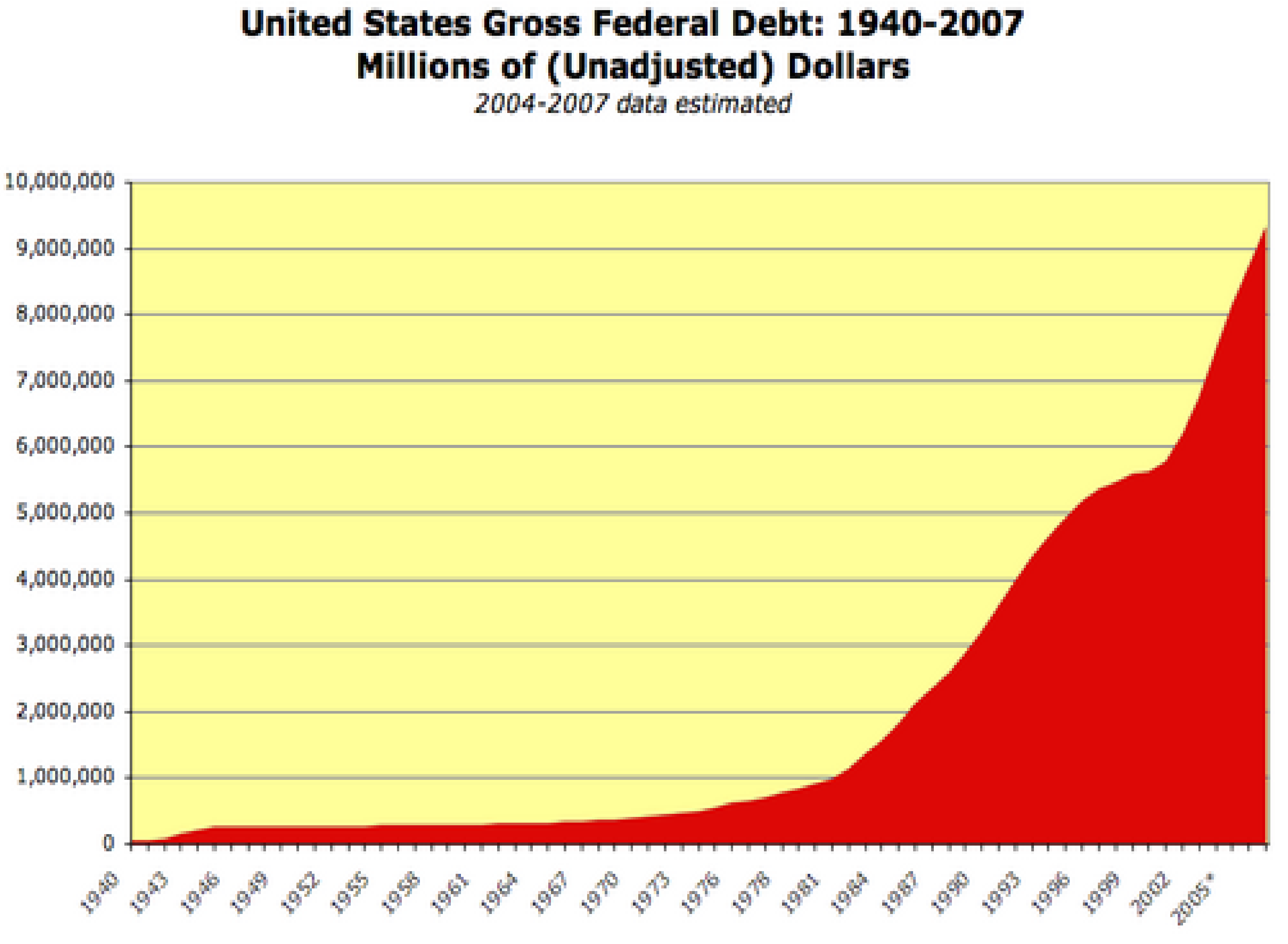
HOW STATES CAN SOLVE THEIR BUDGET CRISES: OWN A BANK!

Ellen Hodgson Brown, J.D.

Unlike the federal government, which can roll over its debt indefinitely and just allow it to grow . . .



