A PUBLIC BANK FOR SCOTLAND?

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Edinburgh
November 22, 2012

Where does money come from?

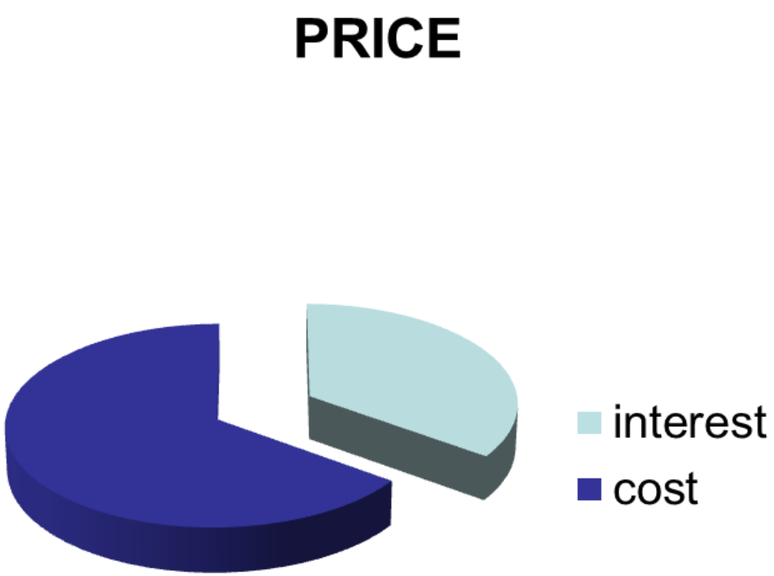
Most of our money is created by banks when they make loans.

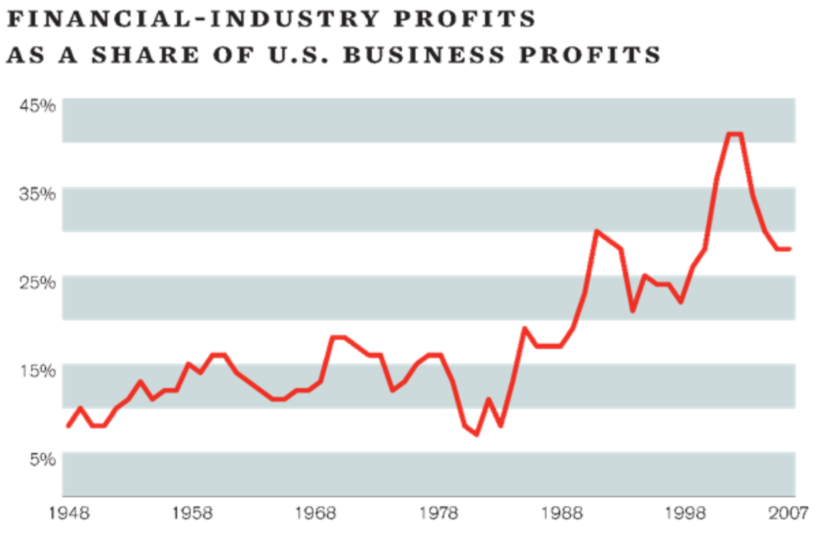
“I am afraid the ordinary citizen will not like to be told that the banks can, and do, create and destroy money. The amount of money in existence varies only with the action of the banks in increasing or decreasing deposits and bank purchases. We know how this is effected. Every loan, overdraft or bank purchase creates a deposit, and every repayment of a loan, overdraft or bank sale destroys a deposit.”

- – The Right Honorable Reginald McKenna, former British Chancellor of the Exchequer, 1924

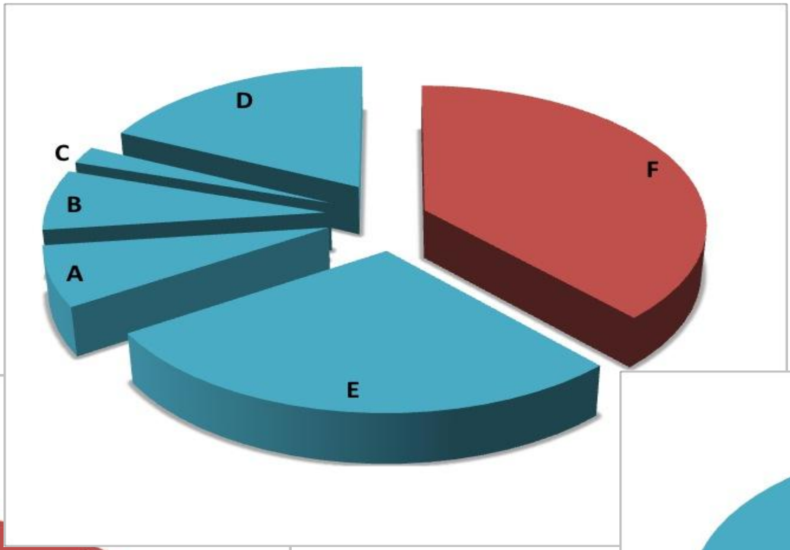
Some other arresting facts

35%-40% of everything we buy goes to interest.
29% of business profits go to the financial industry.
$21-$32 trillion are hidden in offshore tax havens.

