

HB

376

<TARGET><BILL>HB 376</BILL><SUBJECT>HB
376</SUBJECT><COMM>HL&C30</COMM></TARGET>



Representative Chris Tuck

House Majority Leader

Alaska State Legislature

District 23 - Representing Dimond Estates, Foxridge, Taku,
Campbell, Northwood and Windemere

MEMORANDUM

March 9, 2018

TO: Representative Sam Kito

FROM: Representative Chris Tuck
House Majority Leader 

SUBJECT: Hearing Request for House Bill 376

I am writing to request a hearing for House Bill 376, "An Act establishing a state bank; relating to insurance, mortgage lending, securities, and permanent fund dividends; and providing for an effective date."

Included in the bill packet:

- House Bill 376A
- Sponsor Statement
- Economic Charts
- Sectional Analysis
- Support Documents
 - Benjamin Franklin quote in the House of Commons 1766
 - Reconstruction Finance Corporation
 - Bank of North Dakota Story
 - Economists Ignore One of Capitalism's Biggest Problems
 - Why Public Banks Outperform Private Banks
 - Public Banking Institute-FAQ

If you have any questions, please feel free to contact me or my staff Charles Duncan at 465-3711.

Thank you for your consideration.

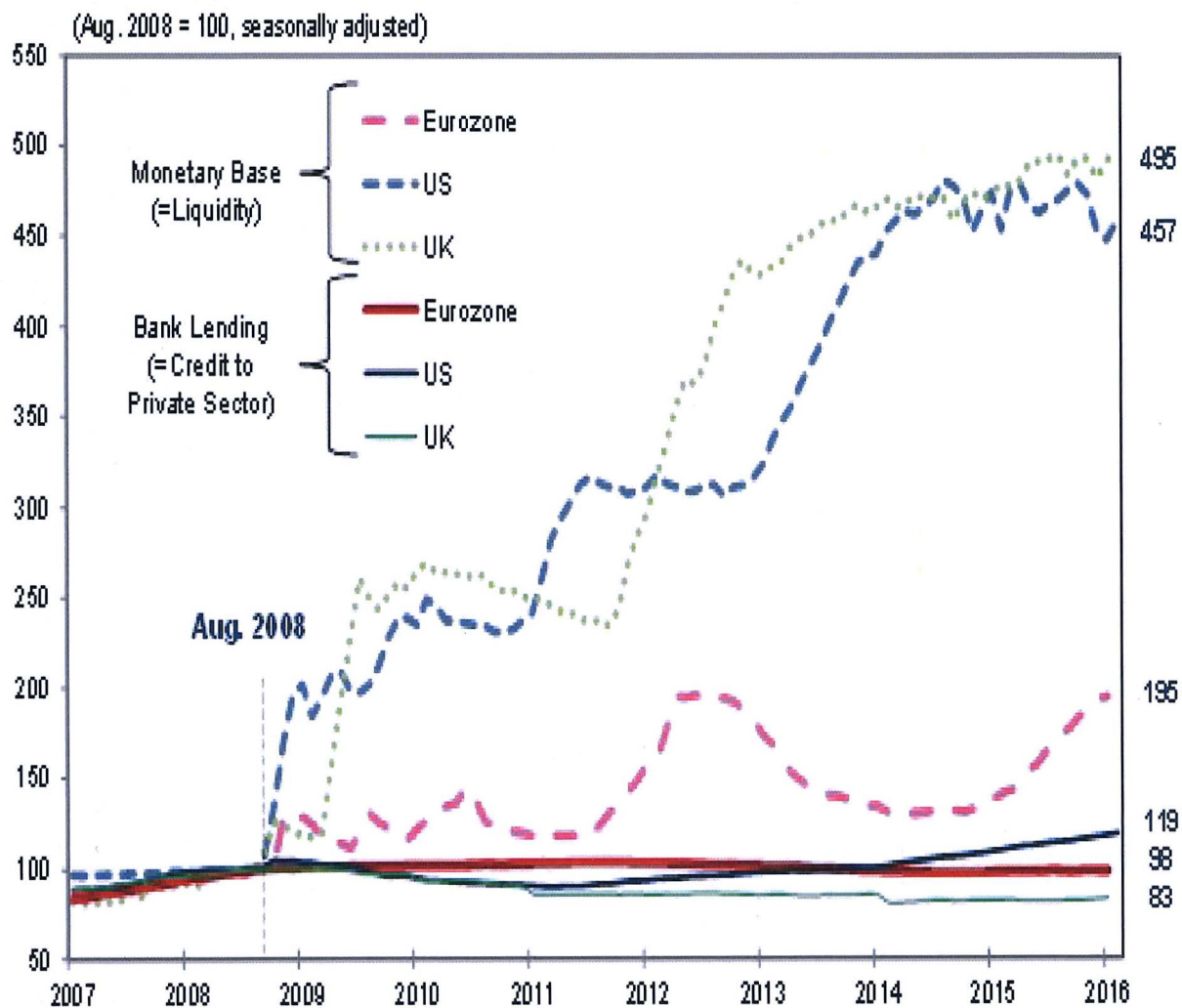
Economic Charts

These charts, including the most important chart by Nomura Research Institute identify the structural problem of banking systems being loaded with monetary base assets yet being incapable of significantly advancing the volume of bank lending or stimulating money supply growth in both the public and private sectors.

The current historically high deb-pyramid within the international business community has led to a general inhibition toward taking on new loans as the old debt is slowly being paid down after the 2008 crises—while at the same time infrastructure spending by the United States federal government has remained stagnant.

The problem is that capital and reserves have been dramatically increased in the banking system, yet actual lending has remained stagnant. The solution is for national governments to use monetary policy to stimulate bank lending with new investments into science, education and infrastructure.

State governments must participate in this solution through creating state banks that have their capital and reserve requirements provided through federal monetary policy to promote a science, education and infrastructure recovery.

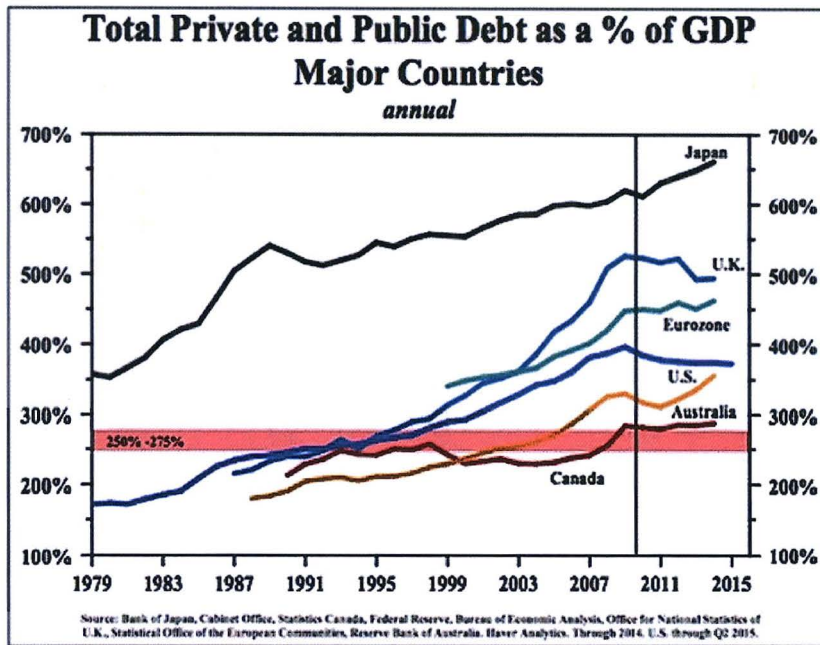


Notes: 1. US monetary base and UK's reserve balances data are seasonally unadjusted.

2. UK's bank lending data exclude intermediate financial institutions.

3. Base money's figures of Eurozone are seasonally adjusted by Nomura Research Institute.

Source: Nomura Research Institute, based on FRB, ECB and Bank of England data.



Federal Contribution to Total Infrastructure Spending

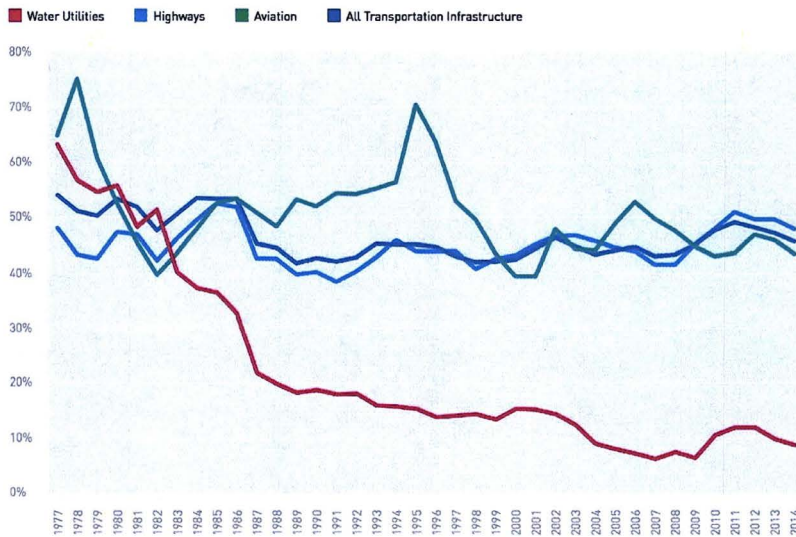
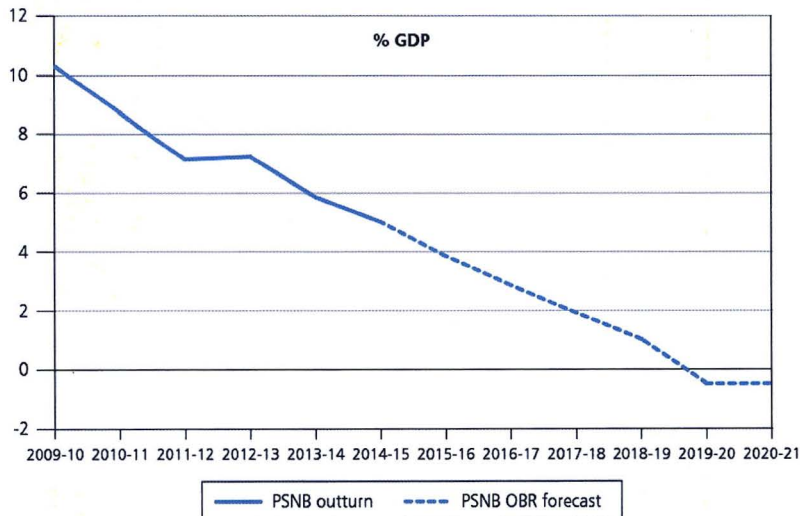


Chart 1.6: Public sector net borrowing (PSNB)



Source: Office for National Statistics and Office for Budget Responsibility.



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House Majority Leader

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HB 376 Sectional Analysis Version A

"An Act establishing a state bank; relating to insurance, mortgage lending, securities, and permanent fund dividends; and providing for an effective date."

Section 1. AS 06.60.015 (a) The following persons are exempt from the mortgage lender or mortgage broker licensing requirements of this chapter: a depository institution; a subsidiary that is owned and controlled by a depository institution; and regulated by a federal banking agency; an institution regulated by the Farm Credit Administration; or a federal, state, or local government agency, including an agency that arranges or provides financing for mortgage loans, and the Alaska State Bank.

Sec. 2. AS 36.30.990(1) Is amended to include Alaska State Bank.

Sec. 3. AS 39.25.110(11) Is amended to include the officers and employees of the boards and commissions of the Alaska State Bank.

Sec. 4. AS 39.50.200(b) Is amended to add the board of directors of the Alaska State Bank.

Sec. 43.23.058. Purchase of Alaska State Bank shares. An applicant for a permanent fund dividend who is eligible under this chapter to receive a permanent fund dividend, or the applicant's authorized representative, may direct that all or part of the amount of the dividend payment be used to purchase shares of the Alaska State Bank at a discounted rate. The department shall prepare the permanent fund dividend application to allow an applicant, or the applicant's authorized representative, to direct the department to purchase shares of the Alaska State Bank established under at a discounted rate.

Sec. 6. AS 44 is amended by adding a new chapter to read Chapter 90. Alaska State Bank.

Article 1. Establishment, Name, and Purposes.

Sec. 44.90.010. Establishment of bank.

(a) The Alaska State Bank is established in the department as a public corporation of the state. The exercise by the bank of the powers given to the bank under this chapter is considered to be for a public purpose.

(b) The primary purpose of the bank is to promote infrastructure, education, science, technology, infrastructure maintenance, engineering, and productive capacity in the state through the sale or leveraging of financial instrument packages, including the sale or leveraging of financial instrument packages that facilitates access to Federal Reserve System and United States Department of the

Treasury. (1) transactions that provide reserve and capital requirements for the bank to use in fractional reserve banking; in this paragraph, "fractional reserve banking" means a process by which a bank holds reserves that are a fraction of the amount of its deposit liability; and (2) funds that can be distributed for other purposes of the bank. (c) The bank is not subject to regulation by the department under AS 06.01 or AS 06.05. The bank is subject to regulation by the department under AS 21 when it offers insurance. The bank is exempt from AS 45.45.010 - 45.45.090 when lending money under this chapter. The bank is not subject to AS 10.06 (Alaska Corporations Code) or AS 10.20 (Alaska Nonprofit Corporation Act). (d) The bank shall exercise the powers granted by this chapter for the benefit of the people of the state, for their well-being and prosperity, and for the improvement of their social and economic conditions.