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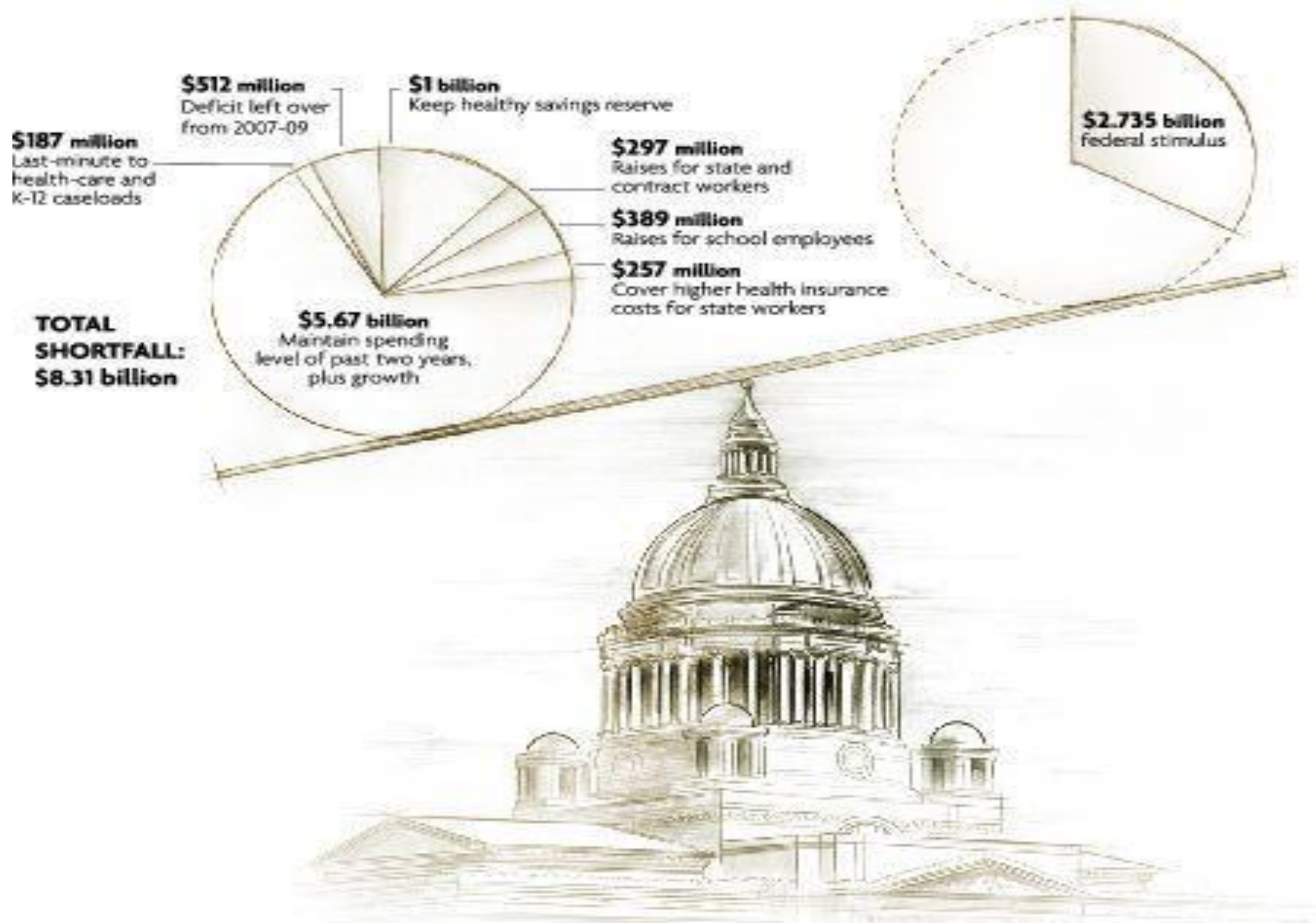
. . . states have to balance their budgets.