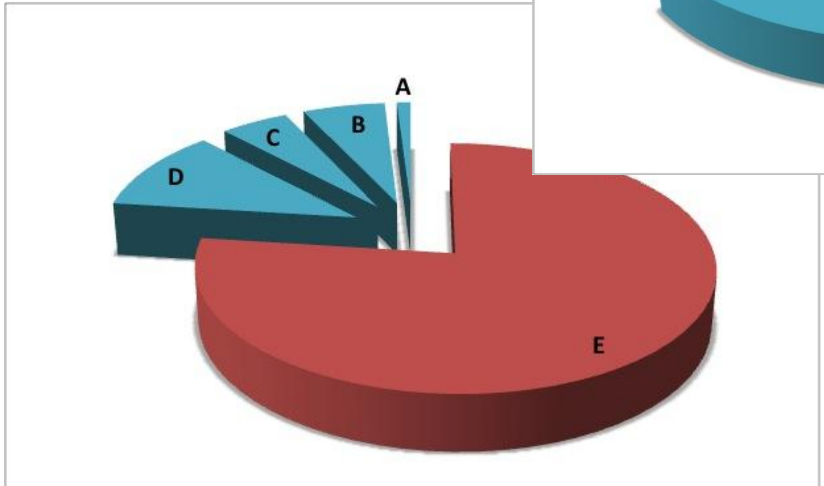




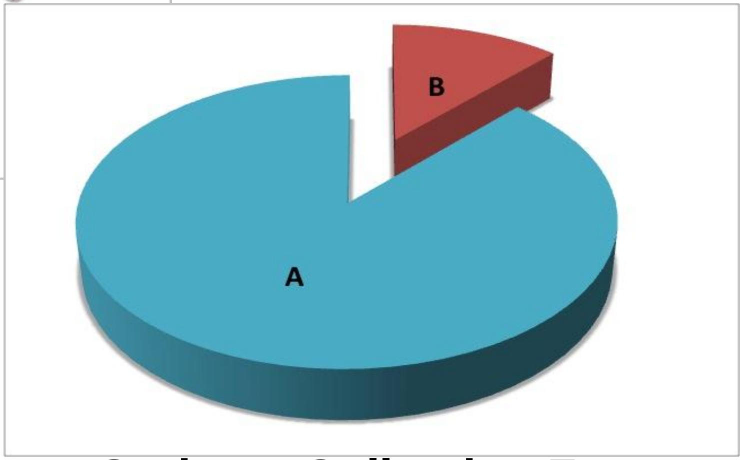
40% of the cost of public projects goes to interest.



Drinking Water
Cost of interest on capital 38%



Rent in Public Housing
Cost of interest on capital 77%



Garbage Collection Fees
Cost of interest on capital 12%

From Margrit Kennedy, http://www.monneta.org/upload/pdf/Pres_MK_CompC.pdf

How can governments recapture these profits? By owning the bank.

Socialist? No.

Banking is not a market good or service. It's financial infrastructure, which belongs in the public sector.

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One billion big ones

State budget outlook predicts huge surplus, $70 oil

By DALE WETZEL
Associated Press Writer

A new forecast of North Dakota's tax collections predicts a $1 billion budget surplus in July, continuing a robust financial trend that has defied a national recession and budget deficits in most states.

Oil prices, a key contributor to the state's wealth, are expected to average $70 a barrel for the next two years, the forecast finds.

Revenues are expected to rise almost 10 percent during the same period. An even higher spike is expected in sales tax collections, which provide the biggest share of the budget for North Dakota government.

"I think it's good news, but it's not unexpected," Lt. Gov. Jack Dalrymple said Tuesday. "It shows the economy in North Dakota is still in good shape."

North Dakota's current two-year budget is $8.84 billion, a figure that includes federal aid to the state.

The forecast was compiled by the state Office of Management and Budget and Moody's Economy.com, a West Chester, Pa.-based consultancy, to prepare Gov. John Hoeven's budget recommendations. Its numbers will be updated in November, a month before the governor's spending plan is presented to the Legislature, said Pam Sharp, the state budget director.

The forecast includes estimates of state tax collections for the rest of the current 2009-11 budget period, which ends June 30, and a forecast of revenues for the

Continued on 9A

Only one US. state actually owns its own depository bank – North Dakota.

- It is also the only state to escape the credit crisis, sporting a budget surplus every year since 2008.
- It has the lowest unemployment rate, foreclosure rate, and default rate in the country.

North Dakota has had its own bank since 1919.

- The farmers were losing their farms to the Wall Street bankers.
- They organized, won an election, and passed legislation.

The Bank of North Dakota (BND) has a massive, captive deposit and capital base.

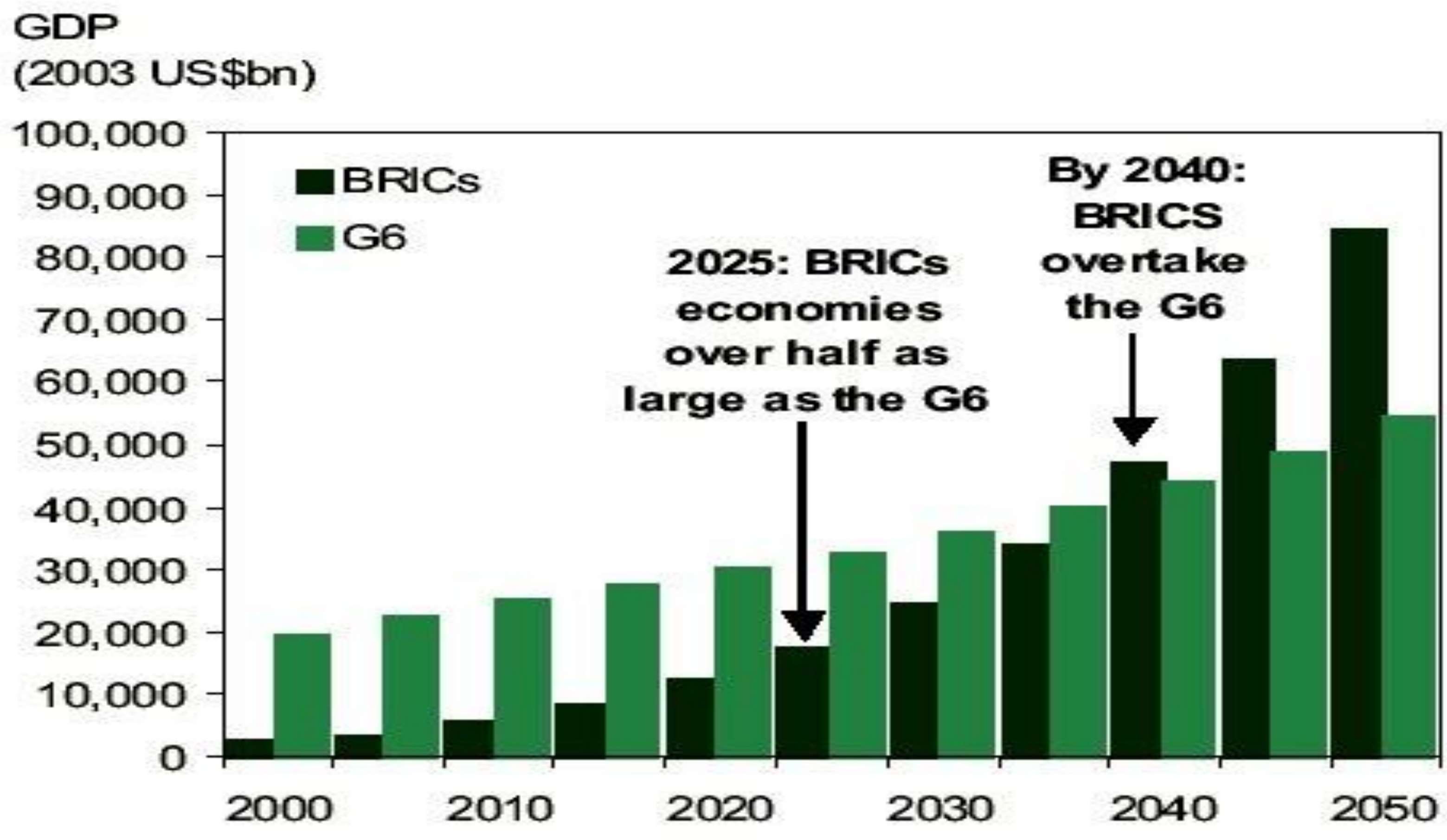
- All state revenues are deposited in it by law.
- The bank is a dba of the state (“North Dakota doing business as the Bank of North Dakota”), so all the state’s assets are technically the bank’s assets.