Sec. 44.90.020. Use of name. (a) The bank shall conduct business under the name of "Alaska State Bank." The president or an authorized officer or employee of the bank of the bank may execute instruments on behalf of the bank, including an instrument that grants, conveys, or otherwise affects an interest in or lien on real or personal property.

Sec. 44.90.030. Other purposes of the bank. In addition to the primary purposes of the bank the purposes of the bank are to:

- (1) provide financing, insurance, and funding for economic development projects and packages of financial instruments in the state; in this paragraph, "economic development project" includes a project for infrastructure, infrastructure maintenance, and productive capacity;
- (2) provide stability to the financial sector in the state;
- (3) facilitate transactions with the Federal Reserve System and the United States Department of the Treasury;
- (4) receive funding from the state and the federal government;
- (5) increase access to capital and financial services for new and existing businesses and the customers of those businesses;
- (6) promote long-term economic growth in the state;
- (7) reduce the costs of public and private banking and financial services;
- (8) promote science, technology, and engineering in the state;
- (9) increase the economic efficiency and productivity of the state and of individuals in the state;
- (10) leverage packages of bonds, grants, and stocks;
- (11) increase educational levels in the state; and
- (12) provide grants to schools, colleges, and universities in the state.

Article 2. Management and Operation of Bank.

Sec. 44.90.100. Board of directors. A board of directors shall manage the bank and specify locations for and maintain places of business in which the bank will operate and shall adopt and enforce bylaws and procedures for the transaction of the bank's business.

Sec. 44.90.110. Composition of board. The board consists of the governor, the commissioner of commerce, community, and economic development, the commissioner of revenue, and the commissioner of labor and workforce development. Three members of the board constitute a quorum to transact business and exercise the rights, duties, and powers of the board.

Sec. 44.90.120. Board chair and officers. The governor shall act as the chair of the board. The board shall select the president and other officers of the bank.

Sec. 44.90.130. Employees. The bank may hire employees. The executive director, other officers of the bank, and employees of the bank are state employees and are in the exempt service under AS 39.25.

Sec. 44.90.140. Advisory board.

(a) The board shall appoint an advisory board of directors. The advisory board shall consist of seven members.

(b) The members of the advisory board shall consist of representatives of the financial, business, agricultural, and labor sectors of the state and a representative from the University of Alaska. The members of the advisory board may include employees of the bank.

Sec. 44.90.150. Advisory board meetings and activities.

(a) The advisory board shall meet regularly with the management of the bank to review the bank's operations and finances to determine whether the advisory board has recommendations to improve management performance, customer service, and the internal methods, procedures, and operating policies of the bank.

(b) The advisory board shall meet regularly with the board to discuss the advisory board's recommendations and to provide advice, expertise, and information at the request of the board.

(c) The advisory board shall recommend to the board the criteria for the board to establish for placing a project in a category under AS 44.90.610 and, for each investment proposal the bank receives, the category under AS 44.90.610 in which the board shall place the investment proposal.

(d) At the request of the board, the advisory board shall recommend additional objectives for the bank's operations.

(e) The advisory board shall provide advice and consultation to the board regarding the appointment of bank officers.

(f) The members of the advisory board shall participate as voting members on loan committees.

(g) The advisory board shall recommend objectives for the bank to achieve the bank's science, technology, infrastructure, and productive capacity goals.

(h) The advisory board shall meet with the public on a regular schedule to provide the public with information on its activities.

Sec. 44.90.160. Review committee.

(a) The board shall establish and maintain a review committee to review investment proposals submitted to the bank and to assist the persons submitting the investment proposals to provide investment proposals that are complete and coherent.

(b) The board shall identify and make public the requirements that the review committee applies when reviewing investment proposals to determine whether the investment proposals are complete and coherent.

(c) The members of the review committee may not be members of the board or members of the advisory board.

Sec. 44.90.170. Confidentiality of records. The following records of the bank are confidential and are not public records subject to disclosure. (1) commercial and financial information of a customer of the bank, whether obtained directly or indirectly, except as required by a court; (2) internal or interagency memoranda or letters, except as required by a court; (3) except as provided in AS 44.90.700, information that is contained in or related to an examination, operating, or condition report prepared by, on behalf of, or for the use of a state or federal agency responsible for regulating or supervising activities of the bank.

Sec. 44.90.180. Cooperation with authority. The board may work with the Alaska Industrial Development and Export Authority on bank projects under this chapter, including funding projects jointly.

Sec. 44.90.190. Contracts and procurement. The bank is not subject to the procurement requirements of AS 36.30 when the bank procures services or property for use by the bank. The bank may contract with professional advisors, counsel, technical experts, and agents to carry out the bank's powers and duties under this chapter.

Article 3. Powers and Duties of the Bank.

Sec. 44.90.200. Bank powers. The bank may

(1) solicit, receive, and accept money or its equivalent on deposit from private customers, whether the deposit is made subject to a check or is evidenced by a certificate of deposit, passbook, note, receipt, or other writing;

(2) negotiate for and discount promissory notes and other evidences of indebtedness, sell and buy money or its equivalent, lend money on personal or real property or other security, and perform other similar financial operations;

(3) sell shares in the bank;

(4) accept appropriations of money by the legislature;

(5) provide its services to persons in the state, in the United States, and outside the United States;

(6) make, purchase, guarantee, or hold loans

(A) for state and federal financial institutions or other financial institutions;

(B) that are obtained as security pledged for, or that originated in the restructuring of, a loan that the bank originates or participates in;

(C) for agencies or other instrumentalities of this state; or

(D) that the United States or an agency of the United States insures or guarantees in whole or in part;

(7) make participation loans or purchase participation interests in loans that are made or held by a bank, bank holding company, lending agency, or other financial institution if the loan meets underwriting standards that are generally accepted by state or federal financial regulatory agencies;

(8) invest money of the bank in a manner consistent with the policies

of the board;

- (9) lease, assign, sell, exchange, transfer, convey, grant, pledge, or mortgage real and personal property;
- (10) perform the acts necessary, convenient, advisable, or desirable to carry out the powers expressly granted or necessarily implied in this chapter, through its president, officers, agents, or employees, or by contracts with another person;
- (11) act as a custodian institution for financial institutions;
- (12) issue bank loans to a financial institution;
- (13) take the action necessary to satisfy federal requirements for the operation of the bank, including obtaining insurance for depositors from the Federal Deposit Insurance Corporation (FDIC);
- (14) perform the functions and provide the services of a clearinghouse, including providing domestic and foreign exchange, and rediscount commercial paper on terms prescribed by the board;
- (15) issue loans to a partnership or to form a partnership;
- (16) make loans for large projects involving state infrastructure, natural resources, industry, or technology;
- (17) make loans to or for educational institutions;
- (18) purchase or insure loans to finance the costs of manufacturing, industrial, enterprise, and insurance projects;
- (19) provide liquidity to local banks and credit unions;
- (20) issue stocks and bonds and act in the proprietary trading of stocks and bonds with public and private interests consistent with 12 U.S.C. 1851 (Dodd-Frank Wall Street Reform and Consumer Protection Act);
- (21) issue stocks, bonds, and grants to be discounted, rediscounted, packaged, reimbursed, leveraged, purchased, or held by the Federal Reserve System;
- (22) provide low-interest loans, bond reimbursements, and grants to and for schools, colleges, universities, students, science, and technology in the state;
- (23) leverage projects and packages of stocks, bonds, and grants with the state, municipalities, state agencies, public corporations, financial entities, corporations, and other persons;
- (24) roll over, discount, or rediscount public and private existing loans, mortgages, bonds, bills of exchange, tax credits, and promissory notes.

Sec. 44.90.210. Deposits and other items accepted by the bank.

- (a) The bank may accept
 - (1) deposits, grants, bonds, stocks, shares, bills of exchange, promissory notes, rediscounting, tax credits, treasury bills, and treasury currency from private customers, state agencies, and federal agencies;
 - (2) appropriations from the legislature; and
 - (3) money from the federal government.
- (b) The bank may accept deposits in cash and by electronic means from marijuana-related businesses.
- (c) The bank shall create a computer application that is able to accept deposits, process point of sale and gift cards, automatically send tax payments to the state, and pay marijuana-related businesses.
- (d) To help marijuana-related businesses make deposits and to help other financial institutions receive deposits from marijuana-related businesses, the bank may create a division within the bank that works with the Financial Crimes Enforcement Network of the United States Department of the Treasury to post

specific guidelines and documents about federal regulations and the filing of suspicious activity reports with the Financial Crimes Enforcement Network.

Sec. 44.90.220. Surety bonds. The bank may provide surety bonds for public and private construction projects in the state.

Sec. 44.90.230. General powers. To further its purposes, the bank may, in addition to its other powers,

- (1) sue and be sued;
- (2) have a seal and alter it at pleasure;
- (3) make and alter bylaws for its organization and internal management;
- (4) adopt regulations governing the exercise of its corporate powers;
- (5) acquire an interest in a project as necessary or appropriate to provide financing for the project, whether by purchase, gift, or lease;
- (6) accept gifts, grants, or loans from, and enter into contracts or other transactions regarding them with, a federal agency, an agency or instrumentality of the state, a municipality, a private organization, or another person;
- (7) make deposits in national banks and in state banks, trust companies, and mutual savings banks operating in accordance with the laws of the state;
- (8) enter into contracts with respect to the exercise of its powers, and do all things necessary or convenient to carry out its corporate purposes and exercise the powers granted in this chapter; and
- (9) exercise the incidental powers that are necessary or required to enable the bank to carry on effectively the business for which the bank was established.

Sec. 44.90.240. Investment in property and banking premises. The bank may acquire, purchase, hold, and convey real and personal property

- (1) if the book 1 asset value of the purchase or investment does not exceed 60 percent of the capital and surplus of the bank and if the property is necessary for the convenient transaction of its business, including buildings containing offices, equipment, furniture and fixtures, leasehold improvements, parking lots, and real property reasonably anticipated to be necessary for future expansion of the bank;
- (2) when necessary to pay debts previously contracted in the course of the bank's business; and
- (3) at sale under judgment, decree, lien, or mortgage foreclosure, against security held by the bank.

Sec. 44.90.250. Sale of discounted bank shares. The bank may sell bank shares at a discounted rate

- (1) directly to an individual who is a resident of the state;
- (2) to the Department of Revenue under AS 43.23.058.

Article 4. Financial Provisions.

Sec. 44.90.300. Deposit interest. The bank shall pay interest on money received on deposits made by customers of the bank at a rate that is comparable to the average statewide interest rates paid by financial institutions and may offer other financial products to state agencies on a competitive basis with other financial institutions.

Sec. 44.90.310. Excess income. As soon as possible after the end of each calendar year, the board shall determine the amount of income, if any, earned by the bank in that calendar year that exceeds the amount of money that is necessary to pay for the expenses of administering the activities of the bank. The bank shall deposit this excess income in the bank fund.

Sec. 44.90.350. Project and bond leveraging. (a) The bank shall leverage the funding for projects and financial packages to promote the purposes of the bank, except that the bank investment may not exceed 35 percent of the total cost of a single project or single financial package when combining all bonds, grants, obligations, shares, insurance, and loans from the bank for the project. (b) The bank investment may exceed the limit of 35 percent set under (a) of this section

(1) if a person is disrupting the project by hostile, illegal, or predatory financial action, as determined by the board or advisory board;

(2) for an individual infrastructure project, productive capacity project, or financial package if the governor, the Alaska Industrial Development and Export Authority, the president of the University of Alaska, the board, and the advisory board place the project or package in the category described under AS 44.90.610(1); or

(3) for a research and development project related to education, whether for profit or not for profit, if the board, advisory board, and president of the University of Alaska identify the project as a project under AS 44.90.610(1); however, the bank may not invest more than 80 percent of the total amount invested in the research and development project related to education.

Sec. 44.90.360. Investment fund activity prohibited or restricted. (a) The employees, directors, and investors in the bank may not use the bank

(1) for a sale of a borrowed security in anticipation that the security price will fall and can be paid back from the profits earned after repurchasing the security at a lower price;

(2) for the purchase of assets by paying a percentage of the value of the assets and borrowing the balance from a bank or broker. *Must clarify because of misunderstanding about margin trading with legal—this wording interferes with normal business practice.*

(b) The bank shall require, to the extent determined by the board, that the financial instruments that are received or sold by the bank comply with the investment standards established by P.L. 111-203 (Dodd-Frank Wall Street Reform and Consumer Protection Act) and by 7 U.S.C. 1 - 27f (Commodity Exchange Act) as 7 U.S.C. 1 - 27f (Commodity Exchange Act) existed before enactment of P.L. 111-203 (Dodd-Frank Wall Street Reform and Consumer Protection Act).

(c) The board shall place derivatives, including high risk derivatives that are predatory financial instruments in the category established under AS 44.90.610(4).

(d) The bank may not issue or invest in derivatives that are credit default swaps and may not issue or invest in other derivatives unless the derivatives comply with federal law. The bank shall severely restrict or penalize the use of high risk derivatives, including credit default swaps and predatory financial instruments. In this subsection, "credit default swap" means a financial contract under which a buyer of debt attempts to eliminate possible loss arising from default by the issuer of the debt.

(e) In this section, "predatory financial instrument" means a high risk investment that can cause debt-pyramiding, asset-stripping, or a debt for equity change of ownership.

Sec. 44.90.370. Bonds of the bank. (a) The bank may issue bonds, including bonds on which the principal and interest are payable

(1) exclusively from the income and receipts or other money derived from the project financed with the proceeds of the bonds;

(2) exclusively from the income and receipts or other money derived from designated projects or development projects or other sources whether or not the projects are financed, insured, or guaranteed in whole or in part with the proceeds of the bonds; or

(3) from the income, receipts, and other assets of the bank.