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

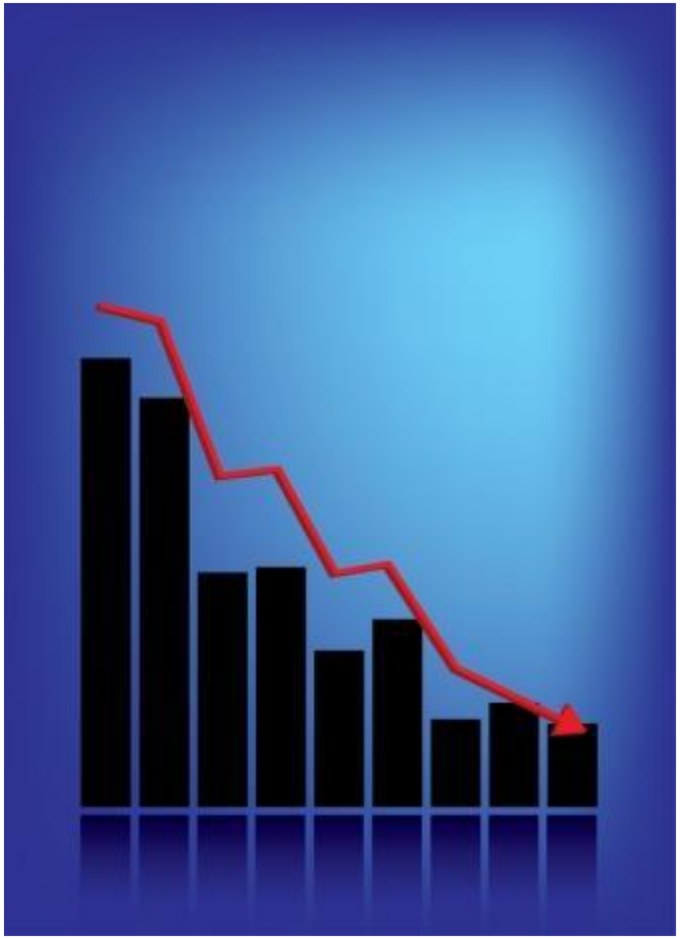
As a result, as of July 2009 --

Center on Budget and Policy Priorities

What happened?

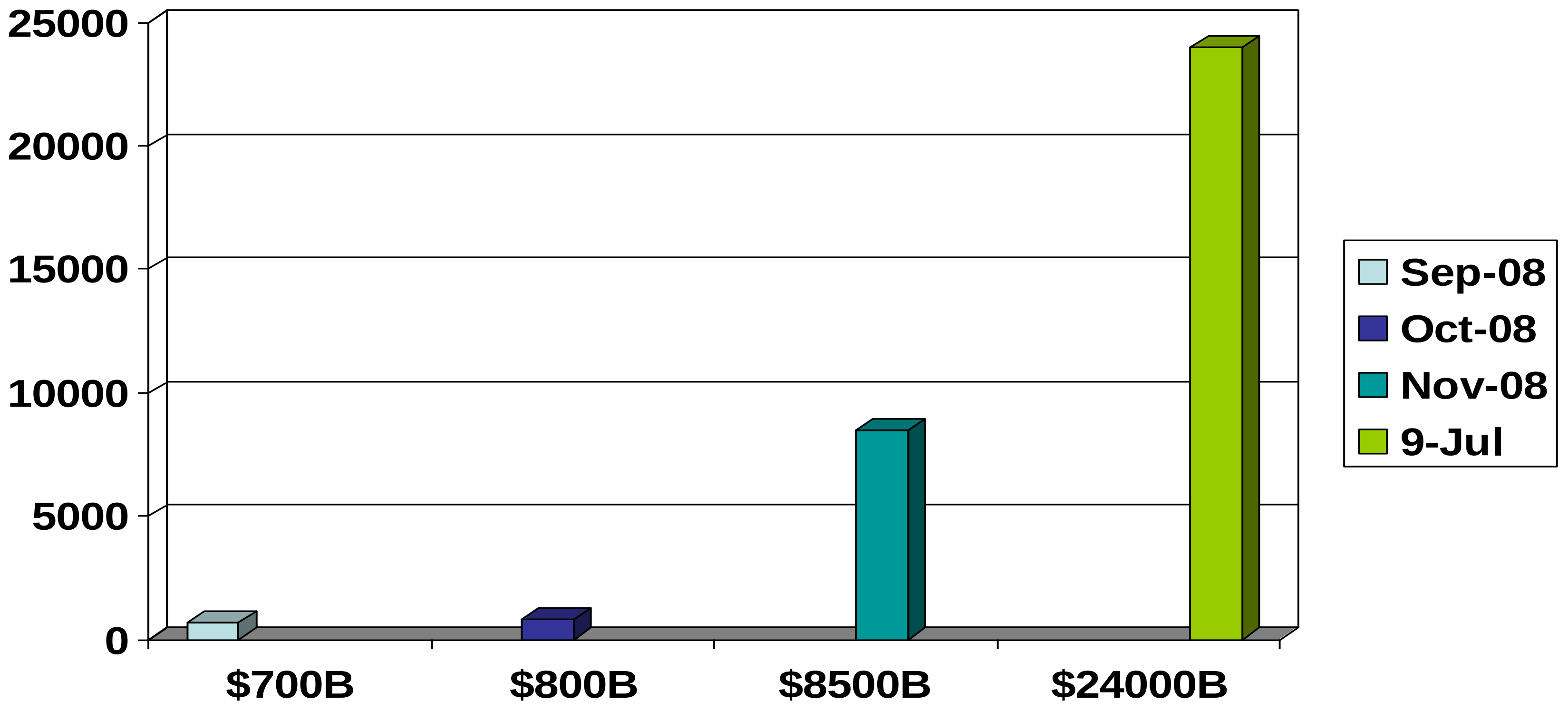
First, the states lost their triple-A credit ratings -- only because the monoline bond insurers lost *theirs*, after speculating in derivatives. *The fault was with Wall Street . . .*

