

# Bank On It: Cash-Starved States Create Their Own Credit

by Ellen Brown

On February 19, 2009, California narrowly escaped bankruptcy, when Governor Arnold Schwarzenegger put on his Terminator hat and held the State Senate in lockdown mode until they signed a very controversial budget. If the vote had failed, the state was going to be reduced to paying its employees in IOUs. California avoided bankruptcy for the time being, but 46 of 50 states are insolvent and could be filing Chapter 9 bankruptcy proceedings in the next two years.

One of the four states that is not insolvent is North Dakota. That is because North Dakota has the only state-owned bank in the nation. The state legislature established the Bank of North Dakota (BND) in 1919 to free farmers and small businessmen from the clutches of out-of-state bankers and railroad men. By law, the state must deposit all its funds in the bank, and the state guarantees its deposits. The bank's stated mission is to deliver sound financial services that promote agriculture, commerce and industry in North Dakota. The bank partners with private banks to loan money to farmers, real estate developers, schools and small businesses. It loans money to students and it purchases municipal bonds from public institutions.

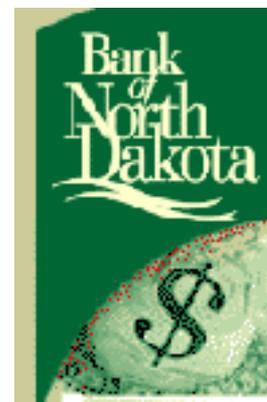
As a commercial bank BND can extend credit (create money as loans) in a sum equal to many times their deposit base.

Today, we are in a dangerous deflationary spiral, as lending has dried up and asset values have plummeted. The monopoly on the creation of money and credit by a private banking fraternity has resulted in a malfunctioning credit system and monetary collapse. Credit

markets have been frozen by the wildly speculative derivatives gambles of a few big Wall Street banks, bets that not only destroyed those banks' balance sheets but are infecting the whole private banking system with toxic debris. To get out of this deflationary debt trap requires an injection of new, debt-free money into the economy, something that can best be done through a system of public banks dedicated to serving the public interest, administering credit as a public utility.

California could do this as well. Robert Ellis is a Tucson talk show host who once worked on Wall Street and has been involved in setting up several banks and financial institutions. In January of this year, he proposed in a letter to Governor Schwarzenegger that California could resolve its financial woes by setting up a bank on the model of the Bank of North Dakota. Ellis wrote to the governor: "I admire your tenacity in dealing with California's financial problems. Your idea of using IOU's was ingenious but there is a better way. The State of California can charter its own bank and issue its own checks to all state employees...It can also pay all its vendors, contracts and contractors through the bank... Additionally, once the bank is operational, you can fund your own state projects and you determine the interest rate paid as opposed to being at the mercy of the banks you currently deal with or the interest rates the investment bankers make you pay to issue bonds. By doing this, you will put the state in control of its own destiny and make it the benefactor of its own money."

*This is an excerpt of an article Ellen Brown, wrote for YES! Magazine in March 2009. Ellen 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."*



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