What the BND does for ND:

- Pays a dividend to the state of $30M/year (population 640,000).
- The BND has had a return on equity since 2008 of 19-26%.
- Pays competitive interest on state deposits.
- Partners with local banks to increase local lending.
- Cheap credit lines to state and local government agencies.
- Low-interest loans for designated local projects.
- Redirects credit away from speculation toward local lending; mandate to serve the public interest.
- Underwrites municipal bonds, avoiding high cost of fees, “insurance” (swaps), and bond market speculation.
- Reduced banking costs: no bonuses, fees, commissions; no advertising; no branches.

Twenty U.S. states have introduced bills for publicly-owned banks.

Globally, 40% of banks are publicly-owned. These are largely in the BRIC countries, which also escaped the credit crisis.



Source: BRIC Consulting

Aren’t public banks corrupt, incompetent and unprofitable? Not per recent studies --

“Using data from a large number of countries for 1995-2007, we find that . . . countries with high degrees of government ownership of banking have grown faster than countries with little government ownership of banks. . . .

“Government owned banks . . . have less freedom to engage in speculative strategies that result in quick enrichment for bank insiders and politicians.”

-- Svetlana Andrianova, Panicos Demetriades, and Anja Shortland. "Is Government Ownership of Banks Really Harmful to Growth?" *Brunel University*. (May 2009). brunel.ac.uk.

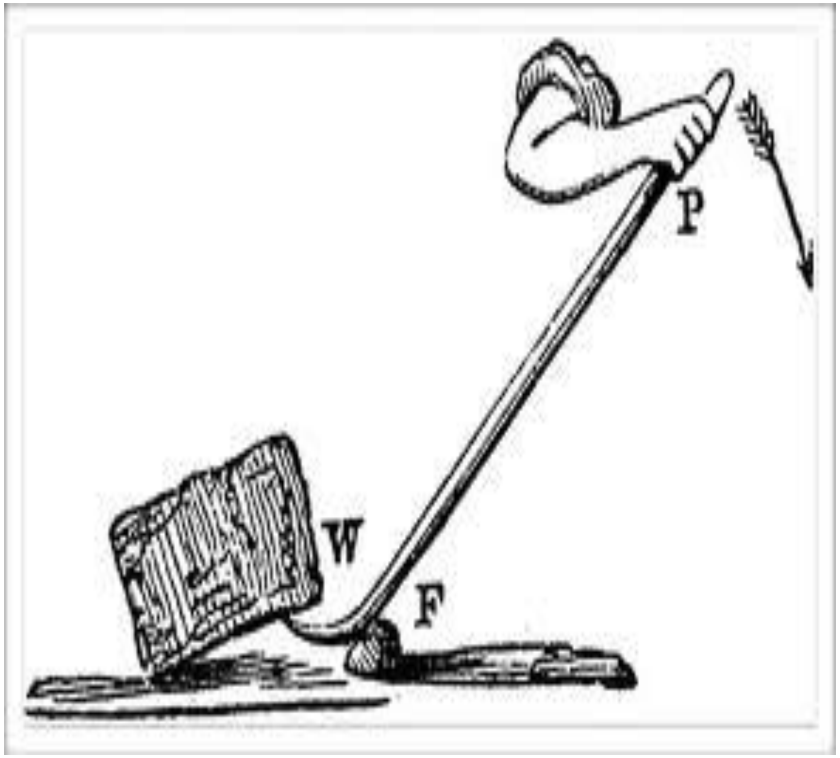
“Government banks . . . produce more public policy for less cash. The slim central offices, low cost/income ratios and principles of profit sustainability . . . provide powerful competitive advantages over private banks and help lower the costs of public policy. . . .

“Analysts often compare government bank performance unfavorably with private commercial banks. However, in terms of public policy, government banks can do more for less: Almost ten times more if one compares cash used as capital reserves by banks to other policies that require budgetary outflows.”

-- Kurt Von Mettenheim and Maria Antonieta Del Tedesco Lins, <u>Government Banking: New Perspectives on Sustainable Development and Social Inclusion from Europe and South America</u> (Konrad Adenauer Foundation, 2008), Page 196.

What does that mean?
Capital can be leveraged 10 to 1.

- Compare this to a revolving fund, where $100 can be lent only once and then must be repaid before relending.
- $100 invested as capital in a bank can back $1,000 in loans.



That's for capital. What about deposits to cover the loans ("liquidity")?

- $1,000 in loans should be covered with $1,000 in deposits (in this case government revenues).
- But the revenues REMAIN IN THE BANK, fully accessible to the government. The government thus doubles its effective purchasing power.
- If the bank has insufficient deposits to cover withdrawals, it can borrow from other banks or the central bank . . .

. . . or it can borrow from the ECB.

- Lisbon Treaty, Article 123, forbids direct borrowing by member governments but excepts "publicly-owned credit institutions."
  - 2. "Paragraph 1 shall not apply to publicly owned credit institutions which . . . shall be given the same treatment by national central banks and the European Central Bank as private credit institutions."

In effect, the government can borrow from the ECB at low rates rather than on the open market at much higher rates.

