Banking on NEW MEXICO

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Selection of coverage on
Public Banking in the National Media

RADIO

27 Minute Radio Interview with German Banker, Dr. Thomas Keidel and Public Banking Institute Executive Director Gwen Hallsmith
http://danahey.com/public-banking-is-around-the-world-why-not-america/

Citizen-owned public banks are wildly successful economic development tools in countries and communities around the world. North Dakota is the only state with a state-owned bank and it has provided its citizens with $300 million in dividends over the last ten years while being the only state with budget surpluses in that interval. How do public banks work? How can more states and communities realize their benefits? What is preventing the United States from introducing new competition and public transparency to the banking industry? Listen to Gwendolyn Hallsmith, Executive Director of the Public Banking Institute, and Dr. Thomas Keidel, Representative of the Board Financial Market Relations for DeutscherSparkassen- und Giroverband in Germany outline the massive opportunities available to all Americans.

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PRINT

BUCKS COUNTY Courier Times

Rising debt service costs: Public banks for tax relief

By Mike Krauss
Posted: Wednesday, December 9, 2015 12:15 am | *Updated: 1:18 am, Wed Dec 9, 2015.*

http://www.buckscountycouriertimes.com/opinion/op-ed/rising-debt-service-costs-public-banks-for-tax-relief/article_1de13d8b-dfb3-58b8-a958-aafba636ede5.html

Across the United States, states and municipal governments struggle to provide essential public services, such as schools, public safety, courts and prisons, public health, transportation infrastructure and parks, while also trying to keep taxes down for a middle class burdened with taxes of every kind.
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Some of those taxes are easily identified, like those on income, wages, property, sales and gas. Some are almost invisible. One of these is the tax on the money raised by the bonds that governments issue to pay for capital projects.

It's called interest, and this tax shows up in our public budgets and financial reports as "debt service," which adds to the burden on taxpayers.

In California for example, construction of the new Bay Bridge in San Francisco was projected to cost $6 billion. But California taxpayers are also on the hook for more than $6 billion more in interest, which will be paid to investors who purchased the bonds used to raise the first $6 billion.

But unlike the actual cost of the bridge which provides a benefit to the people of California, the great majority of the interest paid will leave the state and be of no benefit to its people.

Smaller governments are in the same boat. For example, Bucks County, where this newspaper is published, paid $14 million more in debt service in 2015 than in 2014, principal and interest on its outstanding bonds. The budget just unveiled for 2016 shows another 9 percent increase, a total $42 million, about 10.5 percent of the total budget, at a time of all time low interest rates.

And again, while the money spent on county capital projects has a benefit for the people of the county, almost all the interest paid on the debt (bonds) will leave the county.

One state in the nation has escaped this "double whammy" of taxation: North Dakota, which has its own bank to save taxpayers from the tax on debt.

When North Dakota municipalities or agencies need funds for a capital project, instead of issuing bonds and paying the fees as well as years of interest that siphon money away from the needs of residents, they can get a lower interest loan from the state public bank, the Bank of North Dakota (BND), and lower the debt service. And any interest that is paid comes back to the bank which the people own, to be reinvested in low interest loans to businesses, students and public purposes, or passed through to the state's general fund as non tax revenue.

Most recently, a BND loan funded a $48 million new school construction, at an interest rate of 1.5 percent. There were no fees to the many parties involved in bond issues, and not a nickel of this interest tax will leave the state.

But a public bank can not only offer low cost loans, it can compete in the bond market with Wall Street and offer lower interest on bonds. A preliminary report prepared for the City of Santa Fe, New Mexico (population 70,000) projects a first year savings of $1.4 million in debt service for a proposed public bank of that city, by refinancing existing debt.

A report of the Political Economy Research Institute at the University of Massachusetts, prepared for state lawmakers in Vermont, projects that a state public bank could save nearly $100 million in the debt service in that state's annual budget for capital projects.

