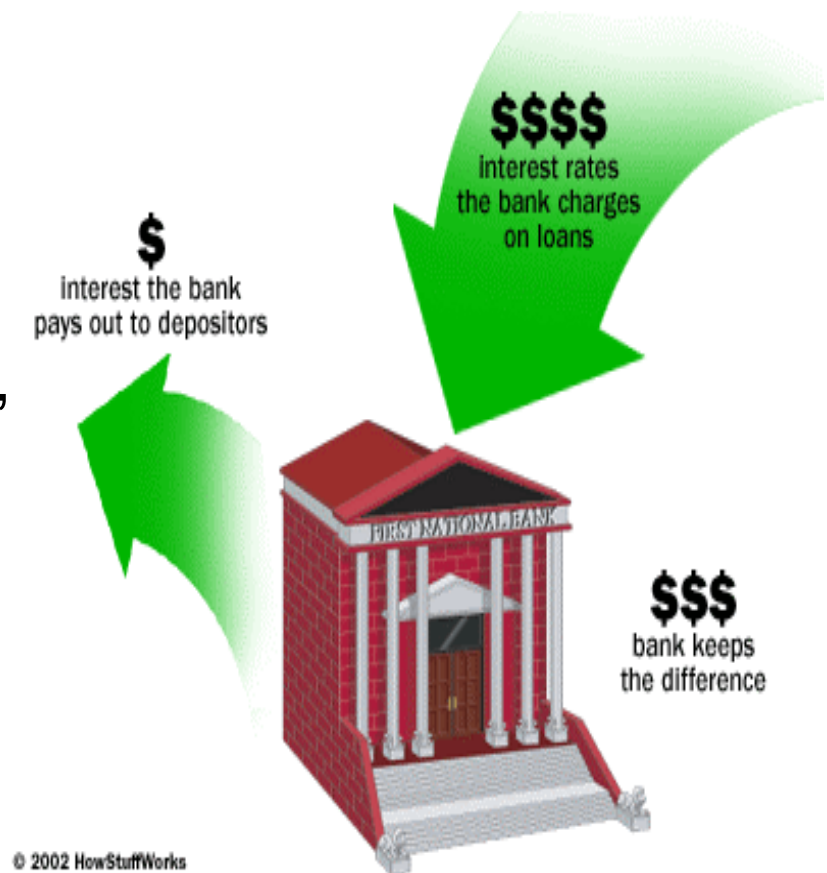


Advantages to local governments:

- Honest lender with a mandate to serve the community replaces “city slicker” bankers selling derivative scams to unwary local politicians.
- Low-cost credit line replaces costly “rainy day” funds.
- Infrastructure projects can be funded interest-free with the state’s own credit.

Other advantages of a state-owned bank --

- State revenues remain in the state.
- Profits and interest return to the state government, defraying taxes.
- No high-paid CEOs; no bonuses, commissions or fees; no toxic collateral; no shareholders demanding short-term profits.
- No late fees or fears of lost credit ratings.
- Huge savings in interest costs.



A growing grassroots movement

- A number of state legislatures have initiated bills for state-owned banks, including WA, IL, MA, HI, MI and VA.
- In the last election, a number of candidates also proposed this solution, from all across the political spectrum -- Democrats, Republicans, Greens, and Independents.



As Buckminster Fuller said --

“You never change things by fighting the existing reality.
To change something,
create a new model that
makes the old model
obsolete.”



For more information –
www.public-banking.com
www.webofdebt.com