(b) The bank shall authorize its bonds by resolution of the bank. The bonds must be dated and mature as the resolution provides. The resolution may provide the interest rate, the denominations, the form, the registration privileges, the manner of execution, the medium of payment, the place of payment, and the terms of redemption for the bonds.

(c) The bonds of the bank, regardless of form or character, are negotiable instruments for all the purposes of AS 45.01 - AS 45.08, AS 45.12, AS 45.14, and AS 45.29 (Uniform Commercial Code).

(d) The bank may sell its bonds at public or private sale in the manner, for the price, and at the time that the bank determines.

(e) Before issuing bonds, the bank shall provide for consideration that the bank judges is at least sufficient to pay the principal of and interest on the bonds as the bonds become due, to create and maintain the reserves for the payments that the bank considers necessary or desirable, and to meet all obligations and necessary costs in connection with the bonds.

(f) The superior court may hear and determine actions relating to the bonds of the bank, including actions or other proceedings brought to foreclose or otherwise enforce a mortgage, pledge, assignment, or security interest brought by or for the benefit or security of a holder of the bank's bonds or by a trustee or other representative of the holders.

(g) The bank may combine, for the purposes of a single offering, bonds financing more than one project.

Sec. 44.90.380. Infrastructure and productive capacity projects. If a project is not subject to AS 36.05.005 - 36.05.110, the bank shall require the owners of infrastructure projects or productive capacity projects that are leveraged through the bank and that exceed \$25,000 to require that the contractors and subcontractors on those projects pay their laborers, mechanics, and field surveyors wages that are not less than the current prevailing rate of wages required by AS 36.05.010, based on the date of the contract for the project, not on the receipt of bids. In this section, "laborer, mechanic, or field surveyor" has the meaning given in AS 36.95.010.

Sec. 44.90.390. Terms of loans. The board shall determine the monetary increments for bonds and loan terms and allow for the creation of bonds that have a term of 100 years.

Sec. 44.90.400. Tax exemption. (a) The bank and its property, franchises, capital, reserves, surpluses, income, and other money are exempt from taxation by the state or a municipality. (b) All obligations issued under this chapter are considered to be issued by a body corporate and public of the state and for an essential public and governmental purpose, and the obligations, and the interest and income on and from the obligations, and all fees, charges, funds, revenue, income, and other money pledged or available to pay or secure the payment of the obligations, or interest on the obligations, are exempt from taxation except for transfer, inheritance, and estate taxes.

Sec. 44.90.410. Reserves against deposits. As provided by the regulations of the bank, the bank shall maintain a reserve fund sufficient to maintain liquidity and meet all reasonable demands of depositors.

Sec. 44.90.420. Bond debt reimbursement schedules. The board shall publish bond debt reimbursement schedules each year on a date appropriate for industrial and educational timetables.

Sec. 44.90.430. Nonpayment of tax. The board may declare an individual financial instrument void if a court determines that a tax imposed on a transaction involving the financial instrument has not been paid.

Sec. 44.90.440. Acquisition of property to satisfy or protect previous loan. The bank may accept property of any kind to satisfy or protect a loan previously made by the bank in good faith and in the ordinary course of business. The bank shall enter the property on the books at cost or fair market value, whichever amount is less. The bank shall dispose of property acquired to satisfy or protect previous loans over the periods that the bank establishes by regulation. *The wording in the last sentence is a misunderstanding with legal; should read "the bank may dispose, own or lease property..."*

Article 5. Alaska State Bank Fund.

Sec. 44.90.500. Alaska state bank fund. (a) The Alaska state bank fund is established in the general fund. The bank fund consists of money appropriated to the bank fund, money received from the Federal Reserve System and the United States Treasury, interest received by the bank, and income received by the bank, including the excess income calculated under AS 44.90.310. (b) The bank may spend the money appropriated to the bank fund to implement the provisions of this chapter without further appropriation. Appropriations to the bank fund do not lapse under AS 37.25.010, but remain in the bank fund for future disbursements.

(c) The legislature may appropriate to the bank fund the income and interest received by the bank.

(d) Nothing in this section creates a dedicated fund.

Sec. 44.90.510. Fund use limit. During a fiscal year of the bank, the bank may not use more than 25 percent of an amount that is equal to the value of the bank fund at the beginning of that fiscal year for one construction project, productive capacity project, or financial package, unless the process of rediscounting with the Federal Reserve System and combining with the United States Treasury results in an amount of more than 25 percent.

Article 6. Projects.

Sec. 44.90.600. Setting project priorities. The board shall determine the priority of each project proposed for bank investment. The board shall place each project proposed for bank investment in one of the four categories of priority. The board shall establish the requirements that an investment proposal must meet to be placed in a category described under AS 44.90.610.

Sec. 44.90.610. Project categories. The following categories of projects for bank investment are listed in descending order of priority:

(1) the first category applies to projects for education, science, technology, productive capacity, and infrastructure; under this category, a project will receive grants, stock purchases, bond reimbursement, and low interest rates;

(2) the second category applies to projects for education, science, technology, productive capacity, and infrastructure; under this category, a project will receive interest rates below the market interest rate, limited stock purchases, and limited bond reimbursements;

(3) the third category applies to productive capacity, infrastructure, and commercial business projects; under this category, a project will receive competitive interest rates;

(4) the fourth category applies to projects with financial instruments that present a high risk of loss; the bank will charge the projects in this category higher interest rates than the other categories under this section, and the bank may impose other requirements that the board determines are appropriate.

Sec. 44.90.620. Science and technology projects. (a) The board shall consider funding science and technology projects that the University of Alaska, the Alaska Industrial Development and Export Authority, or the advisory board identifies as qualified for placement under AS 44.90.610(1), (2), or (3). (b) When determining whether the bank will fund science and technology projects, the board shall select projects that apply the principles of industrial science and efficiency.

Article 7. General Administrative Provisions.

Sec. 44.90.700. Examinations and audits. (a) In addition to any other regulation allowed or required under this chapter, the department shall examine the bank at least once each calendar quarter to verify and ensure that the bank is complying with the regulations of the board. The department shall report the results of the examination to the board. The department's report is a public record subject to disclosure under AS 40.25.110 - 40.25.121.

(b) The bank shall have an audit of the accounts and financial affairs of the bank performed by an independent auditor at least once every two years.

Sec. 44.90.710. Regulations. The bank shall adopt regulations consistent with this chapter and other applicable law to

(1) ensure the safety and soundness of the bank, adhere to sound underwriting practices, and reflect applicable standards for safety and soundness as provided in 12 C.F.R. 364;

(2) specify limits for loans and other obligations the bank makes or undertakes;

(3) specify reserve requirements;

(4) set other requirements that the board considers necessary to administer the bank under this chapter;

(5) determine borrower eligibility;

(6) set loan guidelines and terms, including

(A) maximum loan amounts;

(B) required loan-to-value ratios; and

(C) a method for determining loan interest rates;



Representative Chris Tuck

Alaska House Majority Leader

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Sponsor Statement for HB 376

Alaska State Bank

The Alaska State Bank is designed to create the legal ability to access Federal Reserve and United States Treasury monetary policy funds and use fractional reserve banking methods to promote a science, education and infrastructure recovery.

As federal fiscal policy funding continues to decline for state governments and as Federal Reserve support for liquidity in the monetary base continues to be maintained at high historical levels, the opportunity is opened for state governments to create new legal mechanisms to access monetary policy. Fiscal policy is taxation and spending by government and monetary policy is control of the money supply and interest rates.

In the traditions of Benjamin Franklin and the Reconstruction Finance Corporation, local decision-making is a requirement in guiding monetary policy and the best method to do that today is to create state development banks.

The basic proposal is to use existing state development institutions to create packages of state, municipal, borough, port authority, and development finance authority bonds, grants and shares that are rediscounted through the Federal Reserve and combined with federal bonds and Treasury currency. The Alaska State Bank then leverages or transfers the packages back to the State of Alaska, municipalities, boroughs, port authorities, development finance authorities, local banks, credit unions, universities, corporations, small business and entrepreneurship.

The Alaska State Bank will begin as an infrastructure bank that provides liquidity to our local banks and then evolve into a full featured development bank in the future. The first goal will be to access Federal Reserve funds to provide reserve and capital requirements for the Alaska State Bank. Very low interest rates combined with the function of the grant and equity process will guarantee payment stability and long-term investments into jobs, science, technology, education and infrastructure.

The Alaska Permanent Fund or other existing State of Alaska financial institutions will not be required by statute to dedicate reserve or capital requirements and there will not be mandatory state revenue deposits into the state bank. Maintaining existing financial agreements while using the self-interest of voluntary participation will be important keys for insuring long-term financial success.

Self-interest will identify partnerships with our local banks in retailing some of the new funds. Local banks and credit unions will become more valuable assets for increasing transactions efficiency and helping to choose viable loan partners.

Creating an infrastructure development bank with the legal ability to access federal and Federal Reserve monetary policy funds is a much better solution to Alaska's fiscal crises than increasing personal taxation or confiscating the Permanent Fund Dividend. Less than \$5 billion per year in total transactions will make the Alaska State Bank the solution to Alaska's fiscal crisis.

Session (January-April):
State Capitol, Room 204
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The BND Story

History

In 1836, the U.S. Congress did not renew the charter for the Second Bank of the United States, opening the door for states to start their own banks. Alabama, Kentucky, Illinois, Vermont, Georgia, Tennessee and South Carolina all created banks that were completely owned by the state government. Missouri, Indiana and Virginia had banks with the State holding a majority interest and a number of other states created banks with the State owning a minority interest. By 1900, only Virginia and Kentucky survived. Today, these two banks are no longer functioning.

During the early 1900s, North Dakota's economy was based on agriculture, specifically wheat. Frequent drought and harsh winters didn't make it easy to earn a living. The arduous growing season was further complicated by grain dealers outside the state who suppressed grain prices, farm suppliers who increased their prices, and banks in Minneapolis and Chicago which raised the interest rates on farm loans, sometimes up to 12%.

North Dakotans were frustrated and attempts to legislate fairer business practices failed. A.C. Townley, a politician who was fired from the Socialist Party, organized the Non-Partisan League with the intent of creating a farm organization that protected the social and economic position of the farmer.

The Non-Partisan League gained control of the Governor's office and the legislature in 1918. Their platform included state ownership and control of marketing and credit agencies. In 1919, the state legislature established Bank of North Dakota (BND) and the North Dakota Mill and Elevator Association. BND opened July 28, 1919, with \$2 million of capital.

Several sections of the North Dakota Century Code address the creation of the Bank, its oversight and role in the state. Today, the North Dakota Legislature will appropriate funds from BND when needed through the budget process or state law.

- Chapter 6-09 The Bank of North Dakota
- Chapter 54-17 Industrial Commission
- Title 6 Banks and Banking

BND has responded to the state's needs since inception. When teachers were paid with warrants rather than cash during The Great Depression, BND paid them in full rather than with the 15 percent loss they would take when trying to cash it elsewhere. In the 1940s, BND sold back farmland which had been foreclosed during the 30s, usually to the original families who owned it and had been allowed to remain on the land and farm it.

In 1945, BND made its first transfer of funds to the State's General Fund, \$1,725. By the end of the 1950s, most of the farmland purchased from farmers during the Great Depression had been sold and the Bank was making home mortgage loans in small communities when community banks were not doing so.

Governor William Guy took office in 1961. His belief that the Bank should serve as an engine for economic development highly influenced its course. The commercial loan portfolio increased significantly by partnering with financial institutions for participation loans. In 1967, BND made the first federally-insured student loan in the United States.

In addition to economic development support, BND has provided recovery funding during disasters such as the 1997 floods in Grand Forks, the 2011 floods in Minot and Bismarck and agriculture relief loans during times weather-related hardship.

Today, in partnership with a majority of North Dakota's financial institutions, BND fulfills its mission to promote the development of agriculture, commerce and industry in North Dakota. The operating policy, established in 1919, stated that the Bank shall be "helpful to and to assist in the development of state and national banks and other financial institutions and public corporations within the state and not, in any manner, to destroy or to be harmful to existing financial institutions." The Bank's operating policy continues to serve as a guiding principle for the Bank's work in our state.

Bank of North Dakota has been located in Bismarck since it opened in 1919, moving to its current location in 2008. While there are no branches of the bank, offices with lending officer staff members are located in Fargo, Grand Forks and Minot.

Organizational Structure

Industrial Commission

The 1919 State Legislature created the State Industrial Commission whose function was to conduct and manage, on behalf of the State of North Dakota, certain utilities, industries, enterprises and business projects. The Industrial Commission was charged with the operation, management and control of BND. The Commission is composed of the Governor who acts as Chairman, the Attorney General, and the Agriculture Commissioner.

Advisory Board

The BND Advisory Board of Directors was established by state statute in 1969. The Governor of North Dakota appoints Advisory Board members knowledgeable in banking and finance to the seven-member board. The Advisory Board reviews the Bank's operations and makes recommendations to the Industrial Commission concerning management, services, policies and procedures.

Executive Committee

Bank of North Dakota's Executive Committee consists of seven members:

- President and CEO
- Chief Business Development Officer
- Chief Credit Officer
- Chief Administrative Officer
- Chief Technology and Operations Officer
- Chief Financial Officer
- Chief Risk Officer

Employees

The Legislature has authorized 181.5 full time equivalents for employment at Bank of North Dakota.

Operations overview

BND is not FDIC Insured

In contrast to most commercial banks, BND is not a member of the Federal Deposit Insurance Corporation (FDIC). North Dakota Century Code 6-09-10 provides that all BND deposits are guaranteed by the full faith and credit of the State of North Dakota.