Public, partnership banks offer many benefits, but none may be as important to taxpayers as lowering the costs of capital projects and eliminating the higher taxes required to meet the debt service on bond issues, and the ability to redirect the flow of interest payments back into the economy of the taxpayers who foot the bill.

A public bank of Bucks County, population almost the same as Vermont and only slightly smaller than North Dakota, could provide this benefit to Bucks County taxpayers. A public bank of Pennsylvania could do the same for our commonwealth.

A network of state, county and municipal pubic banks in the United States could save the American people hundreds of billions a year, reduce debt, generate the affordable credit needed to power our local economies and transform the state, county and municipal budget landscape.

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The Old Economy wins a round:
Public banking set back in Vermont

By Mike Krauss
Bucks County Courier Times
February 9, 2015

http://www.buckscountycouriertimes.com/opinion/op-ed/the-old-economy-wins-a-round-public-banking-loses-in/article_52d7e5f4-3ac3-5d39-9c39-07591a0c4d39.html

Across the nation, in Pennsylvania and more than two dozen state legislatures and city councils, a well organized effort is underway to create a new tool to insure sound municipal finances and economic development: public banks, to take hundreds of millions of taxpayer funds out of Wall Street banks and put them to work locally with our community banks and credit unions for locally directed economic development and jobs creation.

The Wall Street banks and their allies are not anxious for the competition for our deposits, and want to keep them to underwrite their speculation in derivatives and commodities.

Last November nearly two dozen town meetings in Vermont voted strongly to support the creation of a state public bank. A solid measure of voter intent.

Armed with that support and the data to demonstrate conclusively the benefits, public bank advocates pressed the state legislature for a bill to create the bank.

But the political and economic elites of the state, led by the state treasurer, closed ranks and turned that effort aside, agreeing only to vote an appropriation of ten percent of the state's revenue reserve to fund a new economic development initiative, apart from several other existing development agencies.
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Supporters of this initiative rightly claim that it will make new funds available for investment in the state, this year about another $10 million.

But it is a setback for public banking.

Vermont public banking advocates have been maneuvered into creating yet another political lending agency, of the kind typical of the old, controlled economy which the voters in the town meetings were hoping to escape.

The network of interests that will manage and benefit from this new Vermont agency -- politicians, political appointees, the professionals they retain and fund in the deal making process, the politically connected borrowers and the politicians they support -- will grow politically more enabled and will resist any future diminution of their position, personal advantage and political power with the creation of a public bank that will make a claim on their funding source.

And while more of the state's revenue will now be directed into some form of economic activity in the state, few if any of the other benefits of a public bank will be realized.

This agency will not direct any profits into the state's general fund and will not be self-sustaining, requiring an annual appropriation of state revenues which could easily be cut or eliminated altogether in the next economic downturn.

This agency will not be a replacement for municipal rainy day funds that yield next to nothing. Nor will it be a source of immediate and low cost emergency relief funds, to meet natural or man- made disasters or budget shortfalls.

And as it is not a bank, this new agency must deposit its funds in a bank -- no doubt, the Canadian mega bank now favored by the state treasurer -- and pay the substantial fees for services common to such arrangements.

This new Vermont agency is a vertically integrated lending process controlled by political and economic elites. What was not achieved in this legislation is the singular benefit that owning a bank provides -- the ability to create "new money" at affordable interest in the form of loans into the local economy.

Public banks facilitate a lateral and collaborative sharing of decision making in the creation of public credit and its cost, and its distribution into the local economy, separated from political management and working through a network of independent commercial lenders which are part of the local community.

The forward looking energy of those November town meetings has been deflected. There is now no public bank legislation pending in Vermont. Nor will there be, any time soon. It has been pushed off the agenda.

The new loan program was set to automatically expire in July, but the Vermont Bankers Association, representing the mega banks, already supports its continuation as a hedge against creation of a public bank.