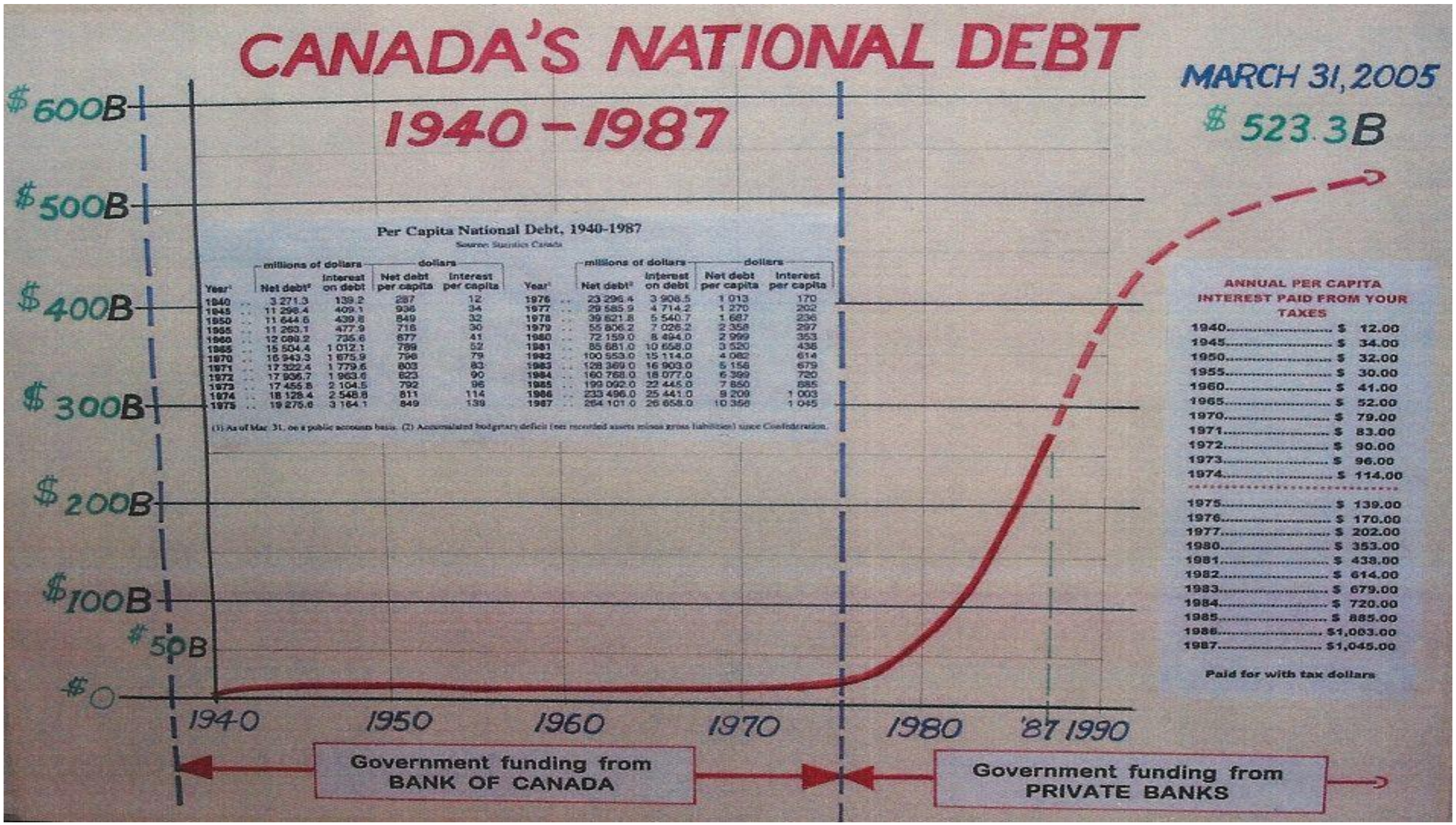
- The ECB, instead of buying government bonds directly, has offered unlimited funds to banks at 1% for a period of three years, allowing the banks to subscribe to bonds of countries like Italy, Spain, Ireland and Portugal, where yields range between 3.5% to 8%. The banks earn the spread and need not worry about default, as the EU is committed to protect these indebted nations from default.
  - DNA Daily News (India), Dec. 22, 2011

Other models

In the first half of the 20th century, Australia and New Zealand funded major public projects simply with "national credit."

Stunning results – until blocked by the Bank of England.

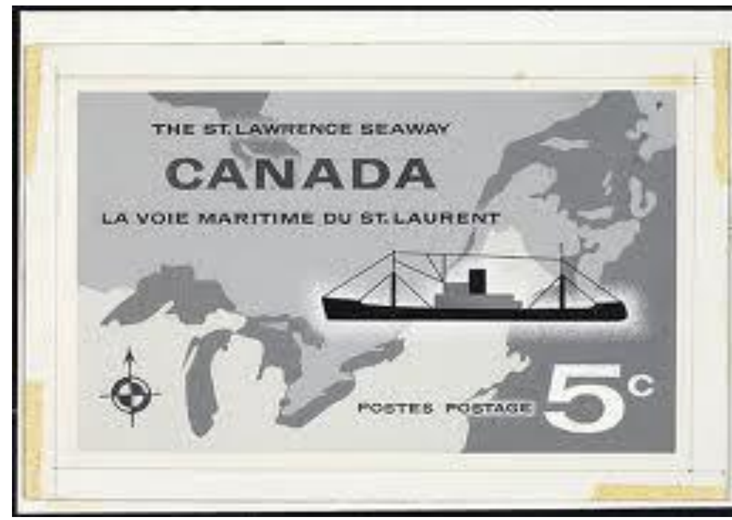
From 1939-74, the Canadian government borrowed from the Bank of Canada, effectively interest-free.