Minneapolis Federal Reserve Bank

BND has a business relationship with the Minneapolis Federal Reserve Bank. We do check processing, deposit excess cash balances, maintain a reserve requirement, safe keep all our Fed book entry securities and have discount window borrowing authority.

Bank profits are returned to the State

The Bank's profits are utilized in three ways: appropriation through the North Dakota Legislature to fund the General Fund, mission-driven loan programs and BND's capital.

The ND Legislature appropriates the transfer of funds to the state's General Fund. Every legislative session reviews the state's budget needs and the amounts designated from BND's capital for the General Fund will vary based upon the needs of the state and BND's desire to maintain adequate liquidity and capital.

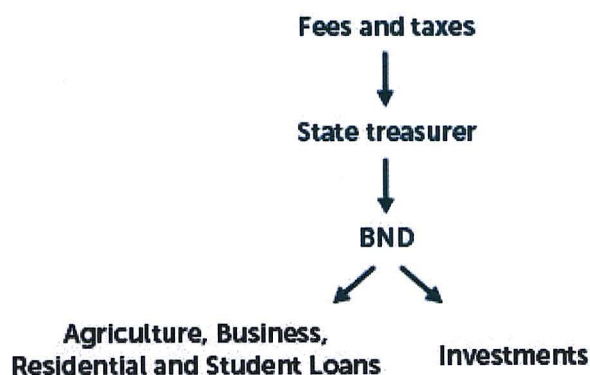
The Bank's profits are also used to support its mission-driven loan programs. With legislative approval, BND funds interest rate buydowns and off-balance sheet programs that help drive economic development and infrastructure projects across the state.

Lastly, BND's excess earnings are retained and accumulated to fund capital. The Bank's target is to maintain a Tier One capital level of 10%.

Deposit base

All state funds must be deposited with BND unless specific authority allows for outside investments. Most of BND's deposits come from the state's collection of taxes and fees. The balance of the Bank's deposits come from corporate accounts, North Dakota city and county government entities, and North Dakota residents.

This graphic demonstrates how funds are received by BND and distributed to North Dakota residents.



Investment strategy

BND follows a conservative investment policy, investing in AAA securities backed by the federal government or agencies of the federal government.

Need for reserves

Bank of North Dakota maintains adequate reserves and allowance for credit loss to protect itself from credit risk embedded in its loan portfolio. We utilize a model that considers specific risks and economic factors to ensure adequate allowance levels.

Audit guidelines

The North Dakota Department of Financial Institutions provides audit oversight to Bank of North Dakota, but has no regulatory authority over BND. In addition to their audit activities, BND has a robust internal audit department to ensure compliance with federal banking regulations and employs an aggressive external audit schedule as well.

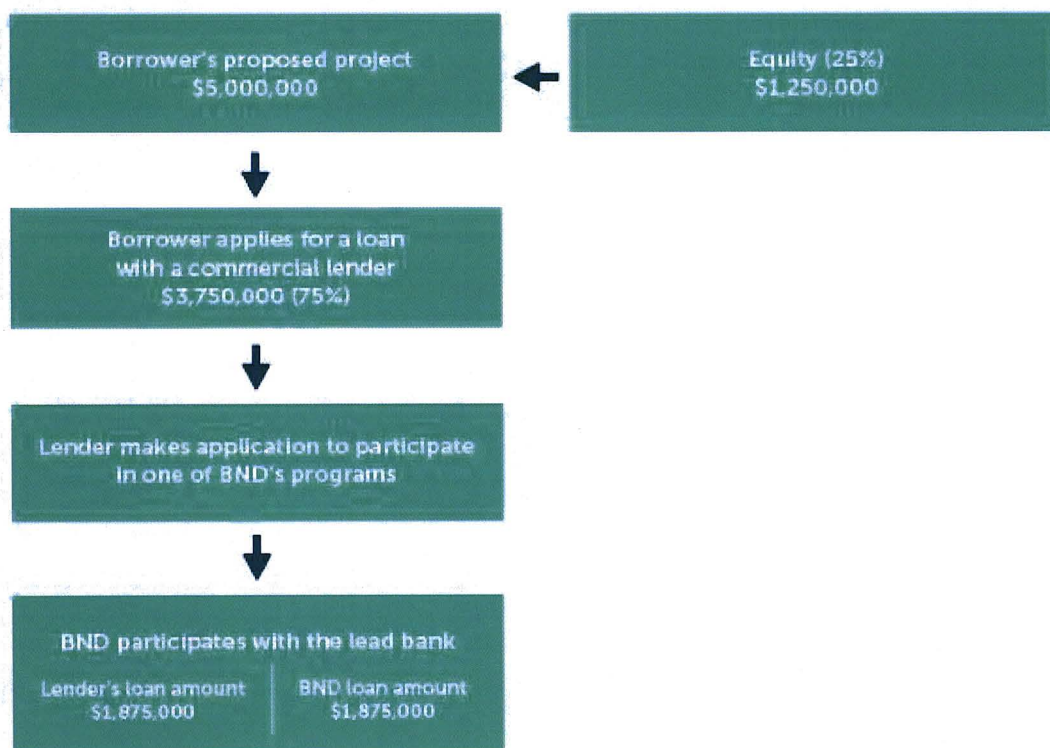
Partnership with local financial institutions

Bank of North Dakota maintains strong relationships with financial institutions in the state and does not compete with them. This was established in the Bank's founding principles in 1919: "BND is to be helpful to and assist in the development of... financial institutions and public corporations within the state and not, in any manner, to destroy or to be harmful to existing financial institutions."

Although individuals receive student loans directly from BND, they are not targeted for other loans or retail accounts. BND does not offer credit card or ATM services to the general public. Individuals and businesses must work with their local financial institution for business, residential and most agriculture loans. If the local bank or credit union wants to participate on a loan with BND or the borrower wants to access a BND program, the request comes through the lead financial institution, not the borrower.

BND is authorized to assist other financial institutions in providing financing to stimulate economic development in the state. This efficient business model allows us to promote the state's programs and work with knowledgeable people who understand the communities they serve.

A typical loan transaction for a business loan is demonstrated with this graphic.



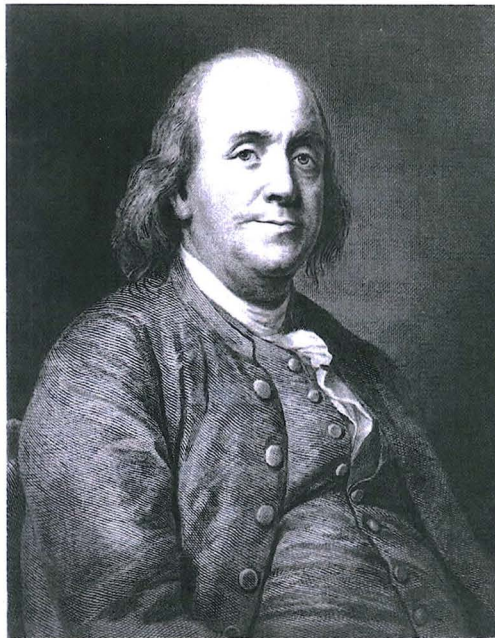
Looking to the future

BND proactively addresses the state's needs by meeting regularly with our financial institution, government, higher education and economic development partners. Our vision statement, 'BND is an agile partner that creates financial solutions for current and emerging economic needs,' continues to drive us to meet our mission 'To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.' This mission statement was established in 1919 and remains the same today, reminding us of our important role and responsibility to the citizens of North Dakota.

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The documents on bnd.nd.gov require Adobe Acrobat Reader to view and print.



Doctor Benjamin Franklin 1706-1790

Examination before the Committee of the Whole of the House of Commons, 1766

Text printed in, The Examination of Doctor Benjamin Franklin, before an August Assembly, relating to the Repeal of the Stamp Act, &c. [Philadelphia, Hall and Sellers, 1766];

[41] Q. And have they not still the same respect for parliament?

A. No; it is greatly lessened.

[42] Q. To what causes is that owing?

A. To a concurrence of causes; the restraints lately laid on their trade, by which the bringing of foreign gold and silver into the Colonies was prevented; **the prohibition of making paper money among themselves**; and then demanding a new and heavy tax by stamps; taking away, at the same time, trials by juries, and refusing to receive and hear their humble petitions.

<https://founders.archives.gov/documents/Franklin/01-13-02-0035>

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: HB 376
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB376-DCCED-DBS-04-11-18
Title: ESTABLISH THE ALASKA STATE BANK
Sponsor: TUCK
Requester: (H) Labor & Commerce

Department: Department of Commerce, Community and
Economic Development
Appropriation: Banking and Securities
Allocation: Banking and Securities
OMB Component Number: 2808

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates					
			FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES								
Personal Services	575.0		575.0	575.0	575.0	575.0	575.0	575.0
Travel	60.0		60.0	60.0	60.0	60.0	60.0	60.0
Services	300.0		205.0	205.0	205.0	205.0	205.0	205.0
Commodities	82.5		7.5	7.5	7.5	7.5	7.5	7.5
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	1,017.5	0.0	847.5	847.5	847.5	847.5	847.5	847.5

Fund Source (Operating Only)

1004 Gen Fund (UGF)	1,017.5		847.5	847.5	847.5	847.5	847.5	847.5
Total	1,017.5	0.0	847.5	847.5	847.5	847.5	847.5	847.5

Positions

Full-time	5.0		5.0	5.0	5.0	5.0	5.0	5.0
Part-time								
Temporary								

Change in Revenues

1250 UGF Rev (UGF)	1,017.5		847.5	847.5	847.5	847.5	847.5	847.5
Total	1,017.5	0.0	847.5	847.5	847.5	847.5	847.5	847.5

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/19

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

Prepared By: Kristy Naylor, Acting Director Phone: (907)269-7675
Division: Banking and Securities Date: 04/11/2018
Approved By: Catherine Reardon, Director Date: 04/12/18
Agency: Division of Administrative Services, DCCED

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

BILL NO. HB 376

Analysis

The Division of Banking and Securities anticipates the following fiscal impact from this legislation for the regulatory oversight and quarterly examinations of the Alaska State Bank (ASB).

The bill creates a new public corporation within the Department of Commerce, Community, and Economic Development. The ASB will promote infrastructure, education, science, technology, and other economic development projects in Alaska. This fiscal note addresses only the regulation and examination of the ASB. Costs for the creation and capitalization of the ASB, as well as other department costs, are addressed in separate fiscal notes.

The bill exempts the ASB from regulation under the Alaska Banking Code and requires quarterly examinations be conducted. The Division of Banking and Securities (DBS) conducts examinations of state chartered financial institutions under the Alaska Banking Code and regulations on a specific cycle established in statute. Examination cycles currently include annual, every eighteen months, and as needed for compliance. No DBS programs currently require quarterly examination and further analysis will be necessary to determine the potential impact to the division's overall operations.

Regulations will need to be drafted and adopted to establish the basis for conducting examinations and reports that will be made public under this legislation. DBS anticipates an intensive and lengthy regulation process that will require legal services from the Department of Law. Higher legal costs are reflected in the services lines for year one with a decrease once regulations are adopted for future years.

Five new Financial Examiner III, range 21, positions will be dedicated to the regulation and examination of the Bank. The focus of the first year will be to research, draft, and develop proposed regulations and attend multi-week trainings, typically held in the Washington, D.C. area, specific to the examination and regulation of the banking industry. Annual training will be required. With regulations adopted and Bank operations underway, the examiners will be dedicated to conducting quarterly examinations and issuing reports on the condition of the Bank. DBS anticipated hiring senior level examiners who have a solid foundation in the banking industry. The examiners will be required to participate in schools and/or classes to obtain certification in additional specialized industries as the Bank expands its scope of operations. Travel, lodging, per diem, registration fees, and educational materials costs are included.

This fiscal note includes costs for the five examiners including personal services, travel, training, office space, furniture, computers, telephones, supplies, and other costs. An increase in staff will impact the division's share of allocated costs for core central services levied by the Department of Administration including computer services, telephone services, Human Resources, Risk Management, Central Mail Services and the department's internal allocation of Management and Administrative Services cost.

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: HB 376
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB376-DCCED-DAS-04-11-18
Title: ESTABLISH THE ALASKA STATE BANK
Sponsor: TUCK
Requester: (H) Labor & Commerce

Department: Department of Commerce, Community and
Economic Development
Appropriation: Executive Administration
Allocation: Administrative Services
OMB Component Number: 1028

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates					
			FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES								
Personal Services	287.5		287.5	287.5	287.5	287.5	287.5	287.5
Travel	6.4		6.4	3.2	3.2	3.2	3.2	3.2
Services	245.0		245.0	45.0	45.0	45.0	45.0	45.0
Commodities	30.0		1.5	1.5	1.5	1.5	1.5	1.5
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	568.9	0.0	540.4	337.2	337.2	337.2	337.2	337.2

Fund Source (Operating Only)

1004 Gen Fund (UGF)	568.9							
1007 I/A Rcpts (Other)			540.4	337.2	337.2	337.2	337.2	337.2
Total	568.9	0.0	540.4	337.2	337.2	337.2	337.2	337.2

Positions

Full-time	3.0		3.0	3.0	3.0	3.0	3.0
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

Prepared By: Catherine Reardon, Director	Phone: (907)465-2506
Division: Administrative Services, DCCED	Date: 04/12/2018
Approved By: Catherine Reardon, Director	Date: 04/12/18
Agency: Division of Administrative Services, DCCED	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

BILL NO. HB 376

Analysis

HB376 establishes the Alaska State Bank (ASB) as a corporate entity within the Department of Commerce, Community, and Economic Development (DCCED). Corporate entities within the department receive different levels of service from the Division of Administrative Services (DAS), depending on their corporate structure. The ASB is anticipated to receive human resources, budget, financial, travel, and information technology support from the DAS. The DA positions were reduced by over 26% between FY2015 and FY2018; the additional work associated with the ASB cannot be absorbed by existing staff. The positions in this fiscal note are not ASB positions, a separate fiscal note estimates that approximately 50 positions will be needed to staff that agency.