Supporters of public banking in other states and municipalities should take heed of this cautionary tale. The path to a new and more democratic economy does not lead through creation of yet another political lending agency of the status quo and the old economy.

The first step on that path is clearly marked: banks owned by the public.

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Dr. Thomas Keidel of the German Savings Banks Foundation, who participated in our September 27th public banking symposium, state that there are many models for public savings banks around the world. The German Savings Bank model was established to provide access to banking services to every person in Germany, not just those with more financial resources.

truthdig drilling beneath the headlines

Why Public Banks Outperform Private Banks

Posted on Feb 12, 2015

By Ellen Brown, Web of Debt

http://www.truthdig.com/report/item/why_public_banks_outperform_private_banks_20150212

epSos.de(CC BY 2.0)

This piece first appeared at Web of Debt.
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In November 2014, the Wall Street Journal reported that the Bank of North Dakota (BND), the nation's only state-owned bank, "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." The article credited the shale oil boom; but as discussed earlier here, North Dakota was already reporting record profits in the spring of 2009, when every other state was in the red and the oil boom had not yet hit. The later increase in state deposits cannot explain the bank's stellar record either.

Then what does explain it? The BND turns a tidy profit year after year because it has substantially lower costs and risks then private commercial banks. It has no exorbitantly-paid executives; pays no bonuses, fees, or commissions; has no private shareholders; and has low borrowing costs. It does not need to advertise for depositors (it has a captive deposit base in the state itself) or for borrowers (it is a wholesome wholesale bank that partners with local banks that have located borrowers). The BND also has no losses from derivative trades gone wrong. It engages in old-fashioned conservative banking and does not speculate in derivatives.

Lest there be any doubt about the greater profitability of the public banking model, however, this conclusion was confirmed in January 2015 in a report by the Savings Banks Foundation for International Cooperation (SBFIC) (the Sparkassenstiftung für internationale Kooperation), a non-profit organization founded by the Sparkassen Finance Group (Sparkassen-Finanzgruppe) in Germany. The SBFIC was formed in 1992 to make the experience of the German Sparkassen – municipally-owned savings banks – accessible in other countries.

The Sparkassen were instituted in the late 18th century as nonprofit organizations to aid the poor. The intent was to help people with low incomes save small sums of money, and to support business start-ups. Today, about half the total assets of the German banking system are in the public sector. (Another substantial chunk is in cooperative savings banks.) Local public banks are key tools of German industrial policy, specializing in loans to the Mittelstand, the small-to-medium size businesses that are at the core of that country's export engine. The savings banks operate a network of over 15,600 branches and offices and employ over 250,000 people, and they have a strong record of investing wisely in local businesses.

In January 2015, the SPFIC published a report drawn from Bundesbank data, showing that the Sparkassen not only have a return on capital that is several times greater than for the German private banking sector, but that they pay substantially more to local and federal governments in taxes. That makes them triply profitable: as revenue-generating assets for their government owners, as lucrative sources of taxes, and as a stable funding mechanism for small and medium-sized businesses (a funding mechanism sorely lacking in the US today). Three charts from the SBFIC report are reproduced in English below. (Sparkassen results are in orange. Private commercial banks are in light blue.)

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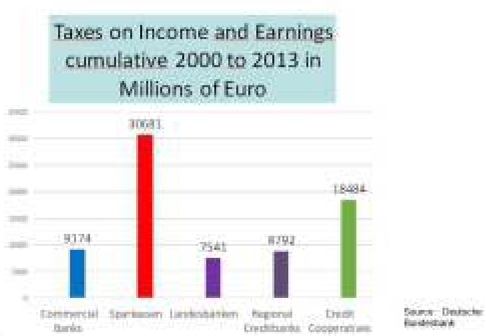

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Swiss Publicly-Owned Banks and the Swiss National Bank: Marching to a Different Drummer

The Swiss have a network of cantonal (provincially-owned) banks that are so similar to the Sparkassen banks that they were invited to join the SBFIC. The Swiss public banks, too, have been shown to be more profitable than their private counterparts. The Swiss public banking system helps explain the strength of the Swiss economy, the soundness of its banks, and their attractiveness as a safe haven for foreign investors.