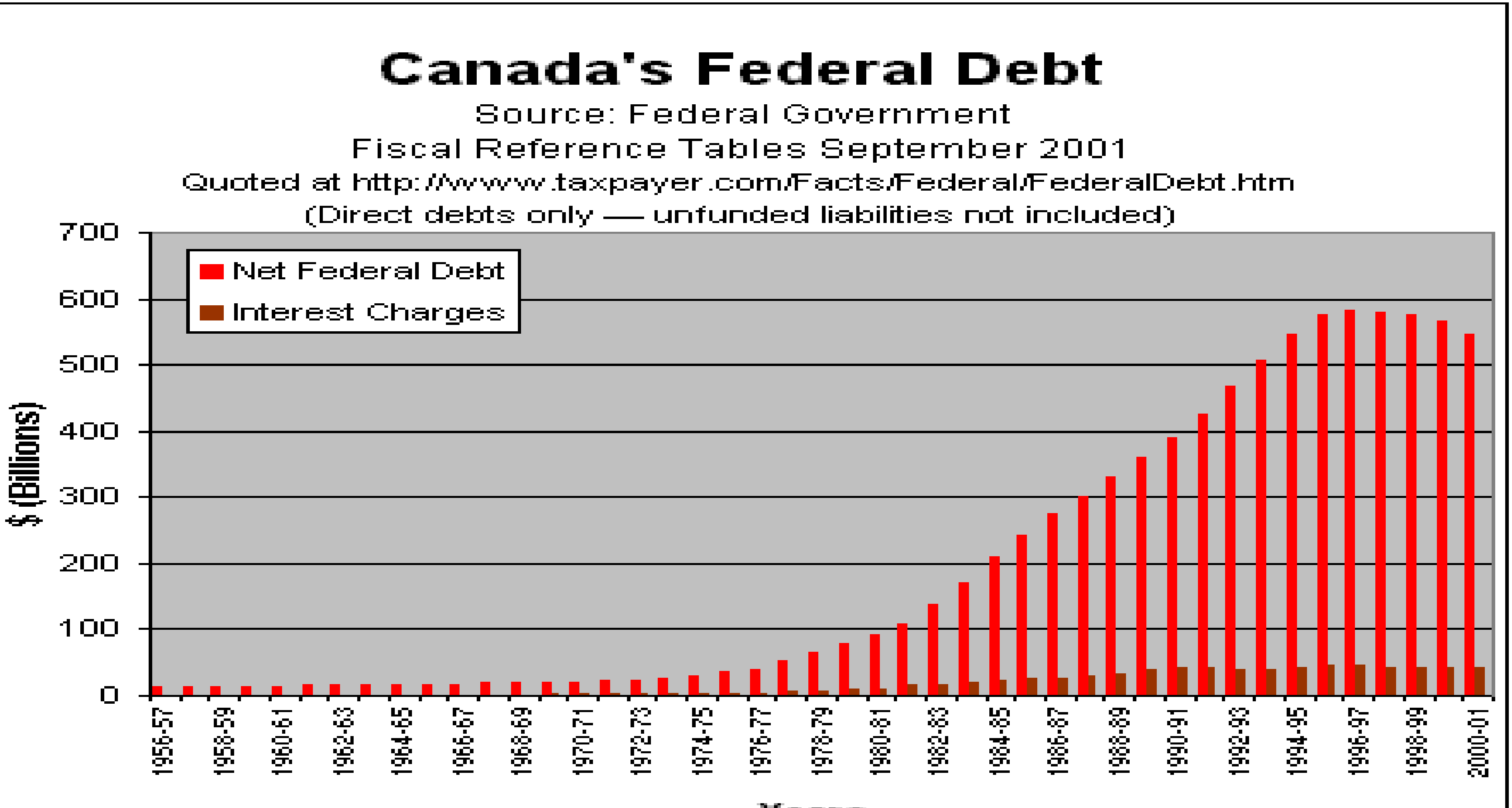
Figures supplied by former government accountant Jack Biddell.
Compiled by Will Abram, reproduced at http://occupyourbank.ca.

Major government projects were funded in this way, without increasing the debt:

- aircraft production during and after World War II
- education benefits for returning soldiers
- family allowances
- old age pensions
- the Trans-Canada Highway
- the St. Lawrence Seaway project
- universal health care for all Canadians.



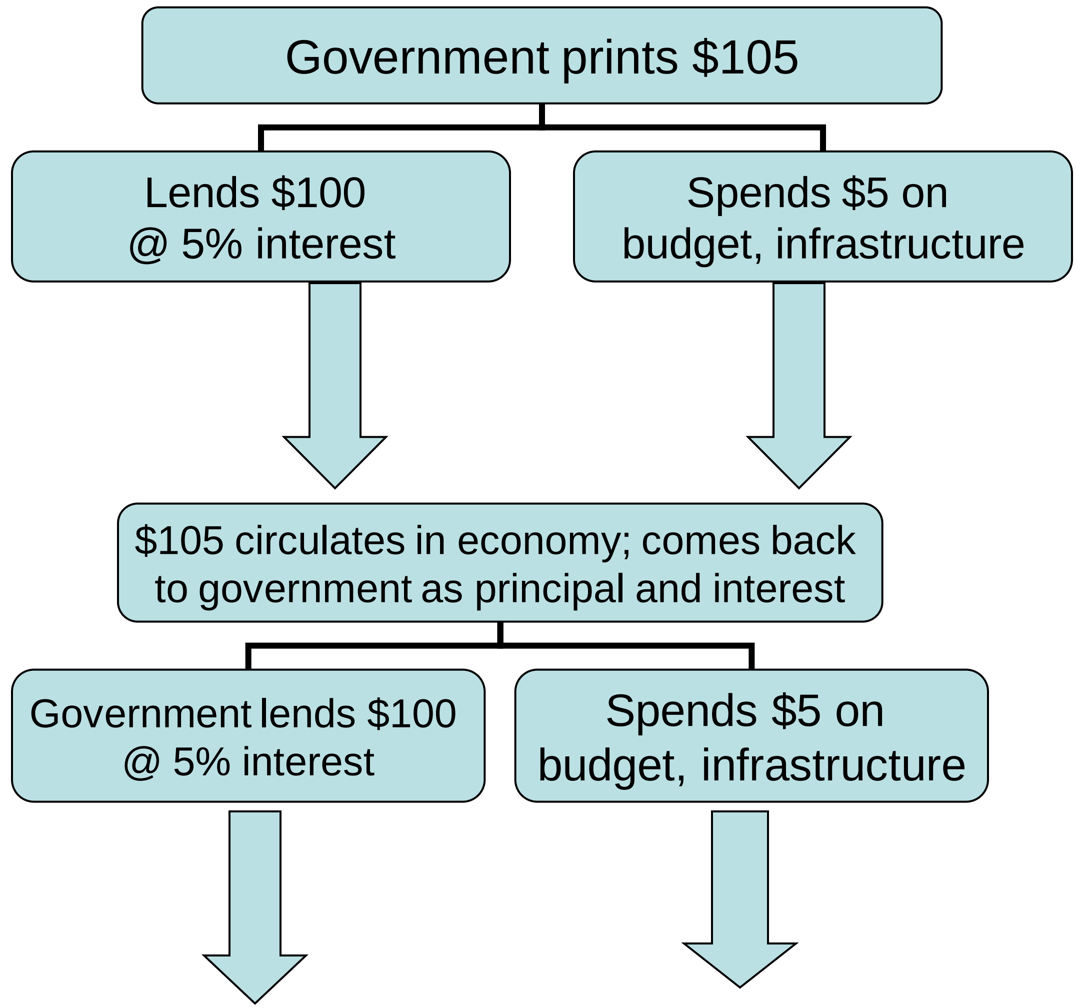
What happened in 1974? Canada joined the BIS and the Basel Committee, which frowned on these practices, calling them “inflationary.” (They weren’t.) It is now embroiled in debt.