Second, property values collapsed and taxes collapsed with them – again due to a credit crisis on Wall Street.



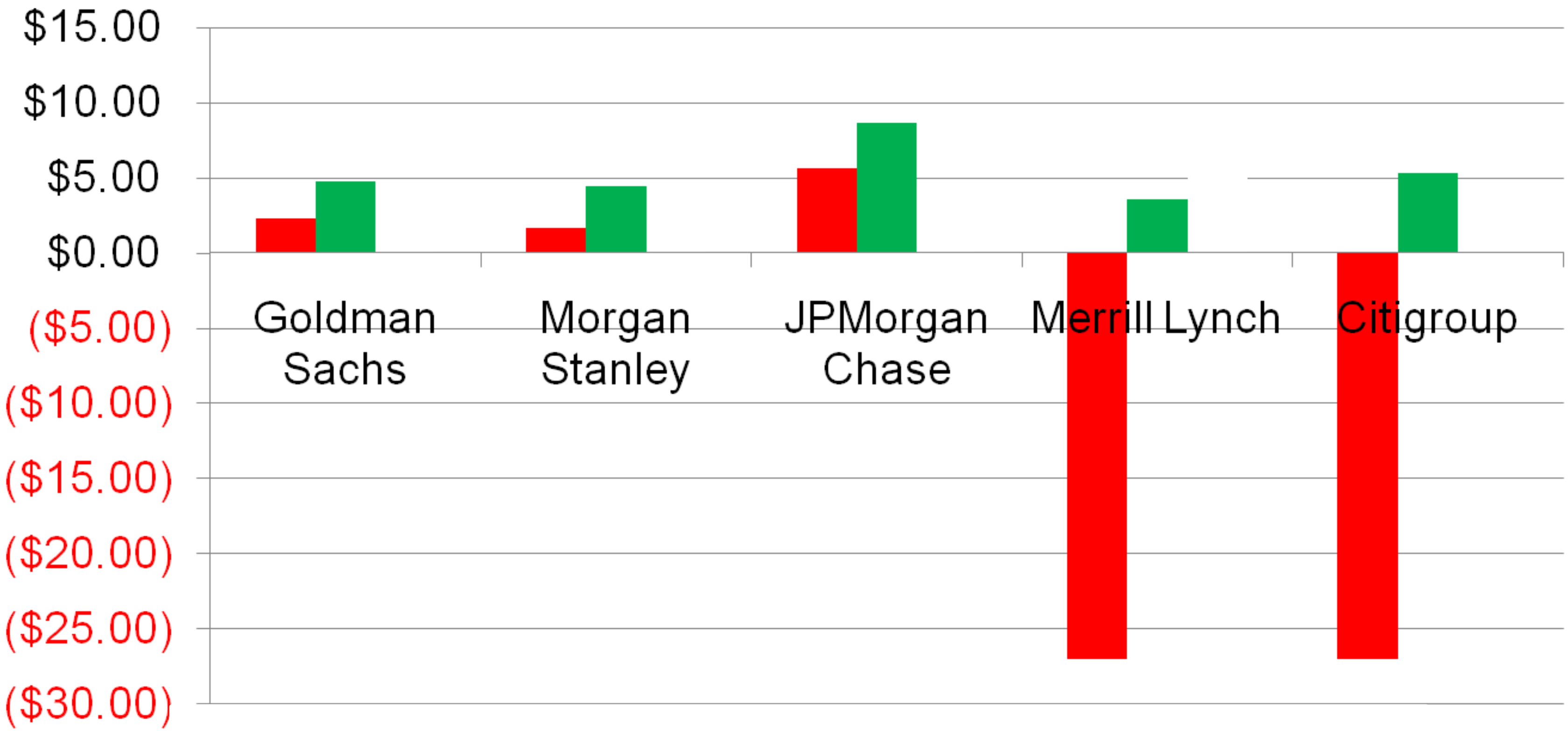
Taxes also dropped because unemployment soared – again because of the credit freeze, which made credit difficult for businesses to get.