DAS staff will work closely with the ASB board and executive staff to establish financial structures and policies. The ASB will be funded by the Alaska State Bank Fund; DAS will coordinate revenue transfers to and from that fund for the ASB. Payroll for the ASB will be administered using the state's accounting system, IRIS, and facilitated by staff within the DAS. DAS staff will perform periodic review of financial projections for the ASB, and will assist in resolving accounting errors and year end closeout. The ASB will be a budgeted appropriation within the department, and the ASB will receive significant support from budget staff as the ASB is established. The Accountant III and an Accounting Technician II will take on accounting work within the division, which will allow the division's lead financial and budget staff to work with the ASB.

The ASB is anticipated to operate a separate financial processing system for bank operations. Division Information Technology (IT) staff will be needed to ensure that systems implemented by the ASB can connect to department and statewide systems, and to ensure that IT systems implemented by the ASB meet state security standards. The flexibly staffed Analyst Programmer I/II/III will support these needs.

This fiscal note includes the following costs which will be funded by general funds in the first year and interagency receipts from the ASB in later years:

Personal Services:	\$287.5 (one Analyst/Programmer I/II/III, one Accountant III, one Accounting Technician II, all in Juneau)
Travel:	\$6.4 for four trips in each of the first two years for accounting and IT staff to assist with the ASB's establishment; two trips per year in the following years for continued coordination and IT support.
Services:	\$200.0 in each of the first two years to fund IT resource acquisition and contracting costs. \$45.0 per year for statewide core services and other allocated costs related to the new positions.
Commodities:	\$30.0 in the first year for equipment and startup costs for the three new positions (computers, desks, etc.) \$1.5 per year beginning in the second year for office supplies.

Inter-agency receipts within the Division of Administrative Services are collected from divisions and corporate entities that receive services based on a cost allocation methodology. The costs included in this fiscal note will be billed based on anticipated and actual usage.

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: HB 376
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB376-DCCED-ASB-04-11-18
Title: ESTABLISH THE ALASKA STATE BANK
Sponsor: TUCK
Requester: (H) Labor & Commerce

Department: Various (for Fiscal Notes only)
Appropriation: Various
Allocation: Executive Branch
OMB Component Number: 0

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates				
			FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

Positions

Full-time	***		***	***	***	***	***
Part-time							
Temporary							

Change in Revenues

None	***		***	***	***	***	***
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/25

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

Prepared By: <u>Catherine Reardon, Director</u>	Phone: (907)465-2506
Division: <u>Administrative Services</u>	Date: 04/12/2018 12:00 AM
Approved By: <u>Catherine Reardon, Director</u>	Date: 04/12/18
Agency: <u>Division of Administrative Services, DCCED</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

BILL NO. HB376

Analysis

HB376 establishes the Alaska State Bank (ASB) as a corporate entity within the Department of Commerce, Community, and Economic Development. The ASB is funded by the Alaska State Bank Fund, and may receive federal, state, and other revenues.

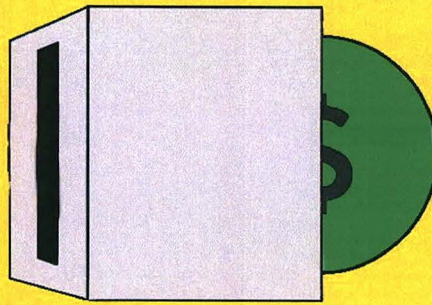
The ASB is anticipated to be established as a small bank in Alaska. The bank is anticipated to have executive-level staff (President, Executive Vice President, Senior Vice President, Vice President, Assistant Vice President), as well as management-level and functional-level banking staff. The ASB is also anticipated to have in-house information technology, human resources, auditing/trust, and administrative support staff. The total number of positions for the ASB is estimated between 75 and 150.

In addition to personal services costs, the ASB will also require authorization for travel, services, commodities and capital outlay. Higher costs are anticipated in the first two to three years as the ASB is established. The ASB will need to acquire specialized banking software, and to develop a computer application that can meet the requirements of AS 44.90.210(c) for marijuana businesses and tax revenues. The ASB will receive some financial, budget, human resources, and information technology support from the department, and will be billed by DCCED annually. The ASB's portion of DCCED's cost allocation is anticipated to be larger in the first two years as Administrative Services and Commissioner's Office resources are deployed to assist with the ASB's startup.

Revenues to the ASB are unable to be determined at this time. In addition to the ASB's more standard banking functions, the ASB is authorized to accept certain funds from the federal government, to receive appropriations from the legislature, and to issue shares of the bank to Alaskans.

Regulations will be required for the ASB. However, the timeline for adoption of those regulations is unable to be determined at this time.

The Division of Commerce, Community, and Economic Development is unable to determine the fiscal impact of this legislation at this time.



Economics

Economists Ignore One of Capitalism's Biggest Problems. Banks Create Money out of Nothing.



Banks don't intermediate loans, they originate loans



By Steve Keen

I like Joe Stiglitz, both professionally and personally. His *Globalization and its Discontents* was virtually the only work by a Nobel Laureate economist that I cited favourably in my *Debunking Economics*, because he had the courage to



Joe is capable of thinking outside its box.

But Joe's latest public contribution—"The Great Malaise Continues" on Project Syndicate—simply echoes the mainstream on a crucial point that explains why the US economy is at stall speed, which the mainstream simply doesn't get.

Joe correctly notes that "the world faces a deficiency of aggregate demand", and attributes this to both "growing inequality and a mindless wave of fiscal austerity", neither of which I dispute. But then he adds that part of the problem is that "our banks ... are not fit to fulfill their purpose" because "they have failed in their essential function of intermediation":

Between long-term savers (for example, sovereign wealth funds and those saving for retirement) and long-term investment in infrastructure stands our short-sighted and dysfunctional financial sector...

Former US Federal Reserve Board Chairman Ben Bernanke once said that the world is suffering from a "savings glut." That might have been the case had the best use of the world's savings been investing in shoddy homes in the Nevada desert. But in the real world, there is a shortage of funds; even projects with high social returns often can't get financing.

I'm the last one to defend banks, but here Joe is quite wrong: the banks have very good reasons not to "fulfill their purpose" today, because that purpose is not what Joe thinks it is. Banks don't "intermediate loans", they "originate loans", and they have every reason not to originate right now.

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In effect, Joe is complaining that banks aren't doing what economics textbooks say they should do. But those textbooks are profoundly wrong about the actual functioning of banks, and until the economics profession gets its head around this and why it matters, then the economy will be stuck in the Great Malaise that Joe is hoping to lift us out of.

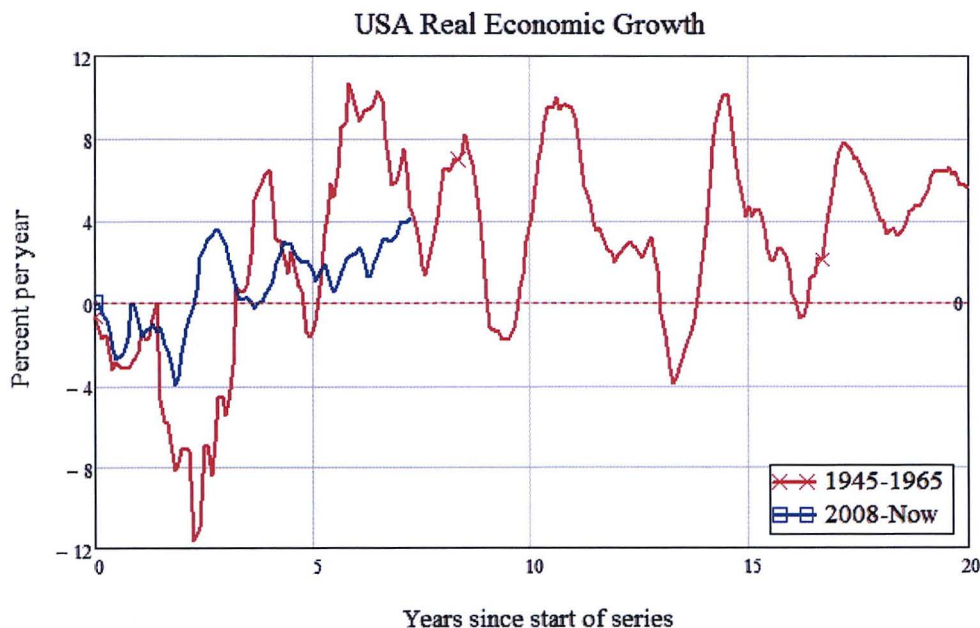
debt today is too low, because too little private debt is being created right now. In reality, the level of private debt is way too high, and that's why so little lending is occurring.

I can make the case empirically for non-economists pretty easily, thanks to an aside that Joe makes in his article. He observes that when WWII ended, many economists feared that there would be a period of stagnation:

Others, harking back to the profound pessimism after the end of World War II, fear that the global economy could slip into depression, or at least into prolonged stagnation.

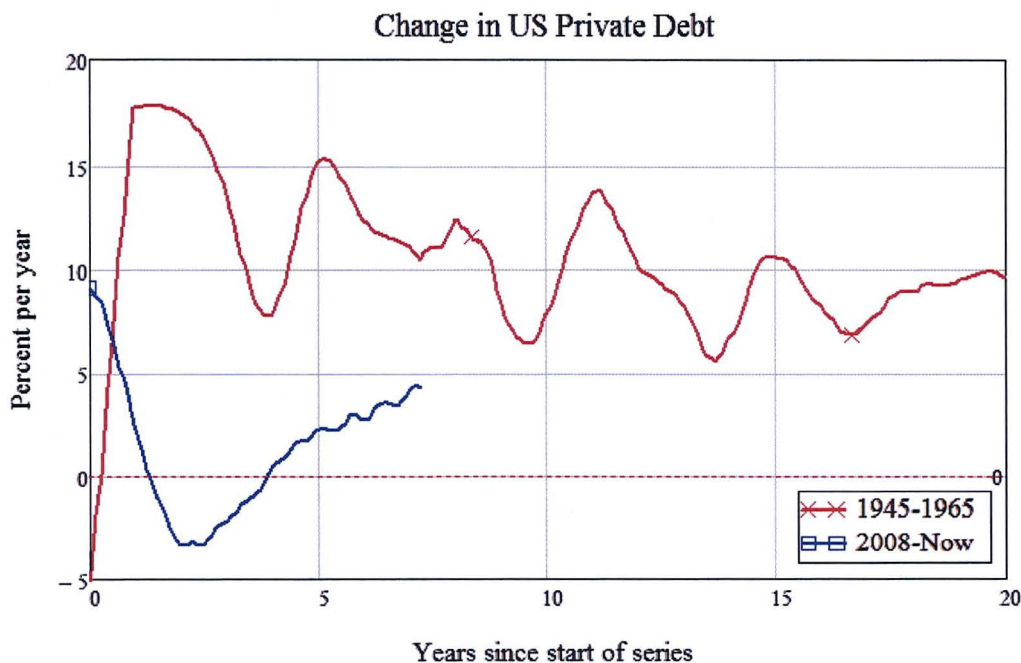
In fact, the period from 1945 till 1965 is now regarded as the “Golden Age of Capitalism”. There was a severe slump initially as the economy changed from a war footing to a private one, but within 3 years, that transition was over and the US economy prospered—growing by as much as 10% in real terms in some years (see Figure 1). The average from 1945 till 1965 was growth at 2.8% a year. In contrast, the average rate of economic growth since 2008 to today is precisely zero.

Figure 1: US Real GDP growth from 1945-1965 vs 2008 till now



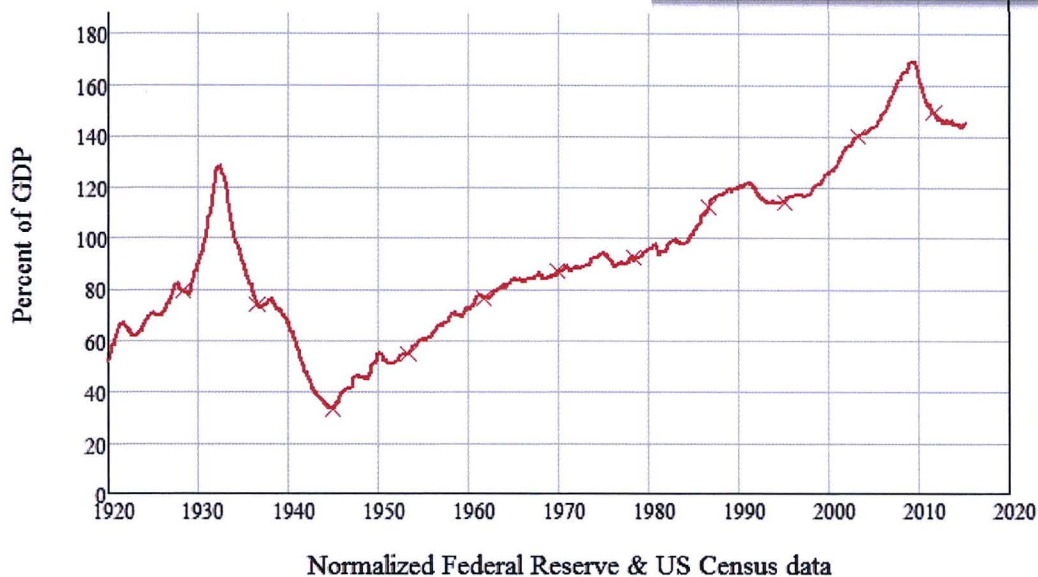
source of aggregate demand that economists back then hadn't factored into their thinking—and as Joe shows, they're still not doing it today. Credit grew more than 10% per year on average, fuelling an insatiable aggregate demand that drove the economy forward. In contrast, credit growth since 2008 has averaged a mere 1.4% per year—see Figure 2.