The unique structure of the Swiss banking system also helps explain the surprise move by the SNB on January 15, 2015, when it lifted the cap on the Swiss franc as against the euro, anticipating the European Central Bank's move to embark on a massive program of quantitative easing the following week. Switzerland is not a member of the EU or the Eurozone, and the Swiss National Bank (SNB) is not like other central banks. It is 55% owned by the country's 26 cantons or provinces. The remaining investors are private. Each canton has its own publicly-owned cantonal bank, which provides credit to local small and medium-sized businesses.

In 2011, the SNB pegged the Swiss franc to the euro at 1 to 1.20; but the value of the euro steadily dropped after that, and the SNB could maintain the peg only by printing Swiss francs, diluting their value to keep up with the euro. The fear was that once the ECB started its new money printing program, the Swiss franc would have to be diluted into hyperinflation to keep up.

The SNB's unanticipated action imposed heavy losses on speculators who were long the euro (betting it would rise), and the move evoked criticism from the European central banking community for not tipping them off beforehand. But the loyalty of the Swiss National Bank is to its cantons, cantonal banks, and individual investors, not to the big private international banks that drive central bank policies in other countries. The cantons had been complaining that they were no longer receiving the hefty 6% dividend they had been able to count on for the previous century. The SNB promised to restore the dividend in 2015, and lifting the cap was evidently felt necessary to do it.

Publicly-owned Banks and the Trans-Pacific Partnership

The SBFIC is working particularly hard these days to make information and technical help available to other countries interested in pursuing their beneficial public model, because that model has come under attack. Private international competitors are pushing for regulations that would limit the advantages of publicly-owned banks, through Basel III, the European Banking Union, and the Transatlantic Trade and Investment Partnership (TTIP).

In the US, the current threat is from the TransPacific Partnership (TPP) and its European counterpart the TTIP. President Obama, the Chamber of Commerce, and other corporate groups are pushing hard for fast track authority to pass these secret trade agreements while effectively bypassing oversight from Congress.

The agreements are being sold as promoting trade and increasing jobs, but the effect of international trade agreements on jobs was evident with NAFTA, which hurt US employment more through the competition of cheap imports than helped it with increased exports. Moreover, only five of the TPP's twenty-nine chapters are about trade. The remaining chapters are basically about getting government off the backs of the big international corporations and protecting their profits from competition. Corporations would be authorized to sue governments that passed laws protecting their people from corporate damage, on the ground that the laws impair corporate profits. The trade agreements put corporations before governments and the people they represent.

Particularly targeted are government-owned industries, which can undercut big corporate prices; and that includes publicly-owned banks. Public banks are true non-profits that recycle earnings back into the community rather than siphoning them into offshore tax havens. Not only are the costs of public banks quite low, but they are safer for depositors; they allow public infrastructure costs to be cut in half (since the government-owned bank can keep the interest that composes 50% of infrastructure costs); and they provide a non-criminal alternative to an international banking cartel caught in a laundry list of frauds.

Despite these notable benefits, under the TPP and TTIP, publicly-owned banks might wind up getting sued for unfair competition because they have advantages not available to private banks, including the backing of their local governments. They have the backing of the government because they are the government. The government would be getting sued for operating efficiently in the best interests of its constituents.

To truly eliminate unfair competition, the giant monopolistic multinational corporations should be broken up, since they have an obvious unfair trade advantage over small farmers and small businesses. But that outcome is liable to be long in coming. In the meantime, fast track for the secretive trade agreements needs to be vigorously opposed. To find out how you can help, go to www.StopFastTrack.com or www.FlushtheTPP.org.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. Her latest book, The Public Bank Solution, explores successful public banking models historically and globally. Her 200+ blog articles are at EllenBrown.com.