WE CAN BREAK OUR DEPENDENCE ON WALL STREET

Few people understand the true nature of money and finance, and for that very reason, few are able to gain or maintain wealth today. Most Americans live in a state of servitude to a mortgage, taxes, and the cost of living. At any moment, everything can be taken away if they lose the income to meet their obligations. That income and the community's prosperity require a steady supply of credit. In fact credit supplies almost all of the money in our economy. And today credit is tight because banks aren't lending.

We can remedy the problem by establishing our own publicly-owned banks, which generate credit just as private banks do.

This is not a new idea. It dates back to Benjamin Franklin's Pennsylvania, which was also short of money until it set up its own bank. When the provincial government issued its own paper scrip and started lending to farmers, Pennsylvania prospered. During the time that system was in place, Pennsylvanians paid NO taxes, had NO government debt, and prices did not inflate.

"I believe that banking institutions are more dangerous to our liberties than standing armies. . . *The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.*"

-- Thomas Jefferson, Letter to Albert Gallatin (1802)

States can bypass Wall Street and finance their own recoveries by using their copious assets as the base for generating many times that sum in loans, using the "fractional reserve" lending principles followed by all banks. California, for example, owns about $200 billion in real estate, has $62 billion in various investments, and has $128 billion in projected 2009 revenues. Leveraged by a factor of 10, that capital base could support nearly *$4 trillion* in loans.

Using the state's assets as the capital base of a publicly-owned bank would *not* put the state's assets at risk. Contrary to popular belief, banks do not lend their own money (their capital) *or* their customers' money (the deposits). Every dollar advanced as loans is *new* money, created on the books of the banks in the process of lending it. The state's assets would be at risk only if the state went bankrupt, and that is a highly unlikely result, since states (unlike private banks) have the power to tax.

Raise taxes or slash spending? NEITHER! There is another way to get the money we need.

We can solve the debt crisis by creating money with accounting entries in the same way that private banks do it. *Banks actually create money when they lend it*. Today *all* money except coins is created by banks when they make loans. That includes Federal Reserve Notes (dollar bills), which are issued by the Federal Reserve, a privately-owned banking corporation, and lent to the U.S. government and to commercial banks. States can create money as loans just as private banks do. They just need to own their own banks.

We can get credit flowing again by setting up publicly-owned banks that do what private banks do, but do it in the public interest — without middlemen extracting oversized salaries and bonuses, shareholders expecting a sizeable cut, or books marred with bad derivatives bets, unmarketable collateralized debt obligations, and mark to market accounting problems.

HOW STATES CAN BEAT WALL STREET AT ITS OWN GAME — OWN A BANK

The taxpayers, the Treasury and the Federal Reserve have now poured trillions of dollars into bailing out Wall Street, but this enormous investment has fixed the economy only for bankers and the wealthy. It has not done much to address either the fundamental problem of unemployment or the debt trap so many Americans find themselves in. President Obama's stimulus plan, too, has failed to halt the growth of unemployment. In the first ten months of the stimulus plan, 2.7 million jobs were actually *lost*. A total of 49 states and the District of Columbia all reported net job losses.

The DEBT monster is eating up our money. It doesn't have to be this way!

A Bright Star in a Dark Sky: North Dakota

The sole state to actually *gain* jobs was an unlikely candidate for the distinction: North Dakota. North Dakota is also one of only two states (along with Montana) expected to meet their budgets in 2010. North Dakota is a sparsely populated state of less than 700,000 people, largely located in cold and isolated farming communities. Yet since 2000, the state's GNP has grown 56%, personal income has grown 43%, and wages have grown 34%. The state not only has no funding problems, but this year it has a budget *surplus* of $1.3 billion, the largest it has ever had.

North Dakota's secret of success in the face of a deepening national credit crisis seems to be that it has its own credit machine. It is the only state in the Union to own its own bank. The Bank of North Dakota (BND) was established by the state legislature in 1919 specifically to free farmers and small businessmen from the clutches of out-of-state bankers and railroad men. The bank's stated mission is to deliver sound financial services that promote agriculture, commerce and industry in North Dakota.

The Advantages of Owning a Bank

How does owning a bank solve the state's funding problems? Isn't the state still limited to the money it has? The answer is no. **Chartered banks are allowed to do something nobody else can do: they can create credit on their books simply with accounting entries, using the magic of "fractional reserve" lending.** As the Federal Reserve Bank of Dallas explains on its website:

> "*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."

How many times? In a speech on April 14, 2009, President Obama said, "The truth is that *a dollar of capital in a bank can actually result in eight or ten dollars of loans to families and businesses*."

It can but lately it hasn't, because private banks are limited by bank capital requirements and by their private, for-profit business models. That is where a state-owned bank has an enormous advantage: states own huge amounts of capital, and they can think farther ahead that their quarterly profit statements, allowing them to make long-term investments. They can do what is best for the community, without worrying about their shareholders or their bonuses; and their asset bases are not marred with "toxic" collateral.

The Bank of North Dakota is set up as a *dba*: "the State of North Dakota *doing business as* the Bank of North Dakota." Technically, that makes the capital of the state the capital of the bank. The BND's return on equity is about 25%, and it pays a hefty dividend to the state, which is expected to exceed $60 million this year. In the last decade, the BND has turned back a third of a billion dollars to the state's general fund, offsetting taxes. California could do substantially better than that. California pays $5 billion annually just in interest on its debt. If it had its own bank, the bank could refinance this debt and return this $5 billion to the state's own coffers; and it would make substantially more on money lent out.

That's just for starters. For more on the exciting possibilities for a variety of states, see

Public-banking.com
Webofdebt.com