Figure 2: Rapid Post-WWII credit expansion versus anemic growth in credit today



This might seem to support Joe's argument that banks today aren't "fit for purpose", whereas in the post-WWII period they were—and that's why we are experiencing "The Great Malaise" now, rather than another "Golden Age of Capitalism".

But there's a factor that Joe ignores (along with the rest of the economics mainstream) because the "banks are intermediaries between savers and investors" model tells him that it doesn't matter: the level of private debt relative to GDP. Today, private debt is more than 4 times what it was in 1945—and at its peak in 2009, it was more than 5 times the 1945 level (see Figure 3). That's why banks aren't lending today, and that's why aggregate demand is growing so slowly. The only way to get out of the "Great Malaise" is to bring this level of private debt down—without reducing aggregate demand in the process (and without anything as catastrophic as WWII either).



As I noted above, that's probably enough to convince non-economists, but it won't persuade Joe or the economics mainstream. Their riposte would be "why does the level of private debt matter?"—after all, that's what Ben Bernanke, another mainstream economic guru, effectively said to Irving Fisher when he dismissed Fisher's idea that debt-deflation caused the Great Depression:

Fisher's idea was less influential in academic circles, though, because of the counterargument that debt-deflation represented no more than a redistribution from one group (debtors) to another (creditors). *Absent implausibly large differences in marginal spending propensities among the groups, it was suggested, pure redistributions should have no significant macro-economic effects.* (Bernanke, *Essays on The Great Depression*, page 24)

According to the mainstream, the rate of growth of debt is generally irrelevant to macroeconomics, because lending simply redistributes spending power from savers to investors—it doesn't create spending power in its own right. What matters is that socially useful projects are funded which then fuel economic growth. How much private debt changes every year is simply a side-effect of getting money from savers who don't spend, to investors who do. And huge changes can occur in the level of private debt without any impact on the rate of economic growth.

For decades now, a handful of rebel economists have been disputing this—including me of course, but going back to Irving Fisher and even earlier, and

Richard Werner. Oh, and a guy named Hyman Minsky too, whom the mainstream ignored until the 2008 crisis. But the mainstream ignored us before the crisis, and continues to ignore us after it, because their “banks as intermediaries” model tells them that we are just spouting nonsense. We’re not, of course: the ordinary public tends to get that, and even The Bank of England has come out and said that it’s the mainstream that is spouting nonsense, not the rebels. But the mainstream rejects our analysis out of hand, *because their model tells them that it’s OK to do so.*

This wouldn’t matter if we could ignore the mainstream of the economics profession, but we can’t, because they are the key individuals who influence the economic policies that are actually put in place by politicians. Keynes understood this very well in his day, noting that “the world is ruled by little else”:

“The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist.” (Keynes, *General Theory 1936*)

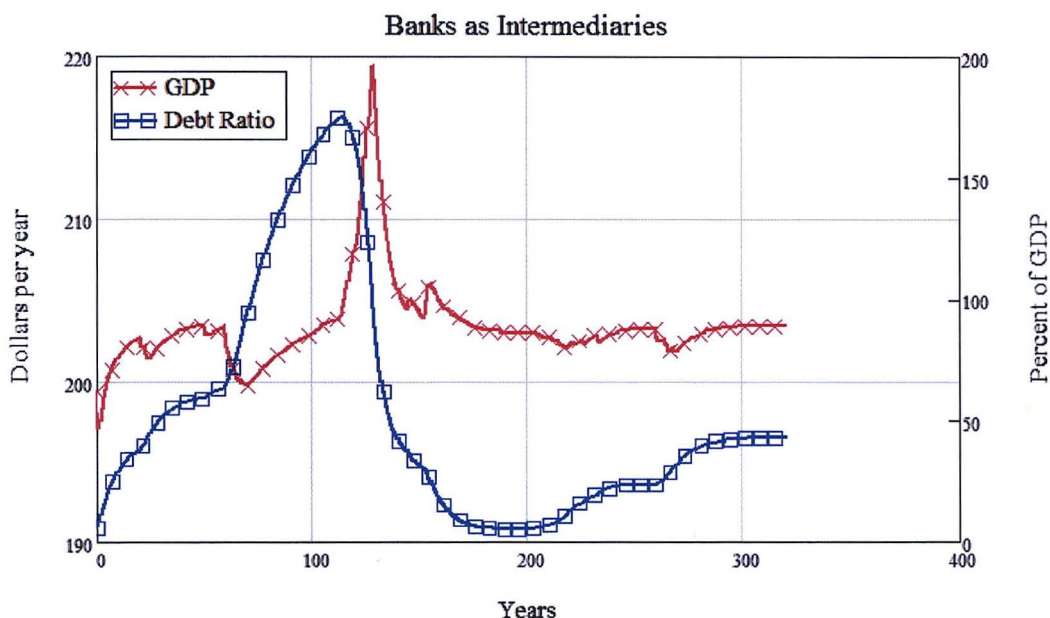
If the mainstream is wrong on this point—and they are very wrong—then there’s no chance of politicians doing what is needed to overcome “The Great Malaise” (especially if the best remedy also challenges vested interests, which it surely does). So how to persuade the mainstream that, despite their Nobel Prizes, they might just be wrong?

One way, I thought, might be to develop a dynamic version of the mainstream “banks as intermediaries” model in my Minsky software, and show the mainstream that, if it is true that banks are just intermediaries, *then they are right*: the level of private debt doesn’t matter. But if banks do more than intermediate—if they in fact originate loans—then the level of private debt matters a great deal.

Figure 4 shows a run of the mainstream model where the rates of lending and repayment are varied. There is some change in GDP as a result, and some correlation of change in debt to the level of GDP, but in both cases these are relatively trivial: GDP sticks at \$200 million a year for a 300-year-long

relatively insignificant 0.2.

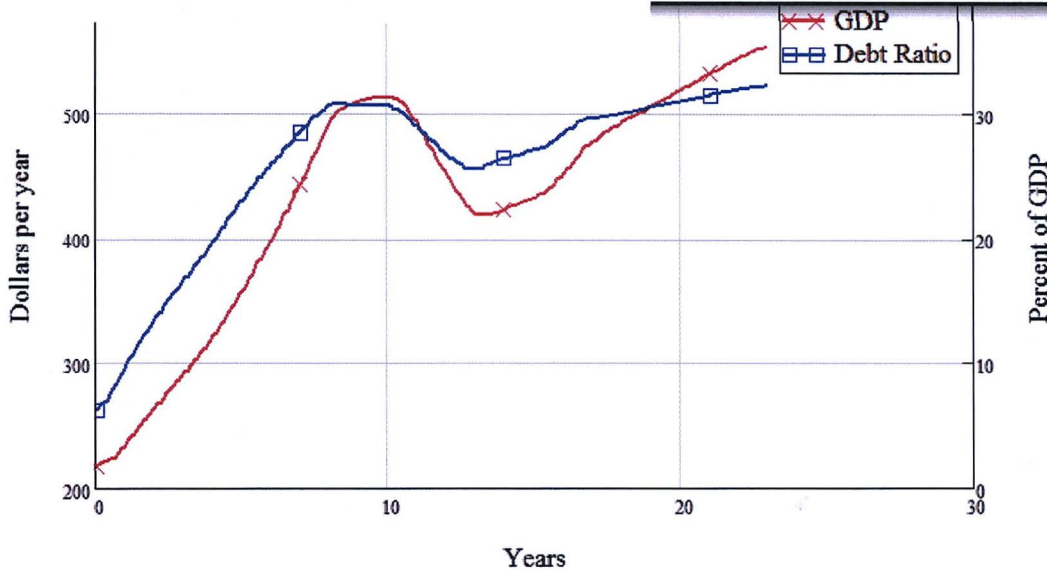
Figure 4: The mainstream model where debt doesn't matter



The story is very different for the second model. The **only** difference between the two is that banks originate loans in this second model: rather than “intermediating” between savers and investors, they “originate”, by creating loans as assets on one side of their accounting ledger, and creating deposits (that their customers can spend) as liabilities on the other side.

Firstly, nominal GDP rises from \$200 million to \$600 million over the 25 years of the simulation—rather than remaining effectively constant for centuries as in the mainstream model (since there is growth in the money supply in this model: loans create deposits, which are the dominant form that money takes in our modern economy). Secondly, the correlation between the level of GDP and the debt ratio is 0.97: GDP booms when debt rises, and slumps when it falls.

Figure 5: The rebel model where debt matters a great deal



Of course, the real world is a far more complex place than this or any other economic model, and there are many other factors on which borrowed money can be spent in the real world than in this simple model. But for the last decade, I have been figuratively turning blue in the face showing similarly staggering real-world correlations between change in debt and macroeconomic variables—such as the minus 0.65 correlation between change in private debt and the level of US unemployment since 1980 (see Figure 6), and the minus 0.82 correlation between the acceleration of private debt and the change in US unemployment (see Figure 7).

Figure 6: Change in private debt & level of unemployment (Correlation coefficient -0.65)

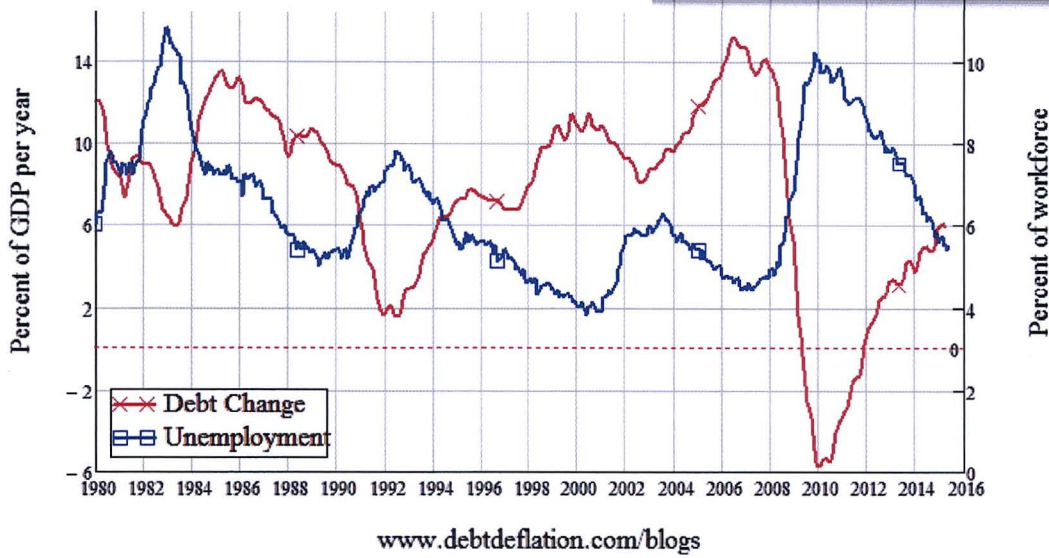
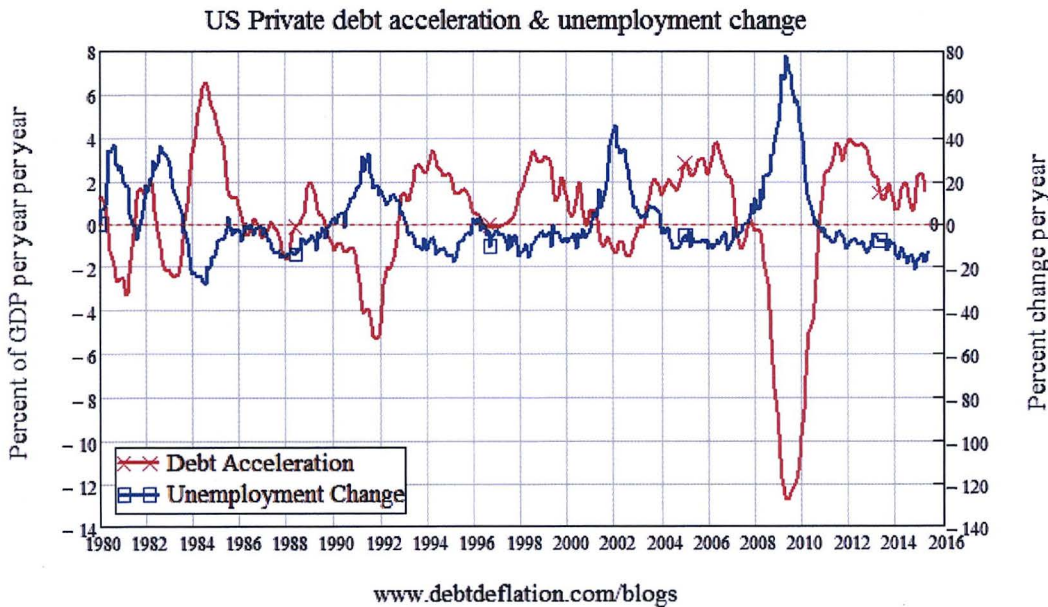


Figure 7: Acceleration of private debt and change in unemployment
(Correlation coefficient -0.82)



In any genuine science, empirical data like this would have forced the orthodoxy to rethink its position. But in economics, the profession has sailed on, blithely unaware of how their model of “banks as intermediaries between savers and investors” is seriously wrong, and now blinds them to the remedy for the crisis as it previously blinded them to the possibility of a crisis occurring.



