Funding the Green Transition with Public Banks

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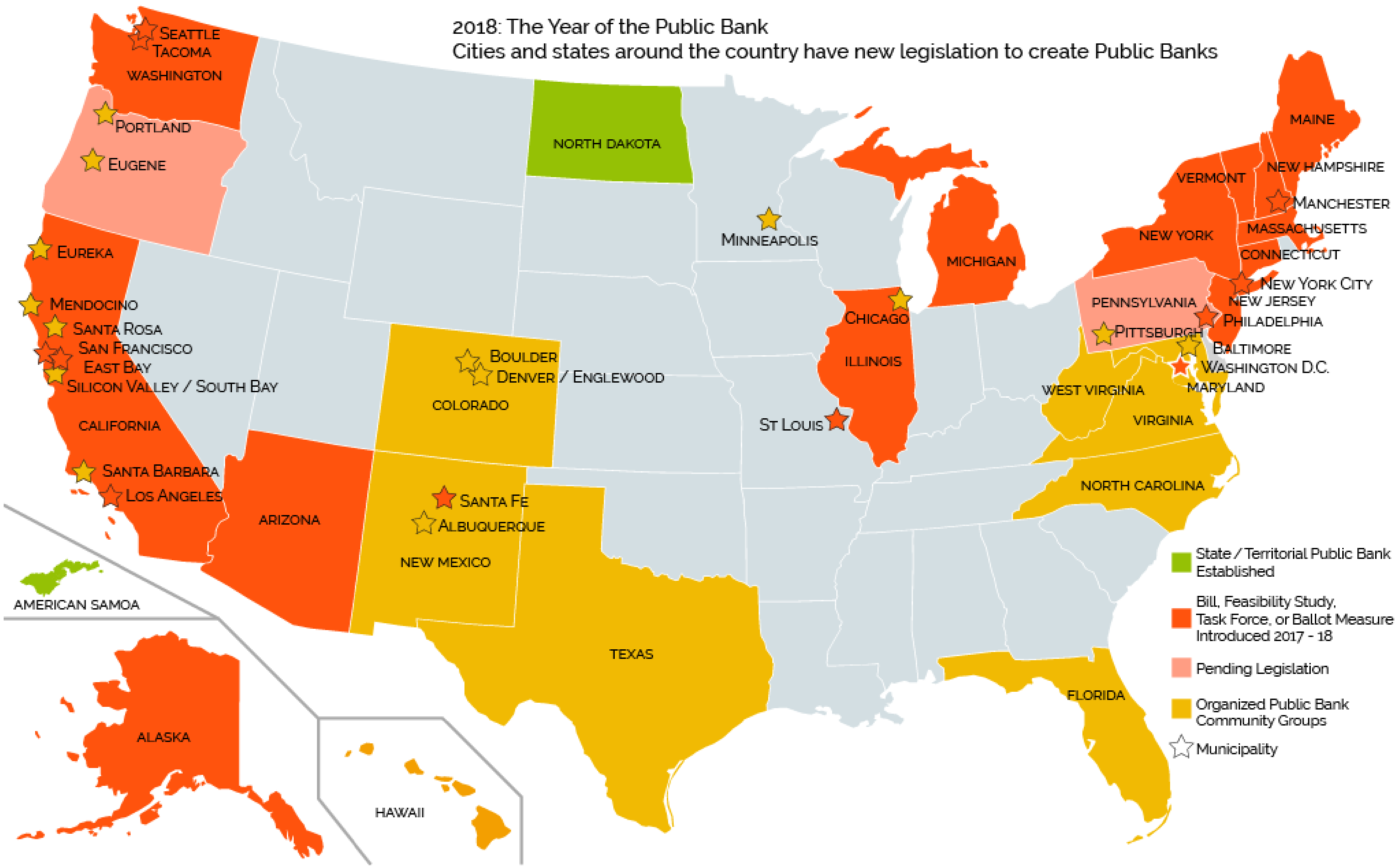
Public Banking Institute

9th Annual Soil and Nutrition Conference
Southbridge, MA, Nov. 14-17, 2019

US public banking action 2019



AB 857: chartering public banks

- Established legality of municipal public banks
- Set out requirements, allaying risk
- Showed widespread support:
  - Grassroots – CA Public Banking Alliance, joining volunteer activitists of 10+ cities
  - Endorsed by 183 organizations including CA Democratic Party
  - Passed by CA legislature
  - Signed by governor

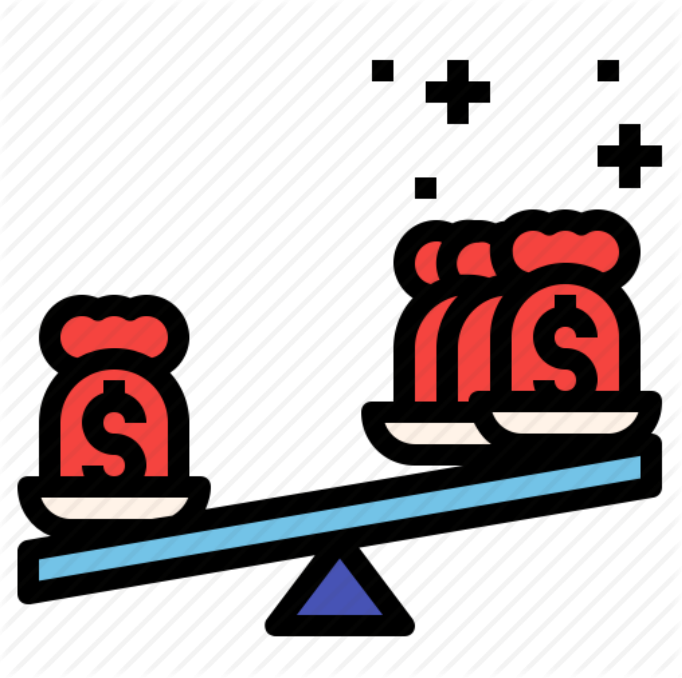
From Occupy to Divest to Public Banks …

… to the Green New Deal

Proposal included funding with “a combination of the Federal Reserve and a new public bank or system of regional and specialized public banks.”

AOC's bill

"…a Green New Deal will require … providing and leveraging, in a way that ensures that the public receives appropriate ownership stakes and returns on investment, adequate capital (including through community grants, public banks, and other public financing) …"



“Economic prosperity and security for all” – how much can we afford?