The original U.S. public bank model was in Benjamin Franklin's colony of Pennsylvania . . .

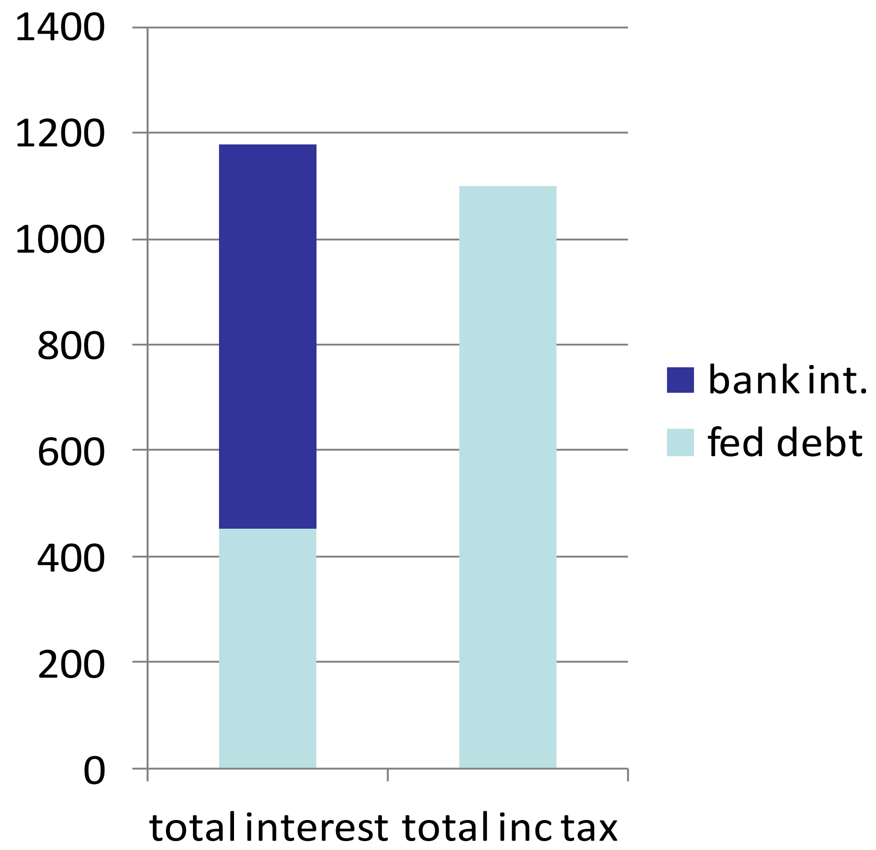
Bills of credit were issued by a land bank and lent at interest. The result:

- No taxes
- No inflation
- No government debt!



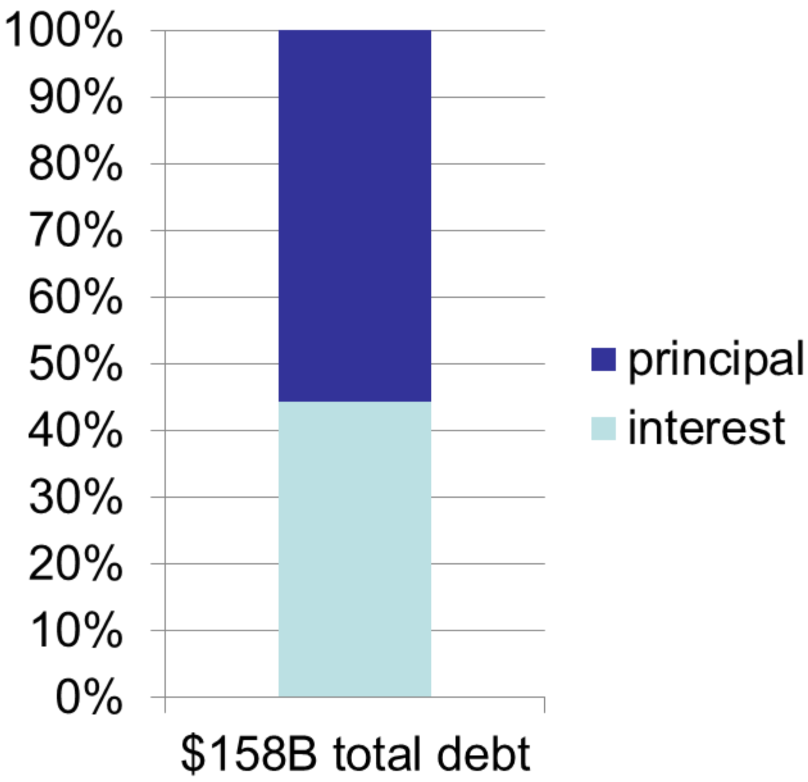
Could that work today? Yes!

- Total U.S. personal income taxes paid in 2011: $1,100 billion.
- Interest collected by U.S. banks: $725 billion.
- Interest paid on the federal debt: $454 billion.
- $725 + $454 = $1,179 billion.



Without interest, California could be $70 billion richer.