The solution of the Feds has been to bail out the banks with taxpayer money, but the bailouts are out of control – from $800 billion approved by Congress in October 2008, to a potential liability of $24 TRILLION by July 2009.



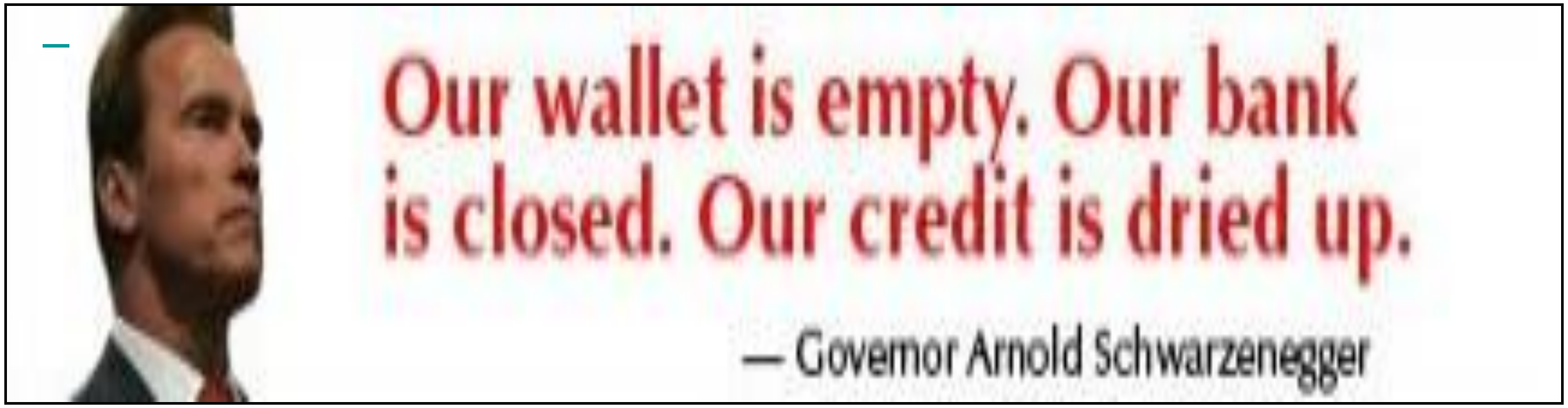
The bailouts have only fed the problem, without getting credit flowing again to the states and consumers.

Instead, TARP recipients have continued to speculate in derivatives and have paid themselves extravagant bonuses – in some cases totaling more than the NET INCOME of the banks.



Red = net income, in billions. Green = bonuses paid, 2009.
As reported by N.Y. A.G. Andrew Cuomo's office.

- These were the *same* banks that refused to honor IOUs issued by a desperate California attempting to buy some time to solve its credit woes. The state's governor said --



"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

Maybe, maybe not. States are forbidden by the Constitution to issue “bills of credit” . . .

Cornell University Law School

CRS Annotated Constitution

Bills of Credit

Within the sense of the Constitution, bills of credit signify a paper medium of exchange, intended to circulate between individuals, and between the Government and individuals, for the ordinary purposes of society. . . .

But they are NOT forbidden to own BANKS that issue credit . . .

- The States are not forbidden, however, to issue coupons receivable for taxes, nor to execute instruments binding themselves to pay money at a future day for services rendered or money borrowed. Bills issued by state banks are not bills of credit; it is immaterial that the State is the sole stockholder of the bank, that the officers of the bank were elected by the state legislature, or that the capital of the bank was raised by the sale of state bonds.

One state actually does own its own bank – North Dakota.

•The Bank of North Dakota: the country's only state-owned bank.

North Dakota is one of only two states that are currently able to meet their budgets. In fact, it has the largest budget SURPLUS it has ever had.