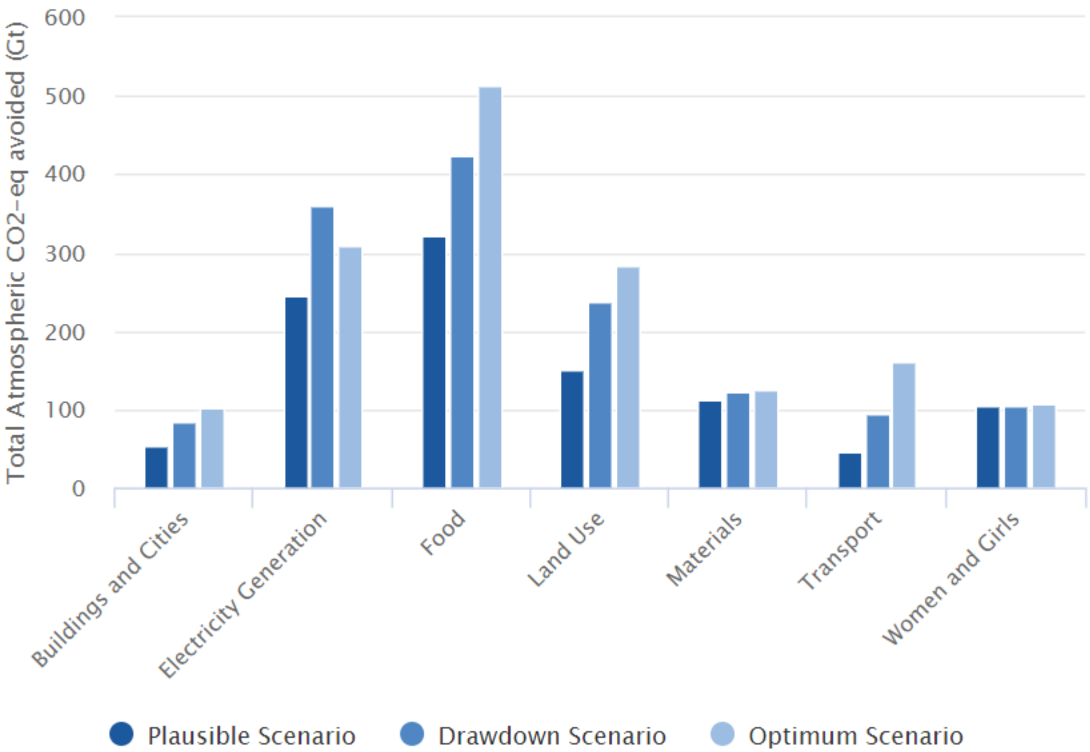
- AOC’s GND includes 100% renewables, upgrade all existing buildings, expand high-speed rail, clean air and water for all
- Plus “economic prosperity and security for all” – jobs guarantee? Health care? UBI?

An unaffordable $93T?
(American Action Forum projections)

Summary Table (2020-2029)		
Goal	**Estimated Cost**	**Estimated Cost Per Household**
Low-carbon Electricity Grid	$5.4 trillion	$39,000
Net Zero Emissions Transportation System	$1.3 trillion to $2.7 trillion	$9,000 to $20,000
Guaranteed Jobs	$6.8 trillion to $44.6 trillion	$49,000 to $322,000
Universal Health Care	$36 trillion	$260,000
Guaranteed Green Housing	$1.6 trillion to $4.2 trillion	$4,000 to $12,000
Food Security	$1.5 billion	$10

The most cost-effective environmental solutions were overlooked: Project Drawdown (Hawken), 2020-2050

FIGURE 2: MITIGATION IMPACT BY SECTOR, 2020-2050 (IN GIGATONS OF CARBON DIOXIDE-EQUIVALENT)



SECTOR RESULTS BY 2050

321.9 GIGATONS
REDUCED CO2

$777.64 BILLION
NET IMPLEMENTATION COST

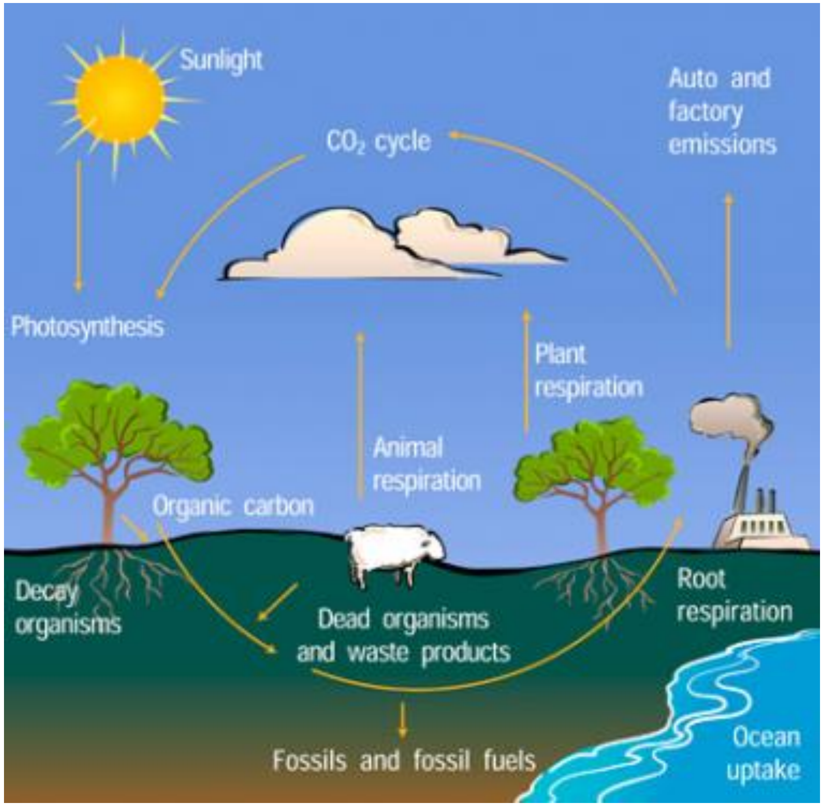
$10.02 TRILLION
NET OPERATIONAL SAVINGS

“Food” is the clear leader.

Of the top 30 solutions, 12
are in this sector, including:

- Silvopasture
- Regenerative Agriculture
- Tropical Staple Trees
- Conservation Agriculture
- Tree Intercropping
- Managed Grazing
- Farmland Restoration
- Multistrata Agroforestry

… which makes sense because plants have been evolving carbon sequestration for hundreds of millions of years.



- Per a recent study in *Science,* a worldwide tree-planting program could remove 2/3 of human carbon emissions.
- Grasslands are better carbon sinks than forests.
- Hemp is better yet.

Meanwhile factory farming, which is subsidized, is a major polluter.

- Responsible for as much as 50% of the carbon debt, counting externalities
- Toxic food injures health, increasing medical costs
- Inhumane conditions for billions of animals

Incentivizing small farmers: Divert subsidies from Big Ag to sustainable, regenerative farming.

- Big agribusinesses (factory farms and mono-crops) are now the biggest recipients of corporate welfare, at over $20B annually.

TOP 10 LARGEST U.S. FARM SUBSIDIES RECIPIENTS (2008-2017)

NAME	CITY	STATE	ZIPCODE	AMOUNT
CONCORDIA ALLIED PRODUCERS LLC	ASHBURN	GA	31714	$23,787,621.00
SCOTT FARMS G P	BRINSON	GA	39825	$21,988,168.00
HEARD FAMILY FARM	BRINSON	GA	39825	$20,874,304.00
HADER FARMS PARTNERSHIP	ZUMBROTA	MN	55992	$19,946,024.00
CROSSROAD FARMS	WILLIAMSPORT	IN	47993	$18,603,265.00
AMERICAN PEANUT MARKETING ASSOC.	LEARY	GA	39862	$17,907,523.00
JENKS FAMILY FARMS	MONMOUTH	IL	61462	$17,363,798.00
MICHAEL STAMER FARMS GENERAL PART	WILLMAR	MN	56201	$14,191,190.00
P G C FARMS	BRINSON	GA	39825	$14,164,396.00
DELINE FARMS PARTNERSHIP	CHARLESTON	MO	63834	$14,053,570.00

SOURCE: Department of Agriculture data released via FOIA.

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What about the big GND costs – “prosperity and economic security for all?”