Well, here is a theory, with two models—one in which banks are just intermediaries, the other in which they originate loans—which show that bank lending matters in theory, as well as clearly mattering in practice (download and install Minsky if you'd like to check them out).

So Joe, can you please ditch the mainstream on “Banks as intermediaries” as you once ditched the mainstream on the Washington Consensus? Then help us develop the only real solution to the Great Malaise: a Modern Debt Jubilee as I call it, or People’s Quantitative Easing as others call it, to reduce the private debt burden without causing a Depression? Because if we don’t, no amount of exhorting banks to “Intermeditate” will end the drought in credit growth that is the real cause of The Great Malaise.

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- Q: What precedent is there for public banking in the US?
- Q: What is the difference between a public bank and any other bank?
- Q: Who would benefit from a public bank?
- Q: What are the problems public banks are trying to solve?
- Q: Won't greedy politicians just use a public bank to fund pet projects and line their pockets?
- Q: Will a public bank compete with local banks in my area?
- Q: Why are some banks opposed to public banking?
- Q: How could a publicly owned bank help an economically struggling state?
- Q: Can't cities and states just deposit their funds into a credit union? Wouldn't that amount to the same thing?
- Q: Won't a public bank require a very large investment by a city/county/state?
- Who will set policy for public banks? Who decides whether to approve loans? How are decisionmakers insulated from bribes and financial or political pressure?

FAQ

Here are the most frequently asked questions we get at the Public Banking Institute:

Q: WHAT PRECEDENT IS THERE FOR PUBLIC BANKING IN THE US?

A: Public banking was the Founding Fathers' ideal. Many of them and some of the most famous US Presidents of the 19th century struggled against private central reserve banks for over one hundred years. See the New Economy Academy for more information.

At the US state level, the Bank of North Dakota provides an excellent example of the power of public banking, as it has since 1919.

Since 2010, in an attempt to regain control over regional economies in the face of a Wall Street crisis in which the banks that caused the crisis got bailed out but cities and states suffered terribly but did not get bailed out, almost half of the US states have had legislation introduced to create public banks.

Q: WHAT IS THE DIFFERENCE BETWEEN A PUBLIC BANK AND ANY OTHER BANK?

A: A public bank is owned by the city, county, or state that founded it. That means that the money it makes by making loans comes back to the taxpayers, rather than to private banks and investors. A public bank has many of the same privileges as the private banks, for example it can use the fractional reserve system to multiply the value of its deposits through loans to students, homeowners, municipalities, and enterprises.

Q: WHO WOULD BENEFIT FROM A PUBLIC BANK?

A: **Taxpayers**, who will benefit from both the profits the bank makes and the services the bank offers.

Students, who can access low interest education loans from the bank. Since Vermont would control it, we could also offer flexible repayment terms for people who go into public service and education, so our young people are not saddled with unreasonable debt.

Homeowners, who could get reasonable mortgages and home loans from the bank.

Entrepreneurs will have access to credit lines, loans, and other forms of finance to help their businesses succeed.

Municipalities: the bank can offer competitive interest on public deposits and lower cost financing for public works.

Q: WHAT ARE THE PROBLEMS PUBLIC BANKS ARE TRYING TO SOLVE?

A: In the case of nearly every state and town government, it is standard practice to send millions upon millions of dollars a year to banks and investors to pay the interest on bonds that have been issued for state infrastructure. If you add up the money the towns collectively send to banks and investors for the same purposes, it is a lot of money. In the case of California, its long awaited new Bay Bridge span was recently completed at a cost of \$6.4 billion - over 400% over its initial projection. What most Californians don't realize is that the total cost of the bridge will eclipse \$13 billion when interest payments are considered over their life. 50% savings is not an aberration - it is pretty much a standard calculation for what municipalities can save by issuing their own loans for critical infrastructure from their own bank.

Meanwhile it is also standard practice to cut programs that benefit low income citizens and students to close "budget gaps" that appear on a regular basis. There are also many unmet needs for roads, bridges, public transit, energy, housing, education, water, and telecommunications. If the interest payments on infrastructure, housing, economic development, and student loans were going to the public sector instead, we would have lower taxes and more funds available for needed improvements.

Q: WON'T GREEDY POLITICIANS JUST USE A PUBLIC BANK TO FUND PET PROJECTS AND LINE THEIR POCKETS?

A: The Bank of North Dakota shows that a public bank can and must be run free of influence from the legislature and other high offices, in order to effectively do its job.

Q: WILL A PUBLIC BANK COMPETE WITH LOCAL BANKS IN MY AREA?

A: A public bank does not compete with local banks. It does not accept deposits from individuals, organizations, and businesses – only from the state and municipal governments. For local and regional banks, a public bank can also serve as a support system, allowing them to make loans and take deposits that normally would be out of their reach because of their small size. As an example, North Dakota, home of the publicly owned Bank of North Dakota, boasts the most banks per capita of any state in

the nation. This is just one of the benefits of public banking - support of a diverse and robust private banking sector that truly serves the public.

Q: WHY ARE SOME BANKS OPPOSED TO PUBLIC BANKING?

A: Banks that don't like the idea of a public bank typically are the large national and international banks that currently accept the deposits of state and municipal governments and invest them in out of state projects like – for example – the XL Pipeline and the tar sands up in Canada. Public banks offer municipalities and community banks enormous benefits and tend to have the effect of creating competition for the big banks - and they do not like competition.

Q: HOW COULD A PUBLICLY OWNED BANK HELP AN ECONOMICALLY STRUGGLING STATE?

A: Among other things, publicly owned banks offer counter-cyclical relief by (1) issuing badly needed credit at low, or no, cost to the state, thus providing a means of revitalizing infrastructure and other services that are now endangered (according to studies, interest paid to private banks represents 30 to 50% of the cost of most public projects); (2) supporting local and regional banks by participating with capital and expertise in loan programs that address local and regional needs; (3) providing support for residential and agricultural financing that acts as a bridge during times of economic contraction, as the Bank of North Dakota did during the Great Depression; and (4) saving the state hundreds of millions of dollars on fees associated with simply keeping general tax revenues and other substantial funds in the big banks.

Q: CAN'T CITIES AND STATES JUST DEPOSIT THEIR FUNDS INTO A CREDIT UNION? WOULDN'T THAT AMOUNT TO THE SAME THING?

A: Credit unions make regions economically strong, because the benefits and profits from the credit unions go to their members, rather than out of state investors. However, a public bank's profits go to the public – all of the residents and taxpayers of a city or state, not just the members of a single credit union.

More importantly, credit unions can only lend out what people deposit into their credit union. Credit unions cannot create money-credit through fractional reserve banking the way real banks (including public banks) can do.

Q: WON'T A PUBLIC BANK REQUIRE A VERY LARGE INVESTMENT BY A CITY/COUNTY/STATE?

A: No. Nearly all city, county, and state governments have the capital needed for a public bank on their balance sheets of existing lending agencies as unrestricted assets, or in a variety of other asset pools - including funds on deposit with big private banks. These funds are more than adequate to serve as the capital for a bank. It requires a decision by the legislature, but there should be no need to raise additional money from taxes to provide the capital for the bank.

WHO WILL SET POLICY FOR PUBLIC BANKS? WHO DECIDES WHETHER TO APPROVE LOANS? HOW ARE DECISIONMAKERS INSULATED FROM BRIBES AND FINANCIAL OR POLITICAL PRESSURE?

A: The governing legislators or lawmakers—whether at the state or municipal level—would make general policy decisions about public banks (and would likely have an advisory commission to consult), but day-to-day decisions would be made by the banks themselves—governed by their charters and subject to transparency and administrative review. The Bank of North Dakota shows that a public bank can and must be run free of influence from the legislature and other high offices, in order to effectively do its job.

The Bank of North Dakota is the *State of North Dakota doing business as the Bank of North Dakota*. As *Banking on Colorado* points out, “A three-member State Industrial Commission oversees Bank of North Dakota, composed of the Governor, the Attorney General, and the Commissioner of Agriculture. The Bank has a seven-member Advisory Board appointed by the governor. The members must be knowledgeable in banking and finance. The Advisory Board reviews the Bank’s operations and makes recommendations to the Industrial Commission relating to the Bank’s management, services, policies and procedures.”

There is every reason to believe public banks will be fiscally conservative, balancing their chartered mandate to lend in the public interest with moderation and careful considerations of risk--moreso than big private banks who gamble with municipal money. Standard & Poor has consistently rated BND in the "A" range, indicating the highest levels of confidence in BND's creditworthiness and practices. According to **North Dakota Attorney General Wayne Stenehjem**, "The [2013] S&P review of the bank confirmed that it is well-managed and supports the economic needs of North Dakota . . . The report recognized BND for its conservative management strategy."

FAQ Public Banking

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Reconstruction Finance Corporation

The **Reconstruction Finance Corporation (RFC)** was a government corporation in the United States between 1932 and 1957 that provided financial support to state and local governments and made loans to banks, railroads, mortgage associations, and other businesses. Its purpose was to boost the country's confidence and help banks resume daily functions after the start of the Great Depression. The RFC became more prominent under the New Deal and continued to operate through World War II. It was disbanded in 1957, when the US government concluded that it no longer needed to stimulate lending.

The RFC was an independent agency of the United States government, and fully owned and operated by the government. The idea was suggested by Eugene Meyer of the Federal Reserve Board of Governors, recommended by President Hoover, and established by Congress in 1932. It was modeled after the War Finance Corporation of World War I. In total, it gave \$2 billion in aid to state and local governments and made a large number of loans, nearly all of which were repaid.

The agency played a major role in recapitalizing banks in the 1930s and it was effective in reducing bank failures and stimulating bank lending.^[1] It also helped to set up relief programs that were taken over by the New Deal in 1933.^[2]

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History

Part of the Federal Reserve System's mission was to act as a lender of last resort to banks during financial panics. However, the Board of Governors did not have enough authority to mandate policies or act independently. Many of the governors, as well as members of Congress and the public, wanted the Federal Reserve to be more active as the Great Depression began—for instance, by increasing the amount of money in circulation and liquidating financial markets. Opponents of these proposals believed that they would eventually create high inflation, hurting the economy in the long term.

To address these problems, Congress passed the Reconstruction Finance Corporation Act of 1932 with broad bipartisan support. President Herbert Hoover signed into law on January 22.^[3] Like the Federal Reserve, the RFC would loan to banks, but it was designed to serve state-chartered banks and small banks in rural areas that were not part of the Federal Reserve System. Another distinction was that the RFC could make loans on the basis of collateral that the Federal Reserve and other lenders would not accept. The related Banking Act of 1932, signed on February 27, broadened the Federal

Reserve's lending powers, and gave it the power to make national policy to mitigate the problems with the economy. Eugene Meyer, who had pushed for both pieces of legislation, after heading up an organization similar to the RFC during World War I, was a governor of the Federal Reserve, and Chairman of the Board of the RFC. Essentially, the RFC was the "discount lending" arm of the Federal Reserve.^[3]

The initial funding for the RFC came from the sale of \$500 million worth of stock and bonds to the United States Treasury. To obtain more capital, it sold \$1.5 billion in bonds to the Treasury, which then sold them to the general public. In its first couple of years, the RFC needed a loan of \$51.3 billion from the Treasury and \$3.1 billion from the public.

The RFC lent to solvent institutions that could not be sold to repay their existing liabilities but would be able to do so in the long run. A main reason for such loans was to ensure that depositors got their money back. The Reconstruction Finance Corporation spent \$1.5 billion in 1932, \$1.8 billion in 1933, and \$1.8 billion in 1934 before dropping to about \$350 million a year. In August 1939, on the eve of World War II, it greatly expanded to build munitions factories. In 1941, it disbursed \$1.8 billion. The total loaned or otherwise disbursed by the RFC from 1932 through 1941 was \$9.465 billion.^[2]

Chairmen of the Board of Directors^[4]

Name	Dates of service
<u>Eugene Meyer</u>	February 2, 1932 – July 31, 1932
<u>Atlee Pomerene</u>	August 1, 1932 – March 4, 1933
<u>Jesse H. Jones</u>	May 5, 1933 – July 15, 1939
<u>Emil Schram</u>	July 16, 1939 – June 29, 1941
<u>Charles B. Henderson</u>	June 30, 1941 – April 9, 1947
John D. Goodloe	April 9, 1947 – April 30, 1948
Harley Hise	August 5, 1948– October 9, 1950
W. Elmer Harber	October 11, 1950 – May 4, 1951

Administrators and Deputy Administrators^[4]

Name and position	Dates of service
<u>W. Stuart Symington</u> , Administrator	May 4, 1951 – February 15, 1952
Peter I. Bukouski, Deputy Administrator	June 20, 1951 – December 31, 1951
Leo Nielson, Acting Administrator	February 15, 1952 – February 26, 1952
Harry A. McDonald, Administrator	February 26, 1952 – May 1, 1953
Clarence A. Beutel, Deputy Administrator	September 10, 1952 – June 1, 1953
Kenton R. Cravens, Administrator	May 1, 1953 – March 31, 1954
Laurence B. Robbins, Deputy Administrator	December 10, 1953 – March 31, 1954
Laurence B. Robbins, Acting Administrator	March 31, 1954 – April 26, 1954
Laurence B. Robbins, Administrator	April 26, 1954 – June 30, 1954

Under President Herbert Hoover

The first RFC president was a former vice president named Charles Dawes. He soon had to resign to attend to his bank in Chicago, and President Herbert Hoover appointed Atlee Pomerene of Ohio to head the agency in July 1932. The presidency of the RFC thus switched from a Republican to a Democrat. Hoover's reasons for reorganizing the RFC included: the broken health and resignations of Eugene Meyer, Paul Bestor, and Charles Gates Dawes; the failure of banks to perform their duties to their clientele or to aid American industry; the country's general lack of confidence in the current board; and Hoover's inability to find any other man who had the ability and was both nationally respected and available. (Shriver 1982)

Like the Federal Reserve, the RFC tended to bail out the banks that benefited the government the most. Butkiewicz (1995) shows that the RFC initially succeeded in reducing bank failures, but the publication of the names of loan recipients beginning in August 1932 (at the demand of Congress) significantly reduced its effectiveness, because it appeared that political considerations had motivated certain loans. Partisan politics hindered the RFC's efforts, though in 1932, monetary conditions improved because the RFC slowed the decline in the nation's money supply.

