

## But Governor, You Can Create Money! Just Form Your Own Bank

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"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 Arnold Schwarzenegger quoted in Time, May 22, 2009

Christmas comes early, Governor. You CAN print your own money. Fiscally solvent North Dakota is doing it . . . and so can California. Now!!!

In a May 22 article in Time titled "Billions in the Red: Fiscal Reckoning in CA," Juliet Williams reports that since California voters have now vetoed higher taxes and further state government borrowing, Gov. Arnold Schwarzenegger has indicated that he intends to close the budget gap almost entirely through drastic spending cuts. The cutbacks could include laying off thousands of state workers and teachers, ending the state's main welfare program for the poor, eliminating health coverage for about 1.5 million poor children, halting cash grants for about 77,000 college students, slashing money for state parks, and releasing thousands of prisoners before their sentences are finished. Schwarzenegger bemoaned the fact that the state could not print its own money but said it could only spend what it had.

But the state can create its own money. After all, banks do this every day. Certified, card-carrying bankers are allowed to do something nobody else can do: they can create "credit" with accounting entries on their books. 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."

President Obama has also acknowledged that banks create money, through what he calls the "multiplier effect." In a speech at Georgetown University on April 14, he said:

"[A]lthough there are a lot of Americans who understandably think that government money would be better spent going directly to families and businesses instead of banks - 'where's our bailout?', they ask - 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, a multiplier effect that can ultimately lead to a faster pace of economic growth."

Money in a government-owned bank could give us the best of both worlds. We could have all the credit-generating advantages of private banks, without the baggage cluttering up the books of the Wall Street giants, including bad derivatives bets, unmarketable collateralized debt obligations, mark to market accounting issues, oversized CEO salaries and bonuses, and shareholders expecting a sizeable cut of the profits. A state could deposit its vast revenues in its own state-owned bank and proceed to fan them into 8 to 10 times their face value in loans. Not only would it have its own credit machine, but it would control the loan terms. The state could lend at ½% interest to itself and to municipal governments, rolling the loans over as needed until the revenues had been generated to pay them off. According to Professor Margrit Kennedy in her 1995 book *Interest and Inflation-free Money*, interest composes, on average, fully half the cost of every public project. Cutting costs by 50% could make currently-unsustainable projects such as low-cost housing, alternative energy development, and infrastructure construction not only sustainable but actually profitable for the government.

If all this seems too radical and unprecedented to venture into, consider that one state has had its own bank for 90 years; and it has not only escaped the credit crunch but is doing remarkably well ...

### **THE INNOVATIVE BANK OF NORTH DAKOTA**

Only three of fifty states are now solvent, meaning they have the revenues to meet their state budgets; and one of them is North Dakota. It is an unlikely candidate for the distinction. It is a sparsely populated state of less than 700,000 people, largely located in isolated farming communities afflicted with cold weather. 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 issues, but this year it actually has a budget surplus of \$1.2 billion, the largest it has ever had.

North Dakota boasts the only state-owned bank in the nation. 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. By law, the state must deposit all its funds in the bank, which pays a competitive interest rate to the state treasurer. The state rather than the FDIC guarantees the bank's deposits, which are plowed back into the state in the form of loans. The bank'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 trillion dollars to the state's general fund, offsetting taxes. The former president of the BND is now the state's governor.

The BND avoids rivalry with private banks by partnering with them. Most lending is originated by a local bank. The BND then comes in to participate in the loan, share risk, and buy down the interest rate. The BND provides a secondary market for real estate loans, which it buys from local banks. Its residential loan portfolio is now \$500 billion to \$600 billion. Guarantees are also provided for entrepreneurial startups, and the BND has ample money to lend to students (over 184,000 outstanding loans). It purchases municipal bonds from public institutions, and it backs loans made to new farmers at 1% interest. The BND also has a well-funded disaster loan program, which helps explain how Fargo, when struck by a disastrous flood recently, managed to avoid the devastation suffered by New Orleans in similar circumstances.

North Dakota has also managed to avoid the credit freeze, through the simple expedient of creating its own credit. It has led the nation in establishing state economic sovereignty. In California and other states, workers and factories are sitting idle because the private credit system has failed. An injection of new money from a system of publicly-owned banks on the model of the Bank of North Dakota could thaw the credit freeze and bring spring to the markets once again.

**Ellen Brown** developed her research skills as an attorney practicing civil litigation in Los Angeles. In *Web of Debt*, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her earlier books focused on the pharmaceutical cartel that gets its power from "the money trust." Her eleven books include *Forbidden Medicine*, *Nature's Pharmacy* (co-authored with Dr. Lynne Walker), and *The Key to Ultimate Health* (co-authored with Dr. Richard Hansen). Her websites are [www.webofdebt.com](http://www.webofdebt.com) and [www.ellenbrown.com](http://www.ellenbrown.com).

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