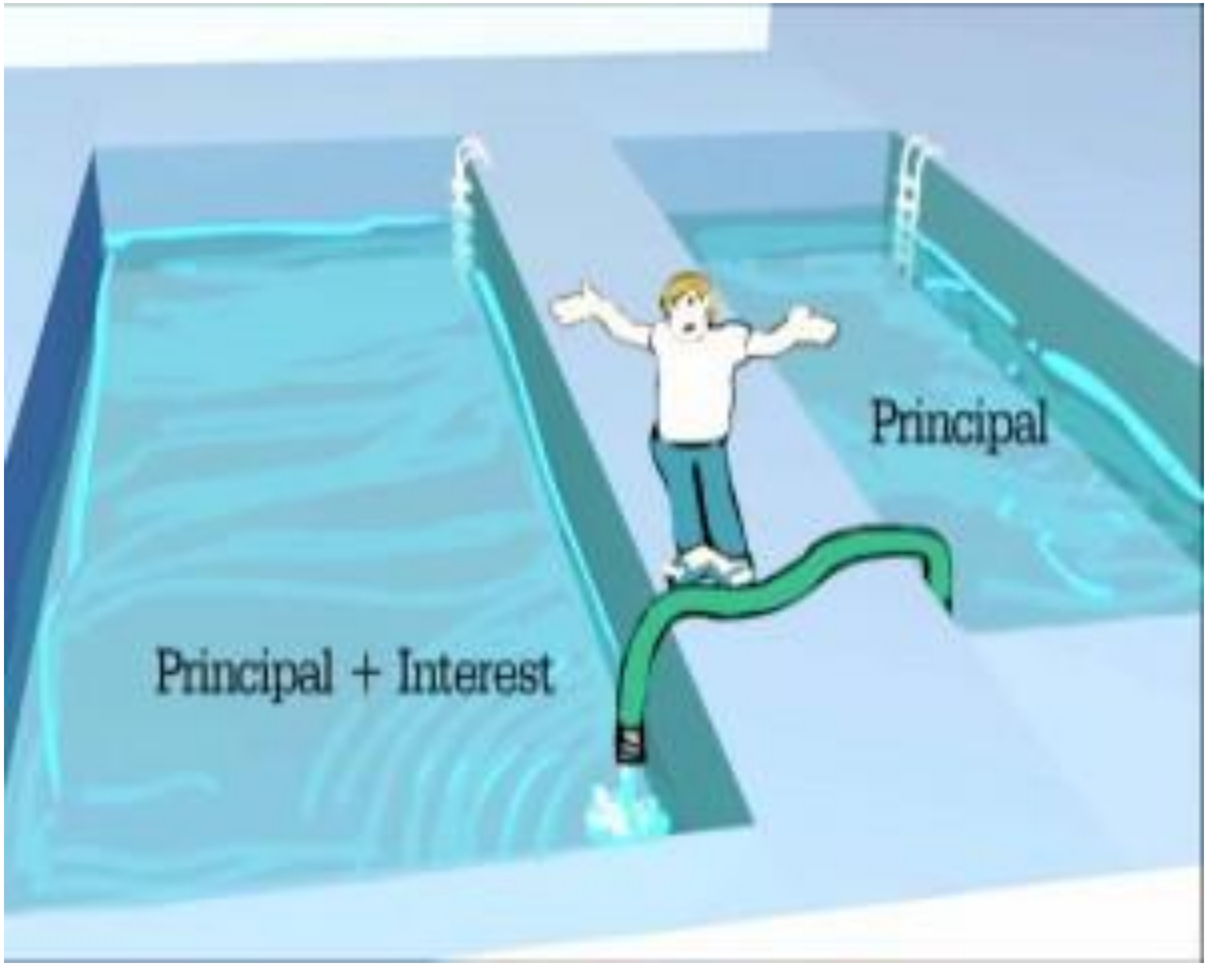
We could do it *all* with “helicopter money.” The Fed could generate “People’s QE,” tax-free and interest-free. But wouldn’t that be inflationary?

First some review: Most money is created by banks as loans.

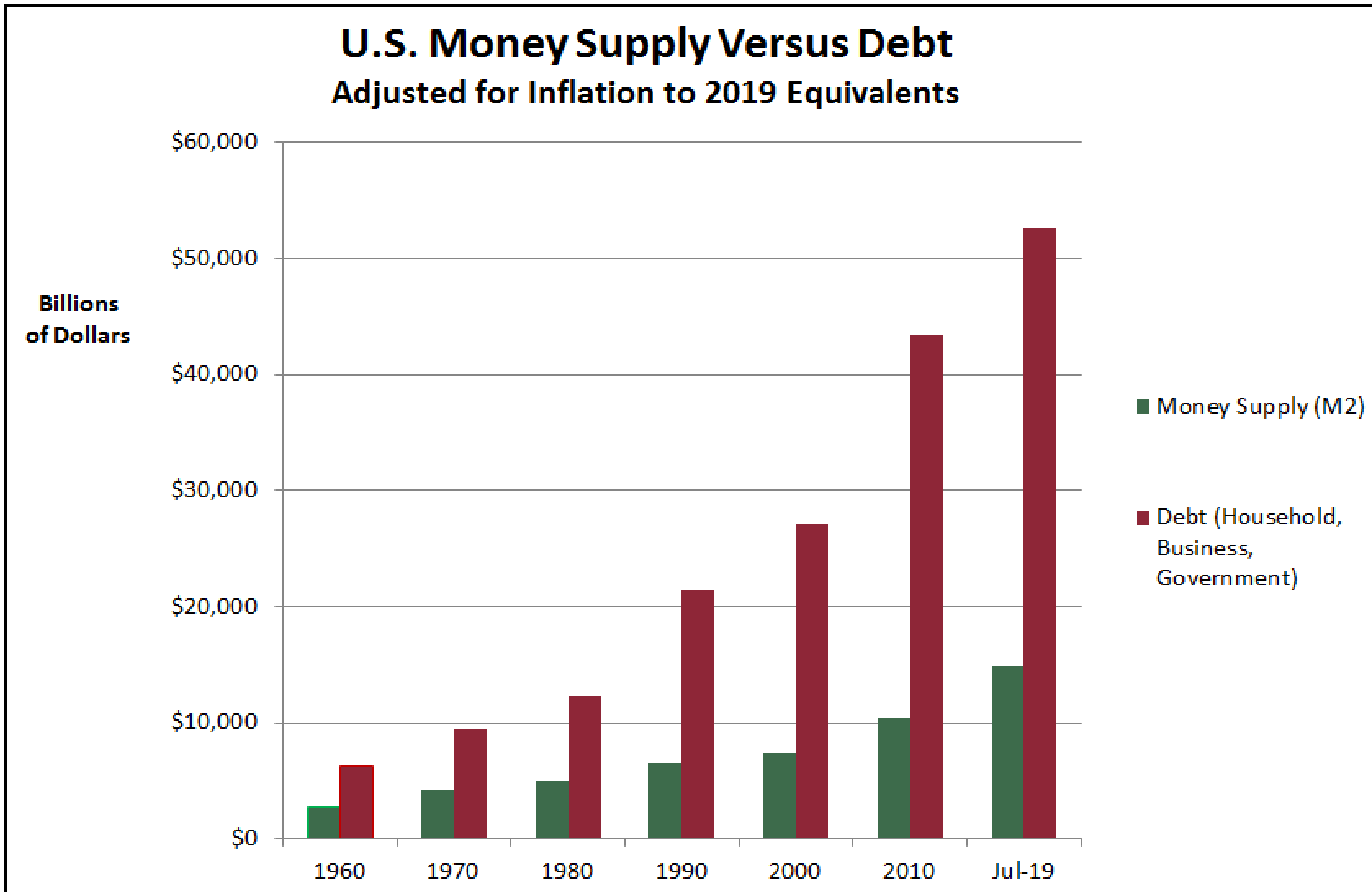
"[B]anks do not act simply as intermediaries, lending out deposits that savers place with them …. Commercial banks create money, in the form of bank deposits, by making new loans…. [B]ank deposits make up … 97% of the amount [of money] currently in circulation."