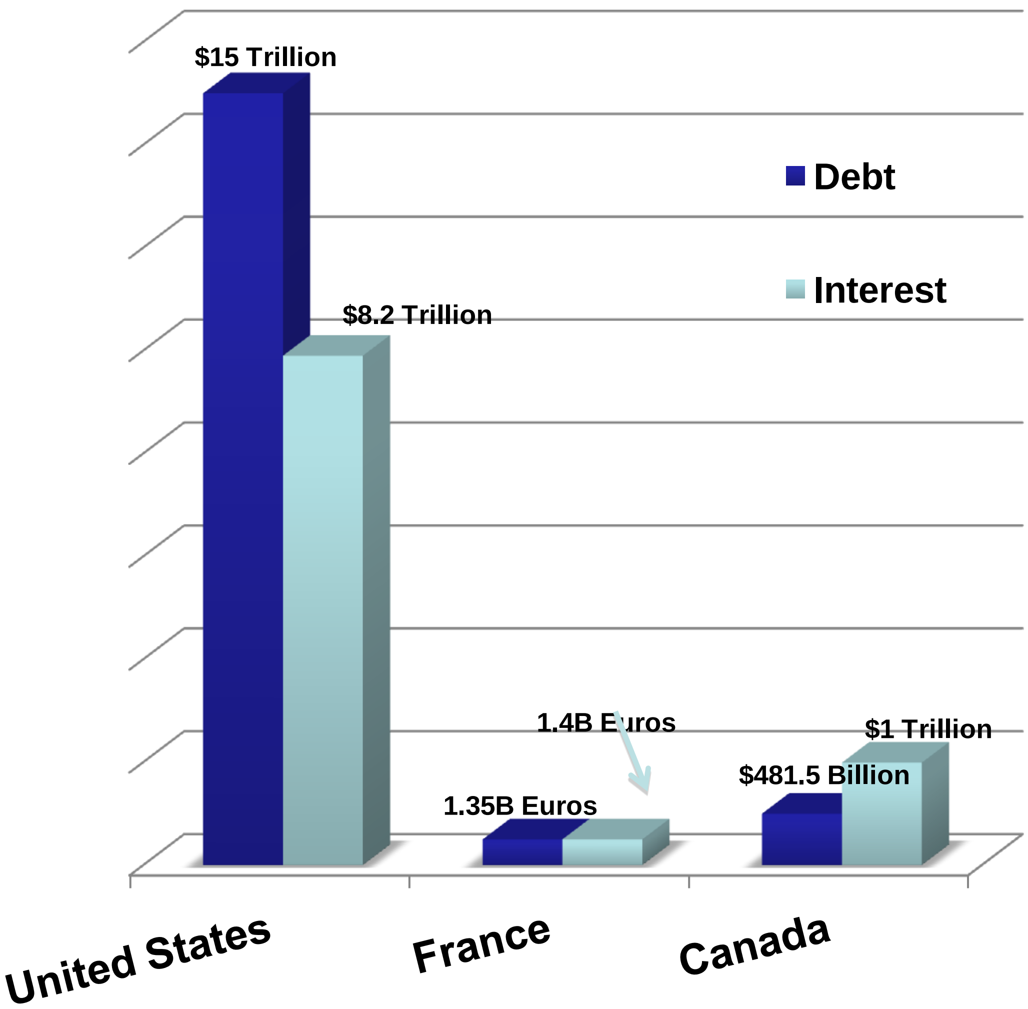
CA Gen. Obligation & Revenue Bonds, Nov 2010



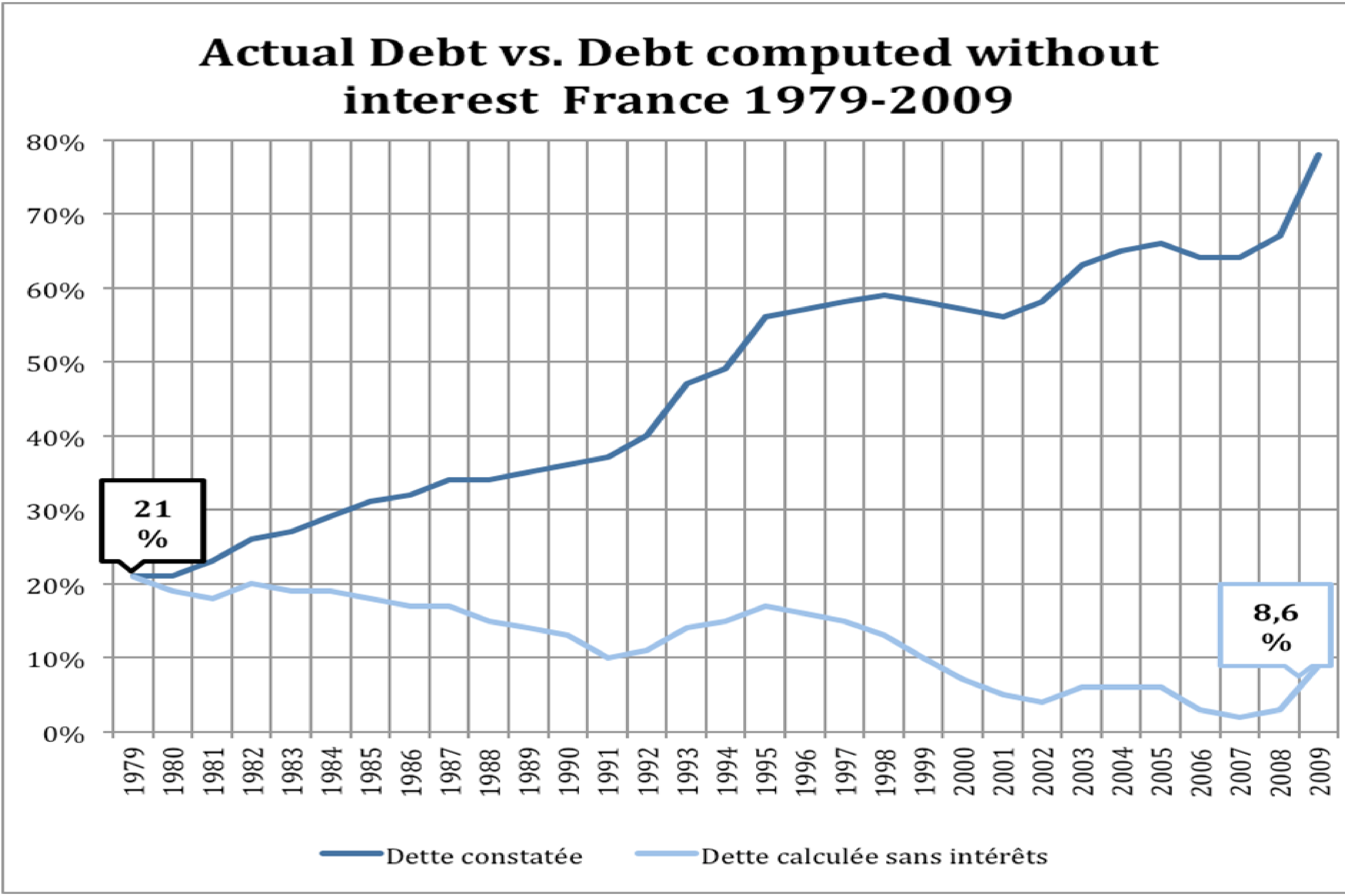
- Eliminating interest would cut the $158 billion debt by $70 billion, or 44% -- nearly half.

http://www.treasurer.ca.gov/bonds/debt/201011/summary.pdf

Without interest, there might not be a national debt.