The original legislation establishing the RFC did not limit it to lending to financial institutions; it was also authorized to provide loans for railroad construction and crop lands. An amendment passed in July 1932 allowed the RFC to provide loans to state and municipal governments. The purpose of these loans was to finance projects like dams and bridges, and the money would be repaid by charging fees to use these structures. To help with unemployment, a relief program was created that would be repaid by tax receipts.

Under President Franklin D. Roosevelt

President Franklin D. Roosevelt, who took office in 1933, increased the RFC's funding, streamlined the bureaucracy, and used it to help restore business prosperity, especially in banking and railroads. He appointed Texas banker Jesse H. Jones to lead the agency, and Jones turned the RFC into an empire with loans made in every state.^[5]

Under the New Deal, the powers of the RFC were greatly expanded. The agency now purchased bank stock and extended loans for agriculture, housing, exports, businesses, governments, and disaster relief. Roosevelt soon directed the RFC to buy gold to change its market price. The original legislation did not call for identities of the banks receiving loans nor of any reports to Congress. This, however, was changed in July 1932 to make the RFC transparent. Bankers soon were hesitant to ask the RFC for a loan since the public would become aware and begin to consider the possibility of their bank failing causing them to withdraw their deposits.

The RFC also had a division that gave the states loans for emergency relief needs. In a case study of Mississippi, Vogt (1985) examined two areas of RFC funding: aid to banking, which helped many Mississippi banks survive the economic crisis, and work relief, which Roosevelt used to pump money into the state's relief program by extending loans to businesses and local government projects. Although charges of political influence and racial discrimination were levied against RFC activities, the agency made positive contributions and established a federal agency in local communities which provided a reservoir of experienced personnel to implement expanding New Deal programs.

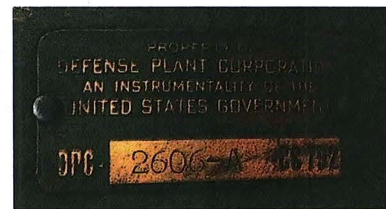
Roosevelt saw this corporation as an advantage to the government. The RFC could finance projects without Congress approving them and the loans would not be included in budget expenditures. Soon the RFC was able to buy bank preferred stock with the Emergency Banking Act of 1933. Buying stock would serve as collateral when banks needed loans. This, however, was somewhat controversial because if the RFC was a shareholder than it could interfere with salaries and bank management. The Federal Deposit Insurance Corporation (FDIC) was later created to help decrease bank failures and insure bank deposits. The second main assistance was to farmers and their crop lands. The Commodity Credit Corporation was established to provide assistance. The agriculture was hit hard with a drought and machinery like the tractor. One benefit it provided to these rural cities was the Electric Home and Farm Authority, which provided electricity and gas and assistance in buying appliances to use these services.

The mortgage company was affected as well since families were not able to make their payments. This led the RFC to create its own mortgage company to sell and insure mortgages. The Federal National Mortgage Association (also known as Fannie Mae) was established and funded by the RFC. It later became a private corporation. An Export-Import Bank was also created to encourage trade with the Soviet Union. Another bank was established to fund trade with all other foreign nations a month later. They eventually merged and make loans available to exports. Roosevelt wanted to reduce the gold value of the US dollar. In order to accomplish this, the RFC purchased large amounts of gold until a price floor was set.

World War II

The RFC's powers, which had grown even before World War II began, further expanded during the war. President Roosevelt merged the RFC and the Federal Deposit Insurance Corporation (FDIC), which was one of the landmarks of the New Deal. Oscar Cox, a primary author of the Lend-Lease Act and general counsel of the Foreign Economic Administration, joined as well. Lauchlin Currie, formerly of the Federal Reserve Board staff, was the deputy administrator to Leo Crowley.

The RFC established eight new corporations and purchased an existing corporation. Its eight wartime subsidiaries were the Metals Reserve Company, Rubber Reserve Company, Defense Plant Corporation, Defense Supplies Corporation, War Damage Corporation, U.S. Commercial Company, Rubber Development Corporation, and Petroleum Reserve Corporation.^[6] These corporations helped fund the development of synthetic rubber, the construction and operation of a tin smelter, and the establishment of abaca (Manila hemp) plantations in Central America. Both natural rubber and abaca (used to produce rope products) had been produced primarily in South Asia, which came under Japanese control during the war. The RFC's programs encouraged the development of alternative sources of these materials. Synthetic rubber, which was not produced in the United States prior to the war, quickly became the primary source of rubber in the postwar years.



An identification nameplate on a motor formerly owned by the Defense Plant Corporation



An insurance policy issued by the War Damage Corporation in 1943

The War Insurance Corporation was established December 13, 1941 by Act of June 10, 1941 (55 Stat. 249), was renamed the War Damage Corporation by Act of March 27, 1942 (56 Stat. 175), and its charter filed March 31, 1942. It had been created by the Federal Loan Administrator with the approval of the President of the United States pursuant to §5(d) of the Reconstruction Finance Corporation Act of 1932, 15 USCA §606(b) for the purpose of providing insurance covering damage to property of American nationals not otherwise available from private insurers arising from "enemy attack including by the military, naval or air forces of the United States in resisting enemy attack". Prior to July 1, 1942, the War Damage Corporation provided for such insurance without compensation, but by express Congressional enactment Congress added

§5(g) to the Reconstruction Finance Corporation Act, 15 USCA §606(b)(2) requiring that on and after July 1, 1942, the War Damage Corporation should issue insurance policies upon the payment of annual premiums. Under the terms of War Damage Corporation's charter an authorized capital stock of \$100,000,000 was provided, all of which was subscribed for by the Reconstruction Finance Corporation.

The Corporation was transferred from the Federal Loan Agency to the Department of Commerce by Executive Order #9071 of February 24, 1942, returned to the Federal Loan Agency by Act of February 24, 1945 (59 Stat. 5), and abolished by Act of June 30, 1947 (61 Stat. 202) with its functions assumed by Reconstruction Finance Corporation. The powers of War Damage Corporation, except for purposes of liquidation, terminated as of January 22, 1947.^{[7][8]}

From 1941 through 1945, the RFC authorized over \$2 billion of loans and investments each year, with a peak of over \$6

billion authorized in 1943. The magnitude of RFC lending had increased substantially during the war.^[9]

The Petroleum Reserves Corporation was transferred to the Office of Economic Warfare, which was consolidated into the Foreign Economic Administration, which was transferred to the Reconstruction Finance Corporation and changed to the War Assets Corporation. The War Assets Corporation was dissolved after March 25, 1946. Most lending to wartime subsidiaries ended in 1945, and all such lending ended in 1948.

World War II aircraft disposal

After the war, the Reconstruction Finance Corporation established five large storage, sales, and scrapping centers for Army Air Forces aircraft. These were located at Kirtland Air Force Base in Albuquerque, New Mexico; Altus Air Force Base in Oklahoma; Kingman Air Force Base in Arizona; Ontario Air Force Base in California; and Walnut Ridge Air Force Base in Arkansas. A sixth facility for storing, selling, and scrapping Navy and Marine aircraft was located in Clinton, Oklahoma.

Estimates of the number of excess surplus airplanes ran as high as 150,000. By the summer of 1945, at least 30 sales-storage depots and 23 sales centers were in operation. In November 1945, it was estimated that a total of 117,210 aircraft would be transferred as surplus.

Between 1945 and June 1947, the RFC, the War Assets Corporation, and the War Assets Administration (the disposal function of the RFC was transferred to WAC on January 15, 1946, and to the WAA in March 1946) processed approximately 61,600 World War II aircraft, of which 34,700 were sold for flyable purposes and 26,900, primarily combat types, were sold for scrapping.

Most of the transports and trainers could be used in the civil fleet, and trainers were sold for \$875 to \$2,400. The fighters and bombers were of little peacetime use, although some were sold. Typical prices for surplus aircraft were:

- Vultee BT-13 Valiant \$450
- Lockheed P-38 Lightning \$1,250
- North American AT-6 \$1,500
- Douglas A-26 Invader \$2,000
- North American P-51 Mustang \$3,500
- North American B-25 Mitchell \$8,250
- Boeing B-17 Flying Fortress \$13,750
- Consolidated B-24 Liberator \$13,750
- Consolidated B-32 Dominator \$32,500

Many aircraft were transferred to schools, and to communities for memorial use for a minimal fee. A Boy Scout troop bought a B-17 Flying Fortress for \$350.

General sales were conducted from these centers; however, the idea for long term storage, considering the approximate cost of \$20 per month per aircraft, was soon discarded, and in June 1946, the remaining aircraft, except those at Altus, were put up for scrap bid.



Acres of World War II aircraft in storage, awaiting their fate at Kingman, 1946

Disbanding

After World War II ended, the type of loans provided by the RFC were no longer in demand. President Dwight D. Eisenhower was in office when legislation terminated the RFC. It was "abolished as an independent agency by act of Congress (1953) and was transferred to the Department of the Treasury to wind up its affairs, effective June 1954. It was totally disbanded in 1957."^[10] The Small Business Administration was established to provide loans to small business, and training programs were created. Government agencies took over RFC assets, and the tin and abaca programs were handled by General Services Administration. The Commodity Credit Corporation, which was created to help farmers, remained in operation. Another establishment kept in operation is the Export–Import Bank, which encourages exports.

In 1991, Rep. Jamie L. Whitten (Democrat of Mississippi) introduced a bill to reestablish the RFC, but it did not receive a hearing by a congressional committee,^[11] and he did not reintroduce the bill in subsequent sessions.

See also

- Resolution Trust Corporation
- Federal Emergency Management Agency
- Emergency Relief and Construction Act

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THE BLOG 02/12/2015 03:27 pm ET | Updated Dec 06, 2017

Why Public Banks Outperform Private Banks: Unfair Competition or a Better Mousetrap?



By Ellen Brown

Public banks in North Dakota, Germany and Switzerland have been shown to outperform their private counterparts. Under the TPP and TTIP, however, publicly-owned banks on both sides of the oceans might wind up getting sued for unfair competition because they have advantages not available to private banks.

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 than 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.

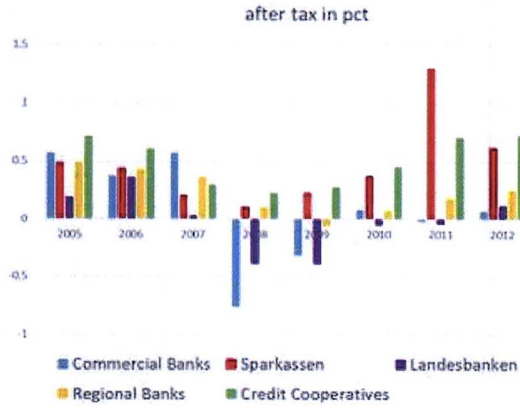
Lest there be any doubt about the greater profitability of the public banking model, however, this conclusion was confirmed in January 2015 in a report by the Savings Banks Foundation for International Cooperation (SBFIC) (the Sparkassenstiftung für internationale Kooperation), a non-profit organization founded by the 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 SBFIC 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.)

Net profit after taxes as a percentage of average total assets

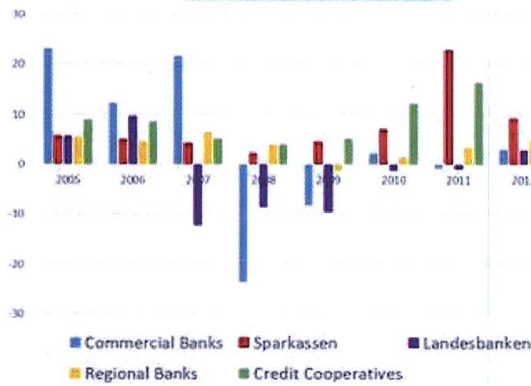
Profit to Balance Sheet Total



Source: Deutsche Bundesbank

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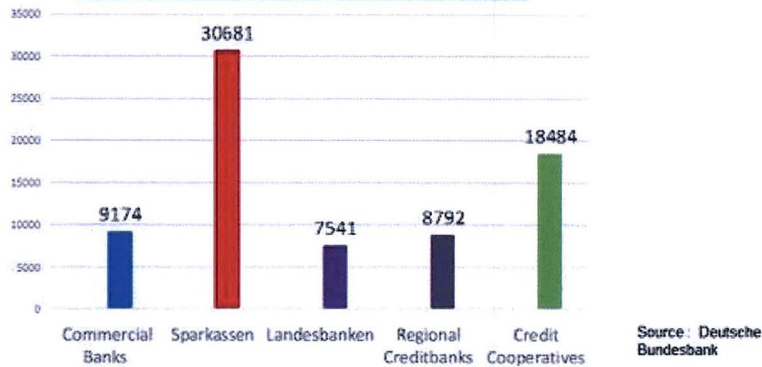
Return on Capital after tax in pct.



Source: Deutsche Bundesbank

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**Taxes on Income and Earnings
cumulative 2000 to 2013 in
Millions of Euro**



page 12

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.

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