- *'Money creation in the modern economy', Quarterly Bulletin,2014 Q1, **Bank of England**.*

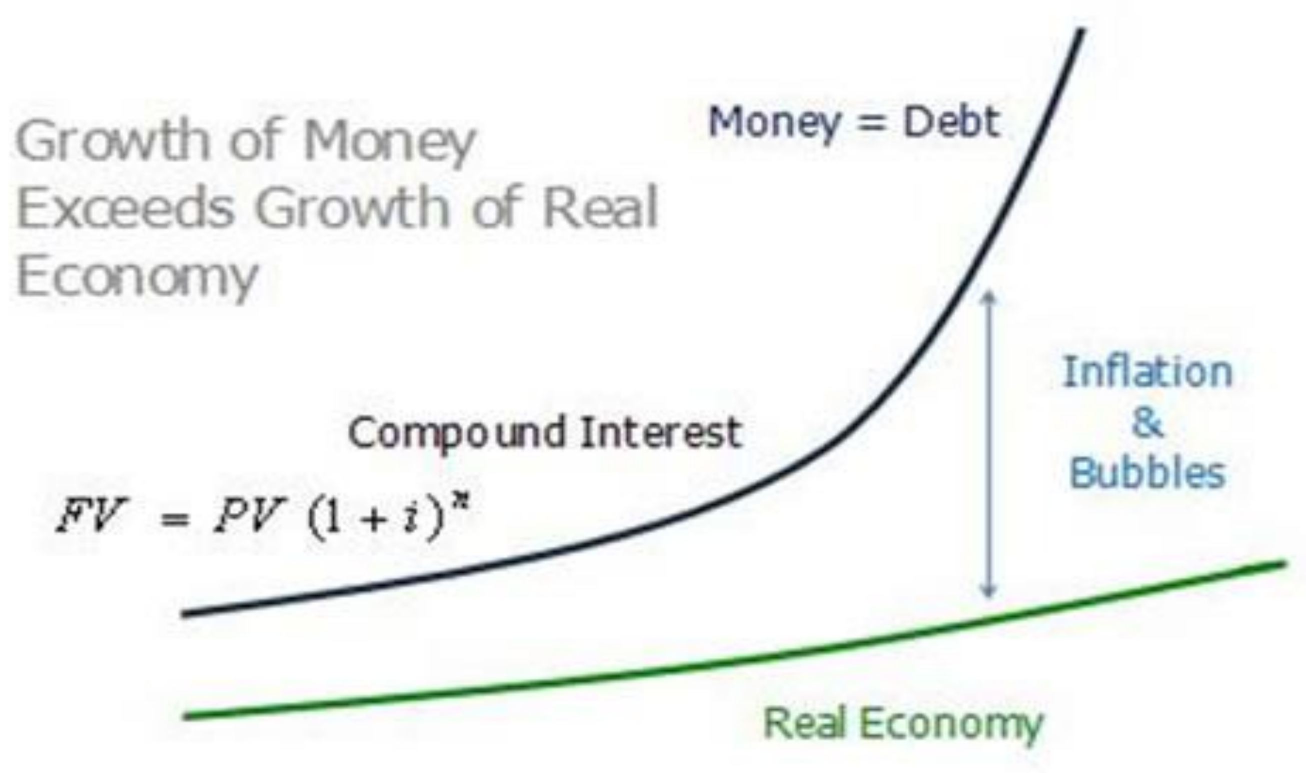
Banks create only
the principal, not the interest.



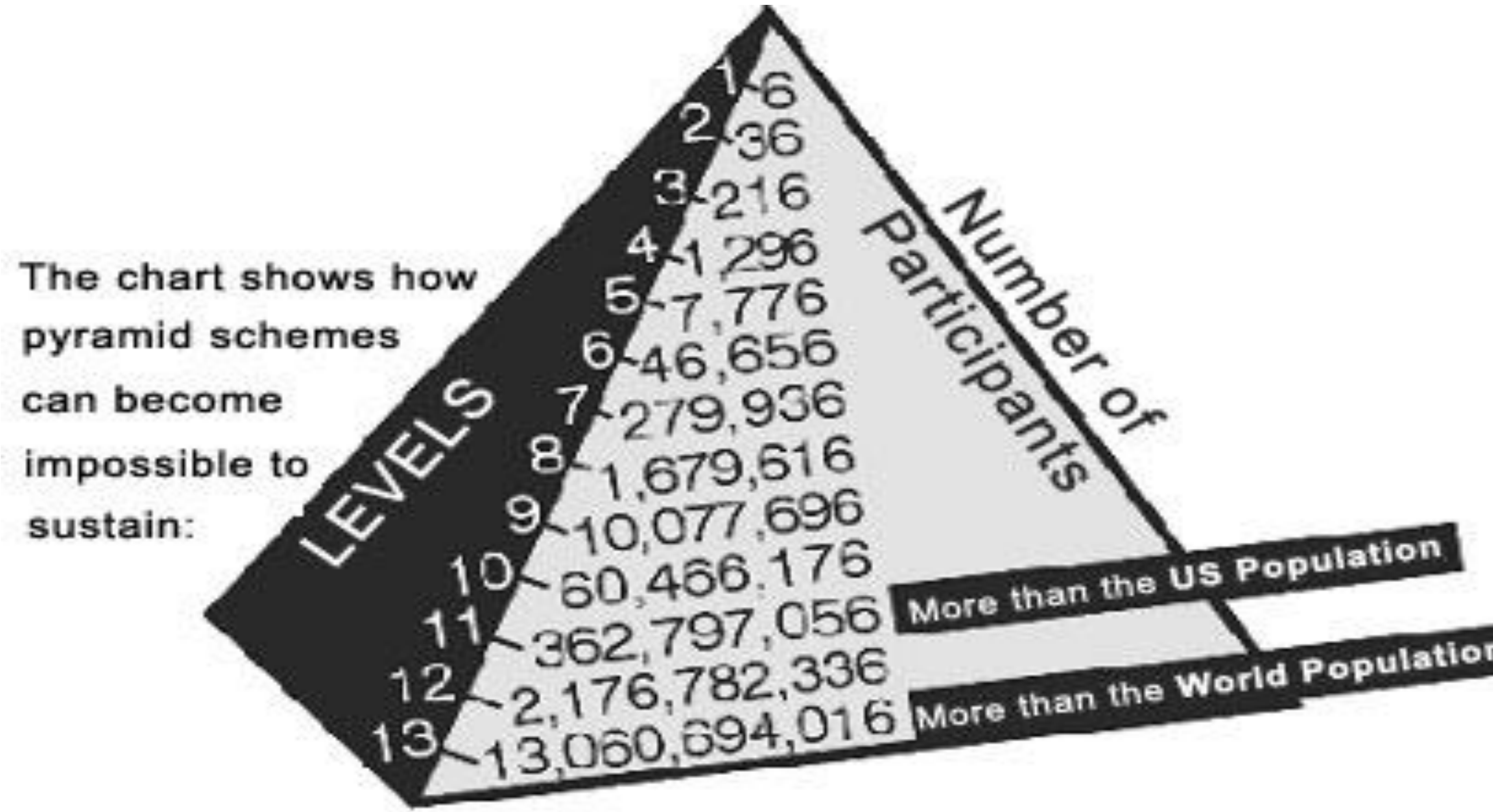
Debt-at-interest always grows faster than the real economy …