- **U.S. debt is $15T. $8.2T has been paid in interest in 24 years.** http://www.treasurydirect.gov/govt/reports/ir/ir_expense.htm
- **France's debt increased 1.35B Euros since 1973. 1.4B Euros paid in interest.** https://www.youtube.com/watch?v=P8fDLyXXUxM&feature=player_embedded
- **Canada's debt in 2006 was C$ 481.5B. It had paid almost C$ 1T in interest since 1961.** http://www.enterstageright.com/archive/articles/1006/1006cdndebt.htm



From Bernard Lietaer, et al., “Money and Sustainability” (2012)

The postal bank option – commercial government banks with many branches

Japan Post Bank --

- Captive source of funding for the government
- Interest = the savings of the people

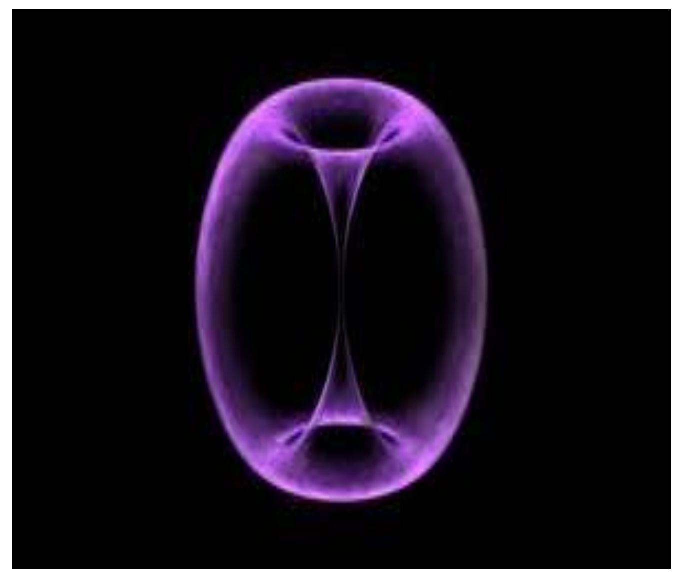
NZ's Kiwibank --

- founded in 2002; wildly popular
- Depository bank for underserved areas

A publicly-owned bank can raise government revenues without raising taxes, by:

- Returning a hefty dividend to the government.
- Increasing the tax base by partnering with local banks to increase their loan capacity, fostering local business.
- Reducing government borrowing costs by providing low- or no-interest loans to state and local government.

When a government borrows from its own publicly-owned bank, the interest returns to the public. Bank profits feed the economy rather than feeding off it.



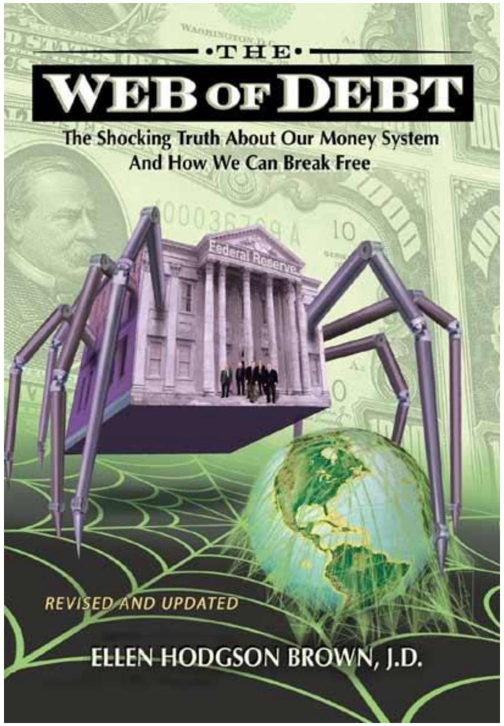
PUBLIC BANKING INSTITUTE

Banking in the Public Interest

For more information –

PublicBankingInstitute.org

WebofDebt.com



A Public Bank for Scotland?

Ralph Leishman

RSA Scotland

Edinburgh

November 22, 2012

A Public Bank for Scotland?

"..... securing *affordable finance* remains a considerable challenge and further action is needed to ensure that viable businesses have access to the funding they require to grow and support jobs. The recovery is being held back by limited private sector investment – indeed, overall investment in the UK remains some 15% below pre-recession levels. Evidence shows that while many large companies have significant cash holdings or can access capital markets directly, for most Small and Medium-sized companies bank lending remains the key source of finance. Unblocking this is key to helping the recovery gain traction."

The Government Economic Strategy, September 2011

A Public Bank for Scotland?

The Scottish public sector also has significant cash holdings:

Cash and cash equivalents as at 31 March 2011

	£m
Scottish Government	124
Local authorities	910
	1,034

A Public Bank for Scotland?

“During this Financial Year the emphasis continued to remain on security with the return of the principal sum being the main concern. With this in mind Cash Fund money invested with banking institutions is mostly on call or near call. Rates being achieved with Local Authority deposits decreased during the year, and Treasury Bill rates also dropped which made achieving an attractive interest rate whilst securing security of principal extremely difficult.”

City of Edinburgh Council, Treasury Management: Annual Report 2011/12

Looking at a sample of LA reports for 2011-12, rates received ranged from 0.75% to 1.25%

A Public Bank for Scotland?

	£m
Scottish Investment Bank investment 31/03/2011	23.2
Top this up to an initial capital of say	25.0
Leverage at 10:1 to make available lending of	250.0
Deposit cover:	
Scottish Government	125.0
Local Government (<14% of £910m)	125.0
	250.0

A Public Bank for Scotland?

From 2015/16:

Landfill Tax for Scotland

Scottish Land and Buildings Transactions Tax

(£ million)

	2006-07	2007-08	2008-09	2009-10	2010-11
Landfill Tax for Scotland	78	90	82	85	99
Stamp Duty Land Tax	423	554	321	249	330
	501	644	403	334	429

Additional capital?

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