The Public Bank Alternative: Recapturing the Money Power

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How banking works today.
• Businesses can’t get loans.
• Students are drowning in debt.
• Mortgages are underwater.
• Municipalities are in austerity mode.
• Massive and growing income inequality.
• No money for the public; unlimited money for banks.
How did Wall Street get control? Through a series of money myths.

1. Our money is created by the government.
2. A government has to balance its books just like a household does.
3. Government money-printing will trigger hyperinflation.
4. Banks are just intermediaries.
5. Banks lend their incoming deposits.
Banks, not governments, create the bulk of the money supply.
Banks create money when they make loans. ‘[B]anks do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they ‘multiply up’ central bank money to create new loans and deposits … Commercial banks create money, in the form of bank deposits, by making new loans.’

What’s wrong with this model?

1. The interest.

Not created in the original loan, it can only come from more debt.
The debt overhang: debt-at-interest always grows faster than the real economy.
Exponential growth is unsustainable.

Found in:
• cancer
• parasites
• compound interest

Eventually, the parasite runs out of its food source.
2. Control.
Private bankers determine where the money goes.

- Legally, banks own the deposits.
- They can gamble with them.
- They can determine who gets loans and the terms.
- They can refuse to lend.
3. Risk.

Bailouts and “bail-ins” – confiscation of creditor funds.
FDIC insurance? Don’t count on it. Derivatives have super-priority in bankruptcy.
The dilemma: Businesses run on credit. Banker-created credit is necessary to a thriving economy.
The solution: banks owned by the people.
The ideal public bank model: the colonial Pennsylvania land bank.

Government-issued paper scrip was lent to the farmers.

The result:

- No taxes
- No inflation
- No government debt!
Globally, 40% of banks are publicly-owned.

State Ownership in Banking, 2000–2002
They are mainly in the high-growth BRIC countries, which largely escaped the credit crisis.
In the US, we have one — in North Dakota.

ND also has:
• the nation’s lowest unemployment rate
• one of the lowest rates
• lowest default rate
• 6x as many local banks per capita
• only state to escape the 2008 credit crisis
Public banks are more profitable than private banks.

Wall Street Journal, Nov 16, 2014:

“It is more profitable than Goldman Sachs Group Inc., has a better credit rating than J.P. Morgan Chase & Co. and hasn’t seen profit growth drop since 2003. Meet Bank of North Dakota, the U.S.’s lone state-owned bank, which has one branch, no automated teller machines and not a single investment banker. . . . Return on equity, a measure of profitability, is 18.56%, about 70% higher than those at Goldman Sachs and J.P. Morgan.”
Why so profitable?
They have lower costs.

• No bonuses, fees, commissions.
• No high-paid CEOs.
• No branches or ATMs.
• Partners with local banks, which act as the front office.
• No advertising -- captive deposit base.
The BND model:

• Depository for all state revenues.
• DBA of the state.
• $40M annual dividend.
• Average ROE of 20%, 2009-2014.
• Mandate to serve the public.
• 1% loans to startup farms & businesses.
• 1.74% variable rate loans to students.
The Stellar Performance of German Savings Banks (Sparkassen)

2015 report comparing private German commercial banks with public savings banks (Sparkassen), regional banks and credit unions:

Total deposits and loans are about the same. Yet private banks are less profitable and pay less than half the taxes.
Net profit after taxes as a percentage of average total assets.

Profit to Balance Sheet Total

after tax in pct.

Source: Deutsche Bundesbank
The magic of leverage

- Revolving fund: 
  $20M \times 5\% = $1M

- Bank (with $200M in deposits): 
  $20M \times 9 \times 5\% = $9M
How to turn a profit overnight

Capital: $20M from Infrastructure Bank
Deposits: $200M
  x 0.3% interest
  = $0.6M cost of deposits
Loans: $200M - $20M reserve
  = $180M to lend or invest
$180M invested in municipal bonds @ 3%
  = $5.4M profit
  - $0.6M
Net profit: $4.2M (24%)
How to turn a profit overnight

Capital: $20M from rainy day fund or bonds @ 3%
        = $.6M cost of capital

Deposits: $200M
         x 0.3% interest
         = $0.6M cost of deposits

Loans: $200M - $20M reserve
       = $180M to lend or invest

$180M invested in municipal bonds @ 3%
     = $5.4M profit
     - $1.2M (cost of funds)

Net profit: $4.2M (21%)
Projected ROE holding 30% in reserve.

Capital: $20M from surplus fund or bond issue @ 3%
= $.6M cost of capital

Deposits: $200M @ 0.3%
= $0.6M cost of deposits

Loans: $200M - $60M reserve
= $140M to lend or invest

$140M invested in bonds earning 3%
= $4.2M profit
- $1.2M (cost of funds)

Net profit: $3M (15%)
Projected ROE with bond issue leveraged for small business loans.

Capital: $20M from rainy day fund or bond @ 3%
= $.6M cost of capital

Deposits: $200M @ 0.3%
= $0.6M cost of deposits

Loans: $200M - $20M reserve
= $180M to lend or invest

$180M invested in SME loans earning 5%
= $9M profit
- $1.2M (cost of funds)

Net profit: $7.8M (39%)
Eliminating interest can cut infrastructure costs in half.

Bay Bridge retrofit:
principal, $6 billion;
interest, $6 billion.

California bullet train:
principal, $9.95 billion;
interest, $9.5 billion
From parasite to symbiosis: public banks feed the economy rather than feeding off it.
For more information –
PublicBankingInstitute.org
EllenBrown.com