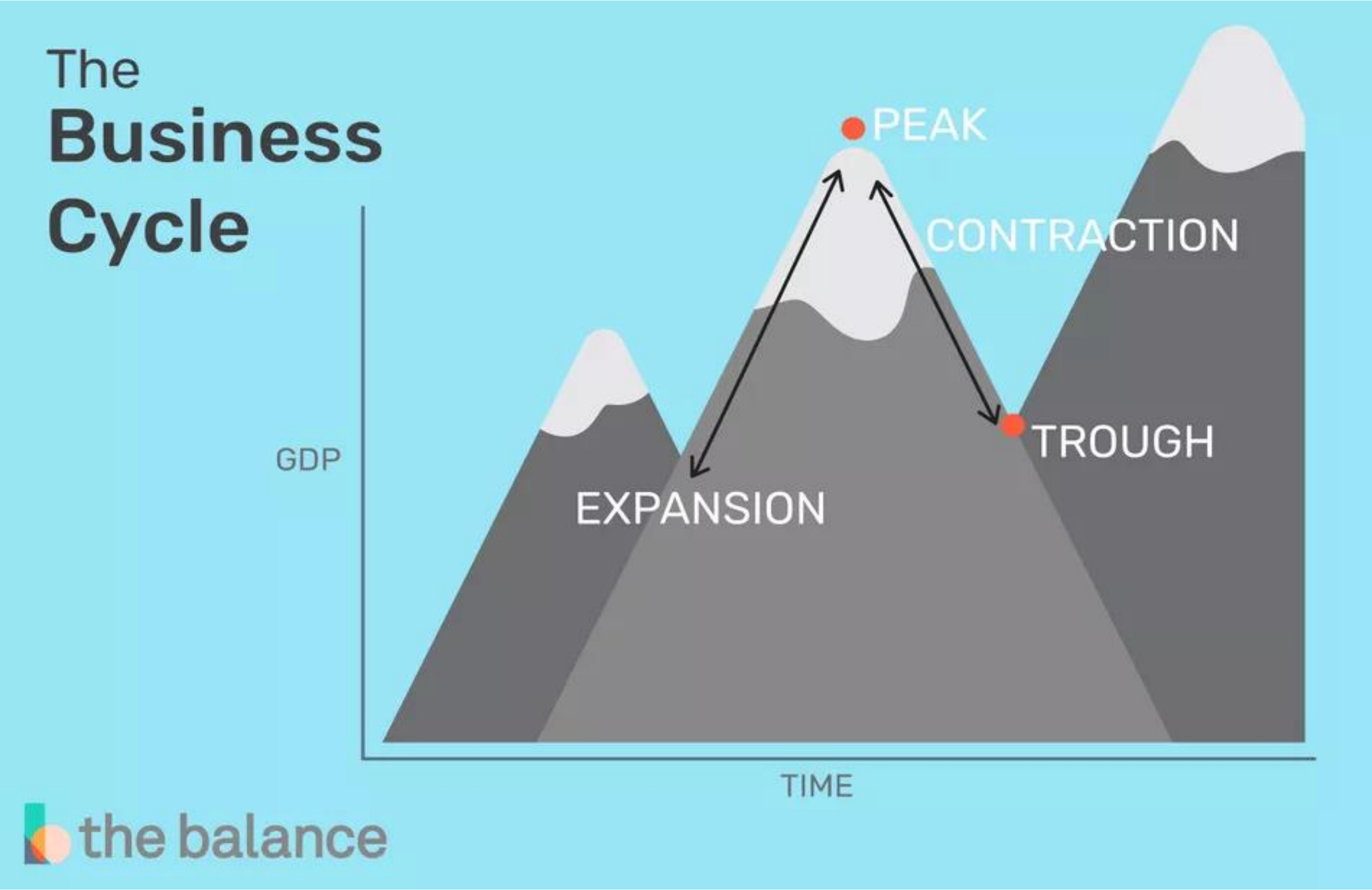
… creating the growth imperative.



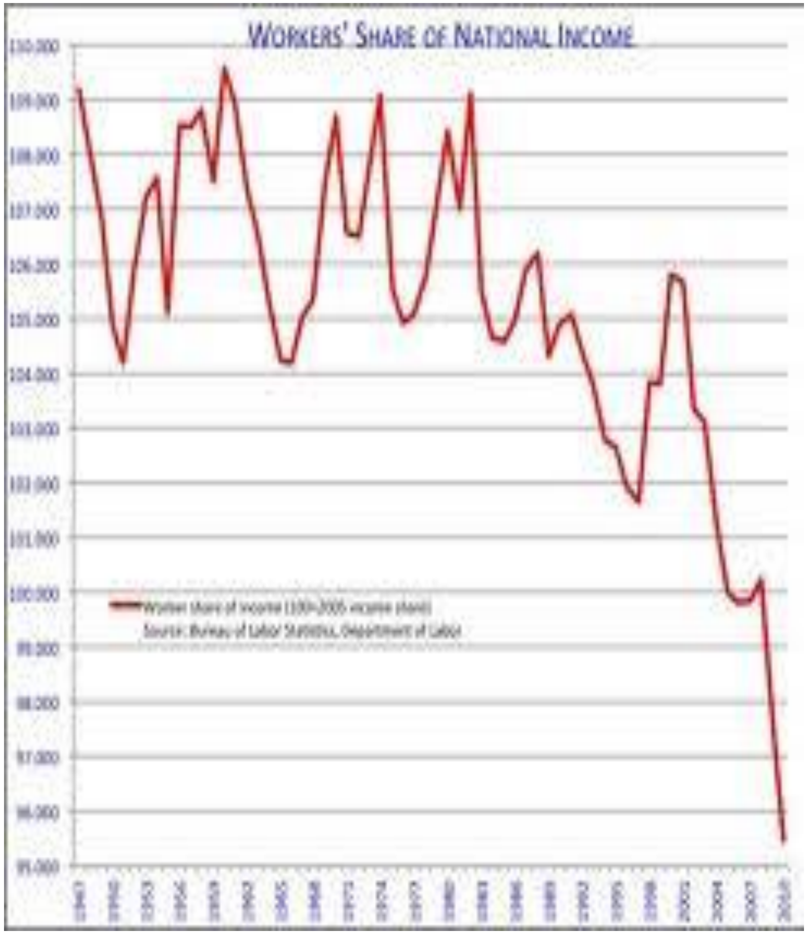
The gap is filled with more debt.
It’s a pyramid scheme.