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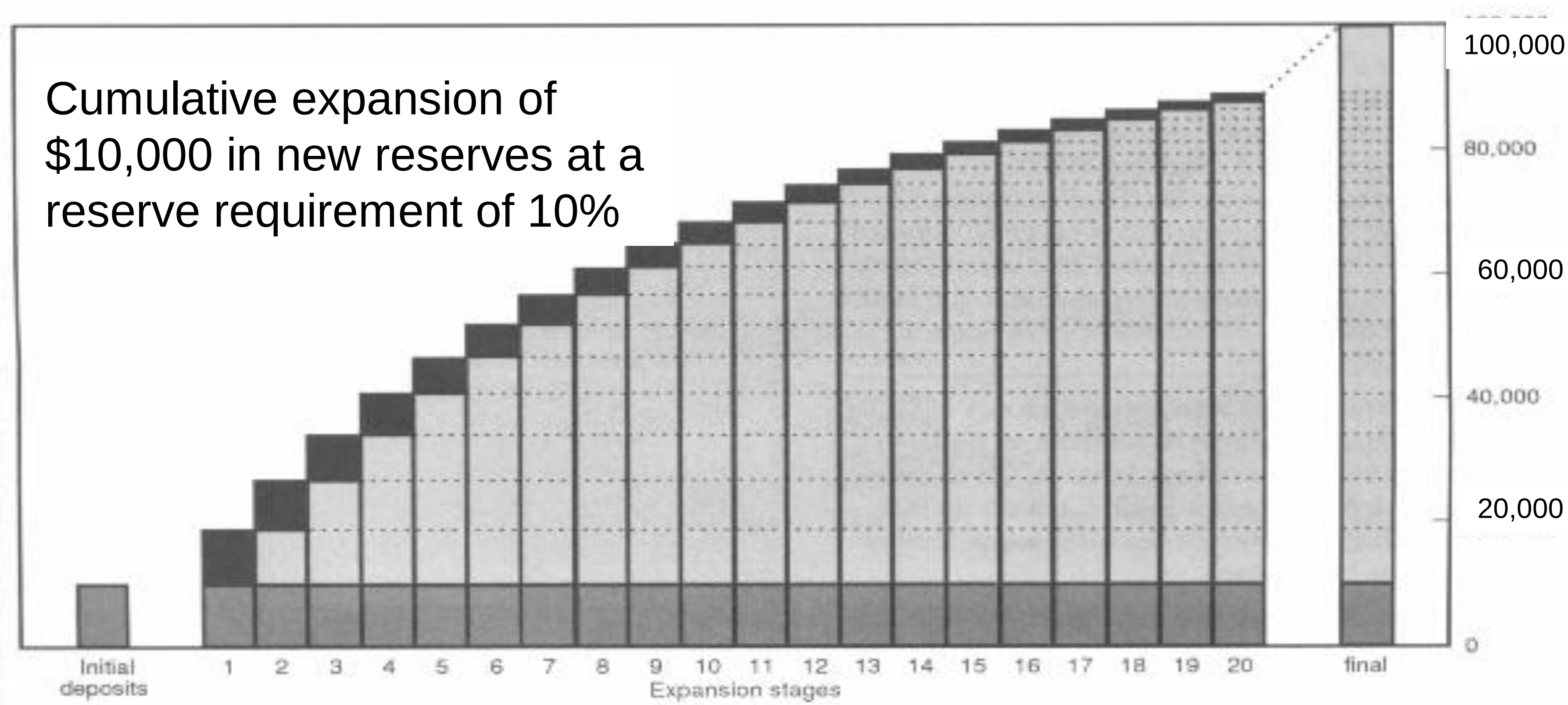
North Dakota has had its own bank since 1919, when farmers who were losing their farms to the Wall Street bankers got organized and won an election. By law, all the state’s revenues go into the Bank of North Dakota (BND) and become its deposit base.

As a chartered bank, the BND can then engage in the magic of fractional reserve lending. It can fan $10 in state funds into $100 in loans.

This is confirmed by many authorities, including the Federal Reserve itself. The process is described like this on the website of the Federal Reserve Bank of Dallas:

- "Banks actually create money when they lend it. Here's how it works: Most of a bank's loans are made to its own customers and are deposited in their checking accounts. Because the loan becomes a new deposit, just like a paycheck does, the bank . . . holds a small percentage of that new amount in reserve and again lends the remainder to someone else, repeating the money-creation process many times."

This process is repeated 20 times, until $10,000 in initial deposits becomes $100,000 in loans – as shown in this chart published by the Chicago Federal Reserve in “Modern Money Mechanics.”



Initial deposits

Expansion stages

final

North Dakota is hardly feeling the credit pinch at all. It has ample credit for its needs and has the lowest unemployment rate in the country. Other states can do the same thing. They just need to form their own banks!

For more information – www.webofdebt.com