Written Testimony of
Ellen Brown, Chair of the Public Banking Institute,
Before the New Hampshire House Committee on Commerce and Consumer Affairs
Regarding HB 648-FN, "an act relative to establishing a state bank of New Hampshire."
February 7, 2023.
Testimony Transmitted by Email.

Dear Members of the House Commerce and Consumer Affairs Committee,

I am writing today in support of HB367, "an act relative to establishing a state bank of New Hampshire." This testimony is submitted on behalf of the Public Banking Institute (PBI), of which I am the chair. PBI is a non-partisan research and advisory organization dedicated to exploring and disseminating information on the potential utility of publicly-owned banks and to facilitating their implementation. I am also the author of two books on the subject, *Web of Debt* and *The Public Bank Solution*.

A state-owned bank can save the state money, generate profits, stimulate the local economy, increase the tax base, serve local consumers and businesses including commercial banks, act as a rainy day fund, and provide ready, affordable credit in disasters. All of these benefits have been demonstrated by what is currently our only state owned bank, the Bank of North Dakota (BND).

The BND was founded in 1919, following a farmers' revolt against out-of-state banks that were foreclosing on their farms. North Dakota was the only state to escape the 2008-09 credit crisis: its budget never went in the red. It also had the lowest unemployment and default rates in the nation. Why? Much credit goes to the BND, which has reported stellar profits ever since, even when North Dakota's oil market collapsed and adverse weather conditions plagued its farmers. According to the Wall Street Journal (Nov. 16, 2014), the BND is more profitable even than Goldman Sachs and JPMChase. Per its latest annual report, in 2021 the BND had an ROI of 15%, $10 billion in assets, and an S&P rating of A+/stable. (That same year JPMChase had an ROI of 8%.)

Why is the BND so profitable? It has no private shareholders; does not pay bonuses, fees or commissions; has no high-paid CEOs; and does not need to advertise. It also has a massive deposit base: by law, all state revenues must be deposited in the BND. It is not allowed to compete with local ND banks but partners with them, helping them with capitalization, liquidity, and regulatory requirements. The local bank deals directly with the customer and retains the customer. The BND therefore has no need for branches or ATMs. Savings are passed on to borrowers and local communities. The BND also steps up in crises and natural disasters. In the Covid crisis, North Dakota had a faster and better response rate than any other state.

Today, infrastructure is generally left to the states, which fund it by borrowing in the private bond market. Interest and fees can be half the cost of infrastructure. Nationally in 2020, local governments paid $160 billion just in interest. Fees go to Wall Street banks and profits go to wealthy private bondholders, typically out of state; so money is siphoned out of the economy rather than adding to it.

According to Moody's, the municipal bond default rate between 1970 and 2012 was 0.012% -- virtually zero (vs. 3.6% for corporate bonds). Yet a costly and involved certification process is required to qualify municipal bonds, and bond

underwriters get the fees. These big out-of-state banks have been caught in collusion, bid-rigging, and bad swap advice, paying over $2 billion in fines and fees since 2000.

To avoid those fees, some local governments have been borrowing directly from banks. According to Moody's, 20% of new municipal borrowings are direct bank loans. Advantages include lower rates, fewer regulatory hurdles, and lower transaction costs, including avoiding fees for rating agents, credit enhancements, bond trustees and their attorneys. There is also no need for voter approval; new money is created as credit for the local economy; and rather than paying interest for 30 years on a jumbo bond, the municipality can just draw on its credit line with the bank as needed.

Many states have revolving funds for infrastructure and development, but a chartered depository bank can do more. It can leverage its capital at 10:1 (or more – the Fed has now lifted the capital requirement altogether). For cheap liquidity, it can borrow from its deposit base; and in an emergency, it can borrow from the Fed discount window.

Where will the bank get the money for the loans? Where all banks get it – they create it as bank credit on their books. Today private commercial banks, not the government, issue most of the money supply. According to the Bank of England, "[B]anks do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they 'multiply up' central bank money to create new loans and deposits … Commercial banks create money, in the form of bank deposits, by making new loans. … [B]ank deposits make up ... 97% of the amount [of money] currently in circulation." ["Money Creation in the Modern Economy", Quarterly Bulletin, 2014 Q1, Bank of England.] Banks do need "liquidity" to clear withdrawals, but today the cheapest source of liquidity is the bank's own depositors; and like the BND, a state owned bank with access to the state's deposits can amass a very large deposit base. Pension funds are another possibility.

What about capital? The amount required and where to get it depend on state regulations and what you want the bank to do. We've seen figures ranging from $10 million to $35 million, depending on the state. Sources could include a budget appropriation, bond issue, or debt for equity swaps (trading securities for non-voting termed shares).

What about risk? The largest Wall Street banks, where most states currently bank, are facing massive hidden risks in the form of trillions of dollars in derivative holdings. JPMorgan Chase alone has $55 trillion in derivatives. Some financial commentators are pointing to those speculative bets as the "black swan" that could take down the economy, particularly with the suddenly-high interest rates that have already brought down speculative ventures such as FTX. Under the 2010 Dodd-Frank Act, banks can "bail in" (expropriate) depositors' funds in a crisis. Neither the BND nor the Sparkassen banks of Germany (another cstellar public banking system) have ever needed a government bailout of any sort. They are required to employ seasoned bankers attuned to risk.

HB 648-FN will set their Hampshire on a course to reap these benefits, and we strongly endorse its passage.

Respectfully submitted,

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