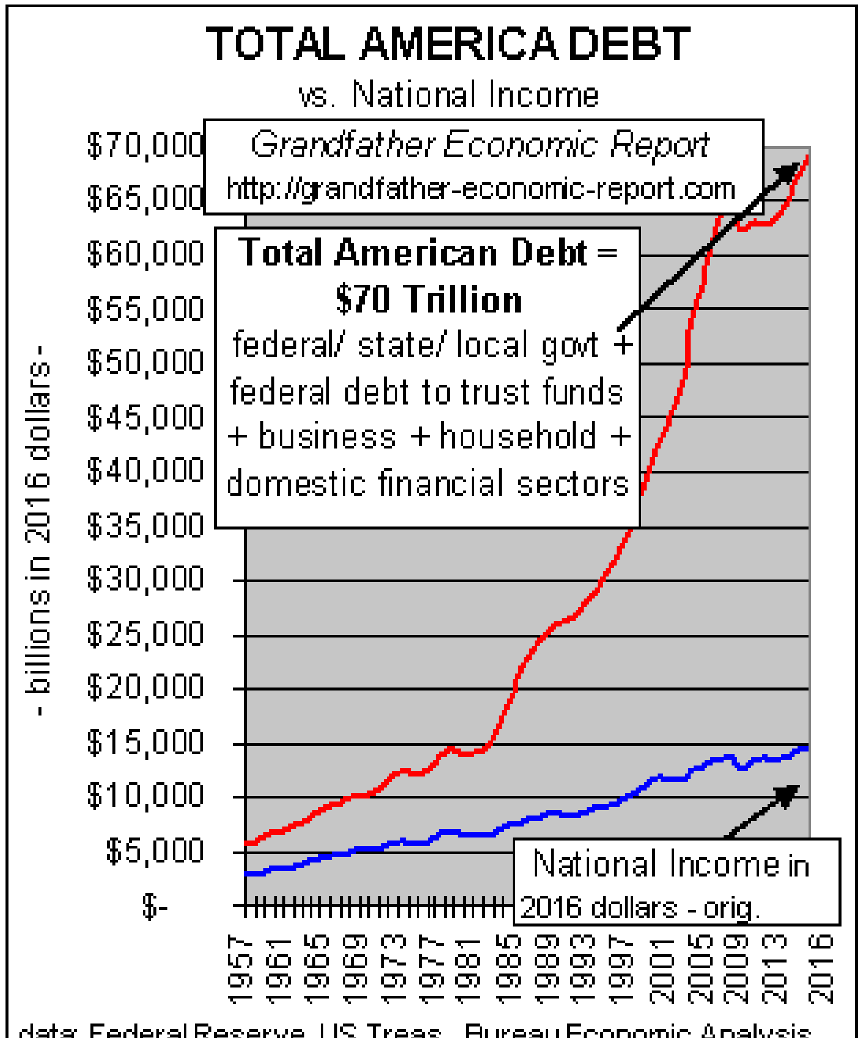
Credit booms lead to busts …



and periodic financial collapse, widening the wealth gap …



… and the debt-to-income gap.

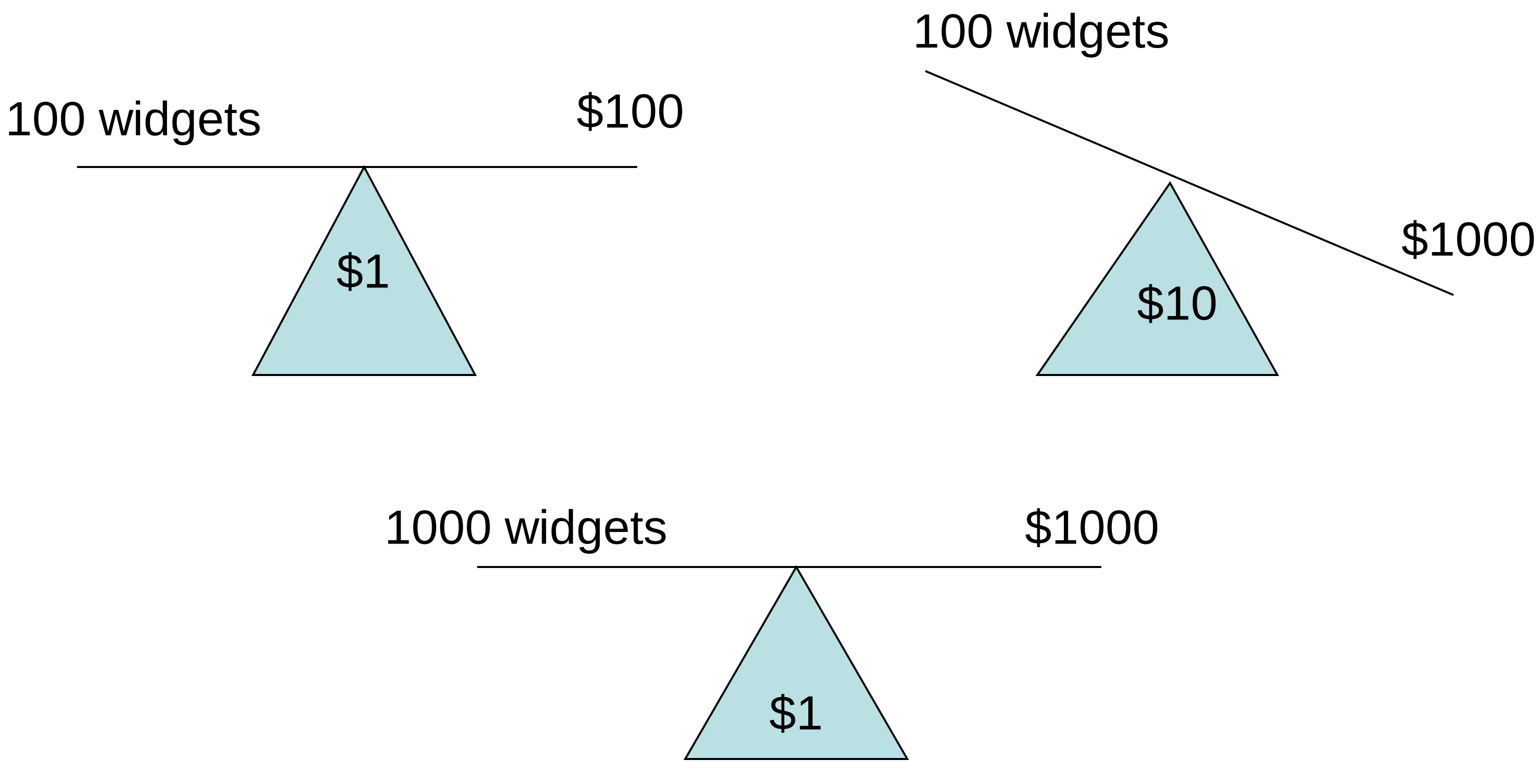


The result is “debt deflation.”

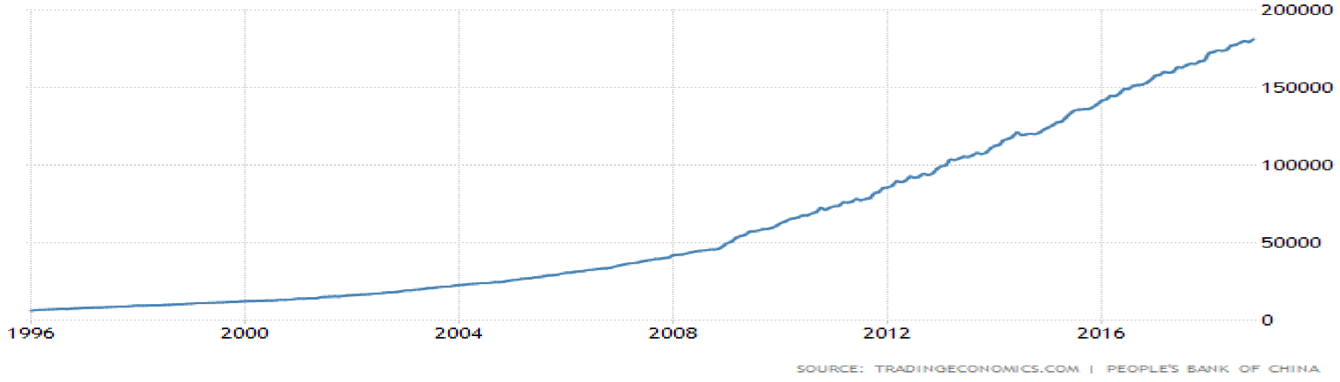
How to fill the gap between debt and income?

- Simple, said Ben Bernanke: just drop money from helicopters.
- But what about inflation – too much money chasing too few goods? (The quantity theory of money.)

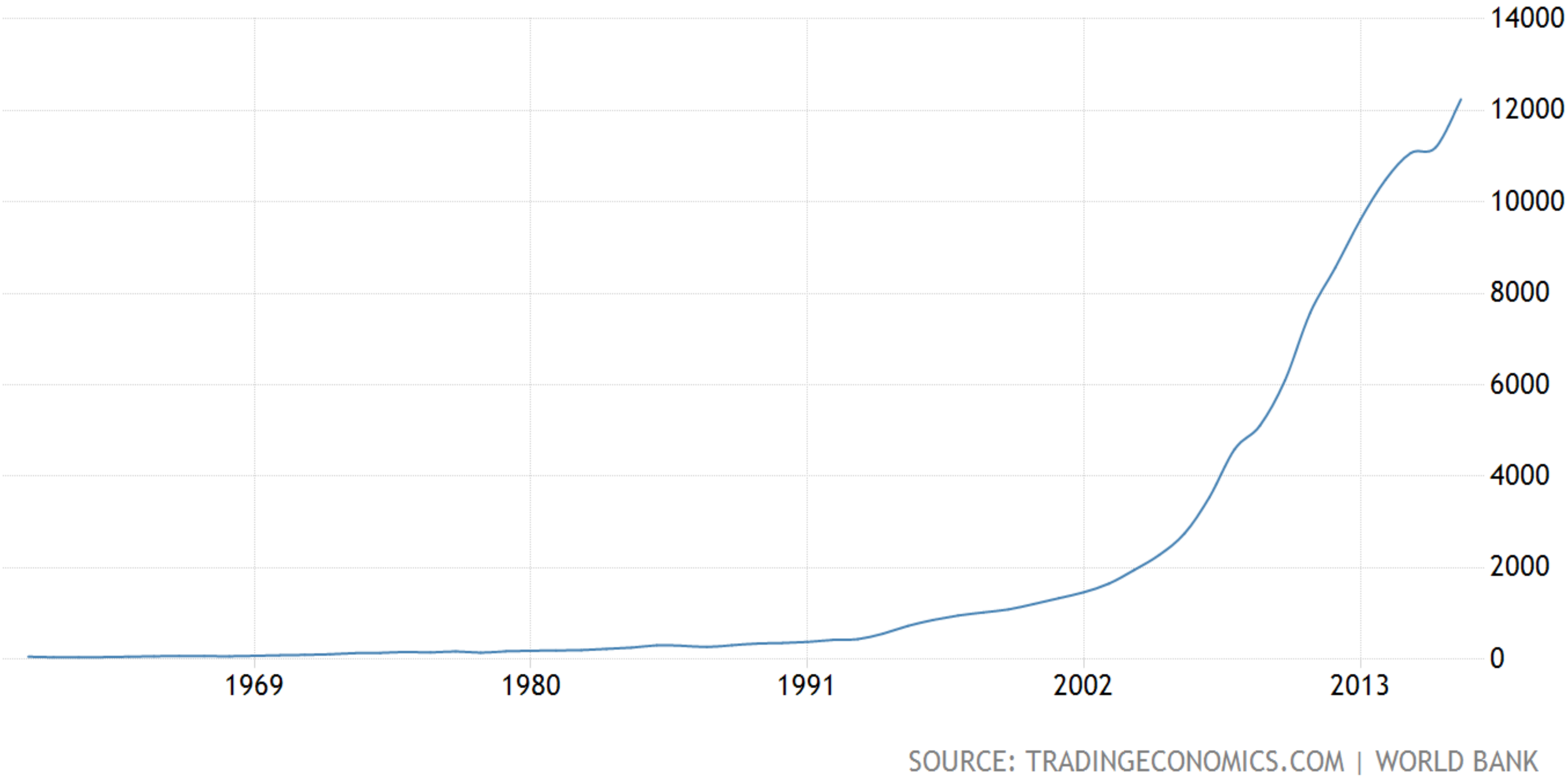
Not a problem if supply keeps up with demand.



Compare China: M2 grew *1800%* in 23 years, yet inflation was low.



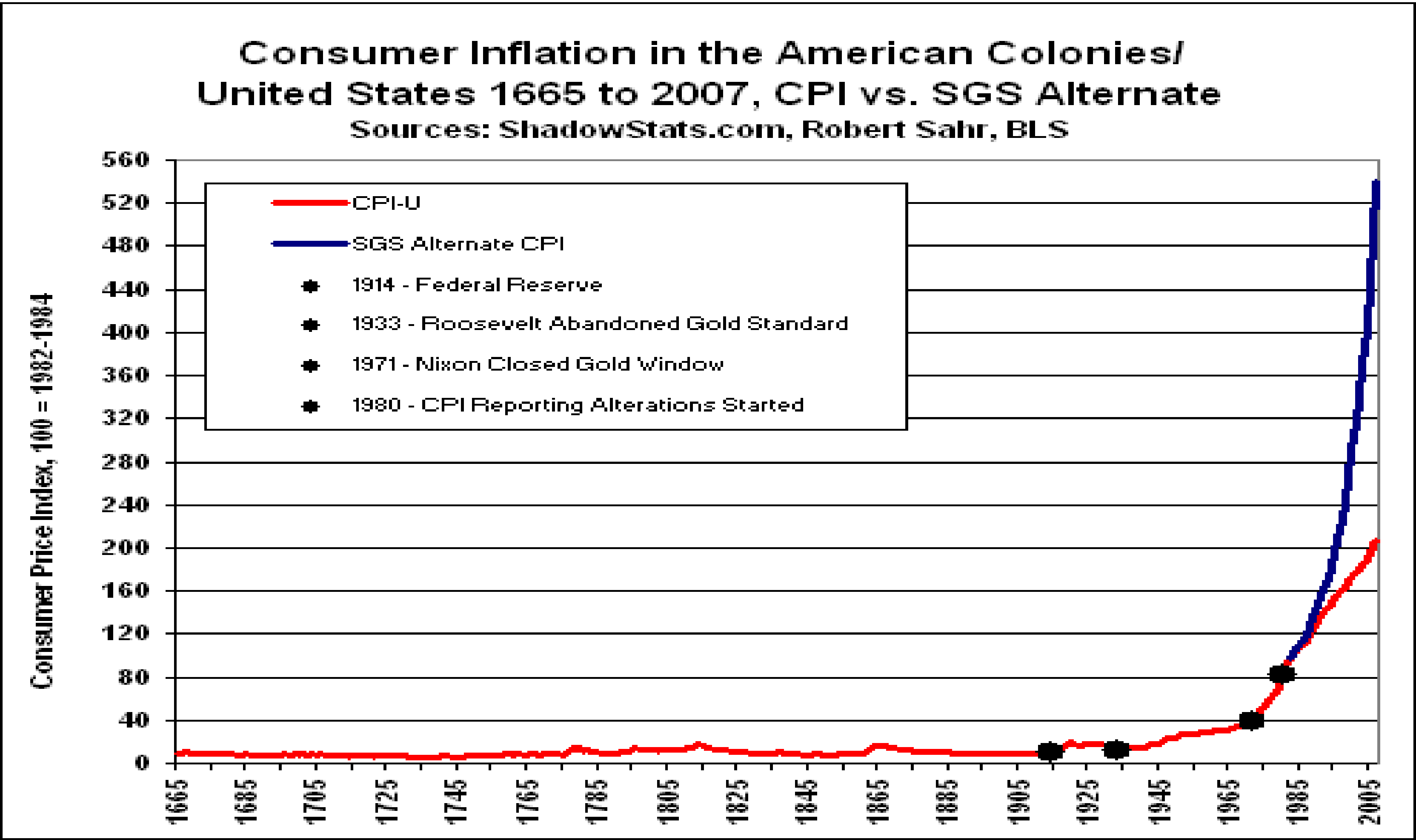
Why? China's GDP shot up too.



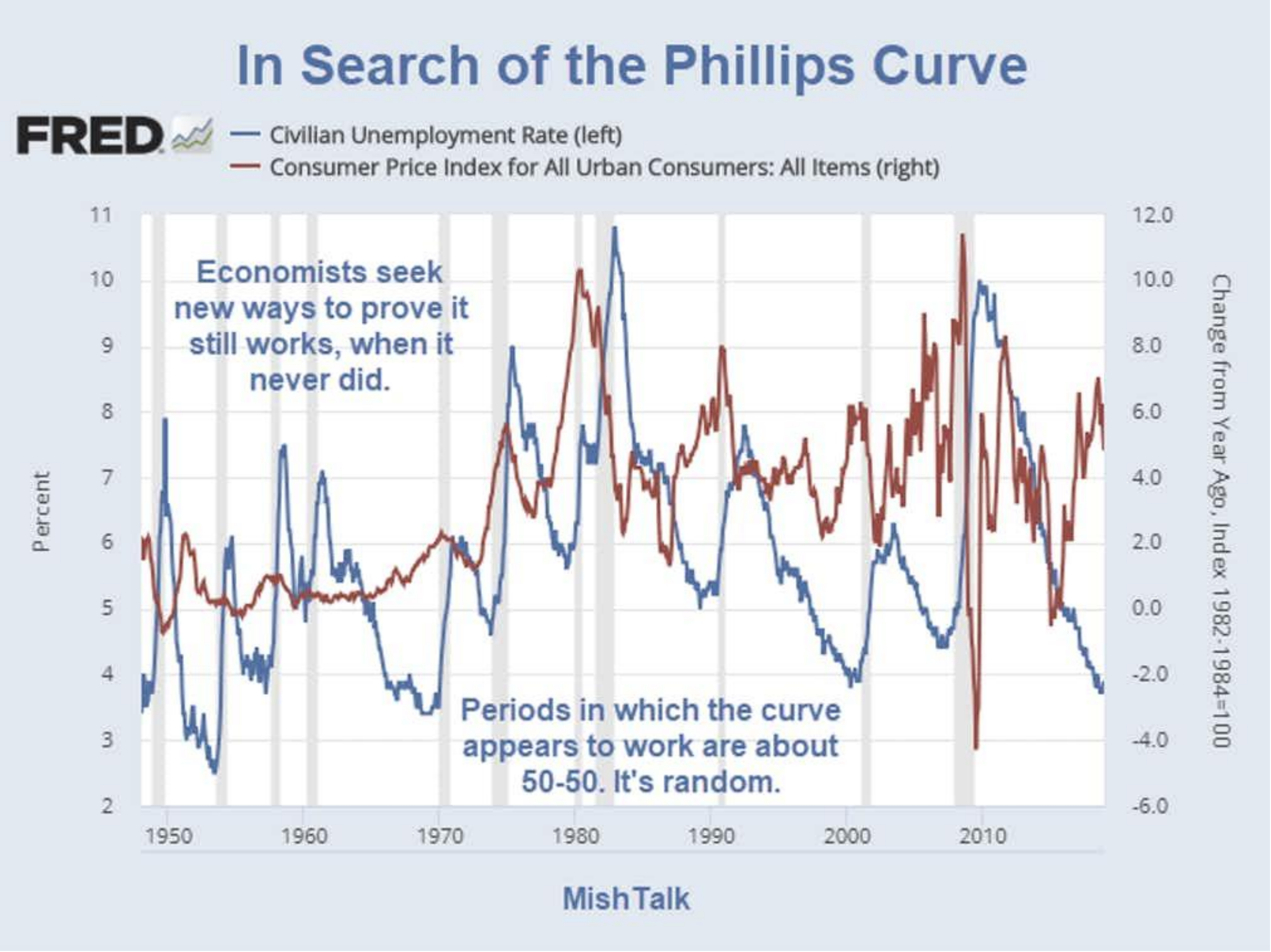
Compare: Greenbacks issued in the US Civil War.

- $450M issued in 1862, doubling the money supply (equivalent to adding $15T today)
- $64M lent for transcontinental railroad
- 1869: $103M returned (60% profit)

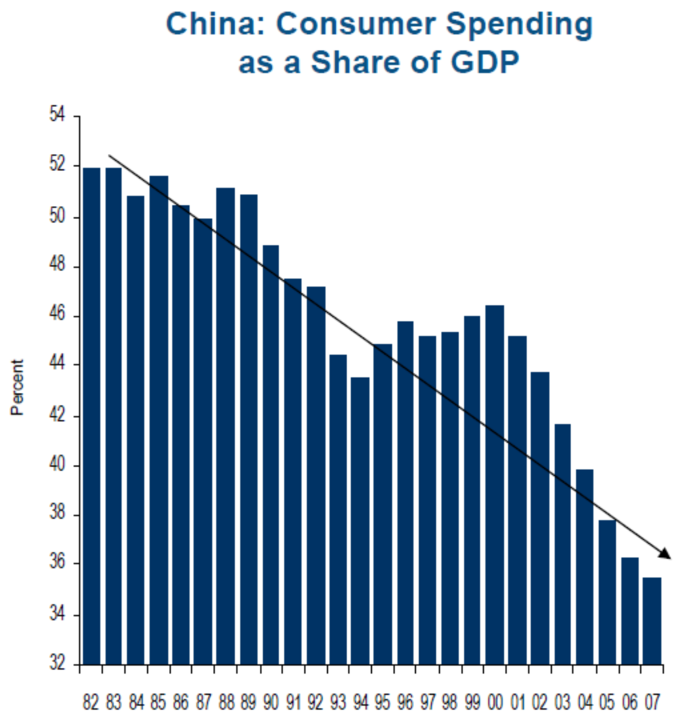
Here too hyperinflation did not result.

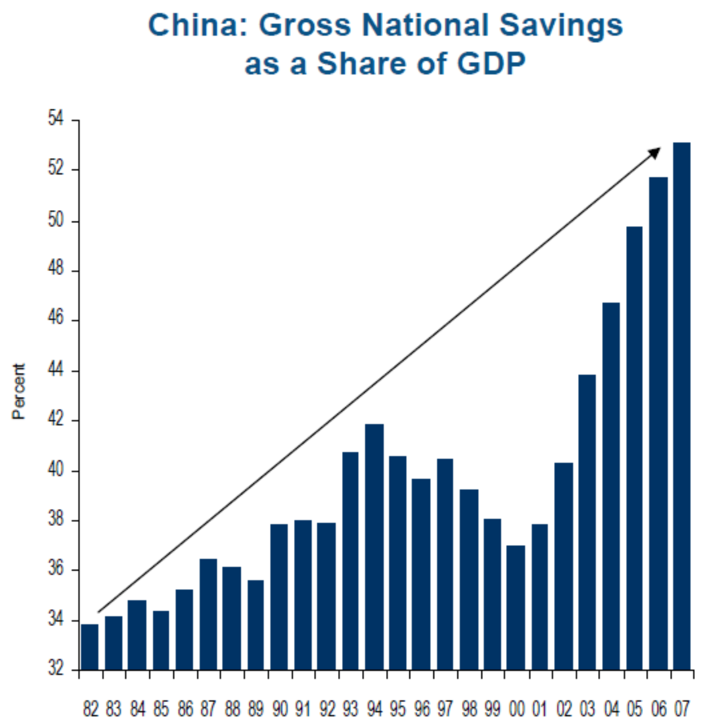


But isn't money injection possible only up to full employment?

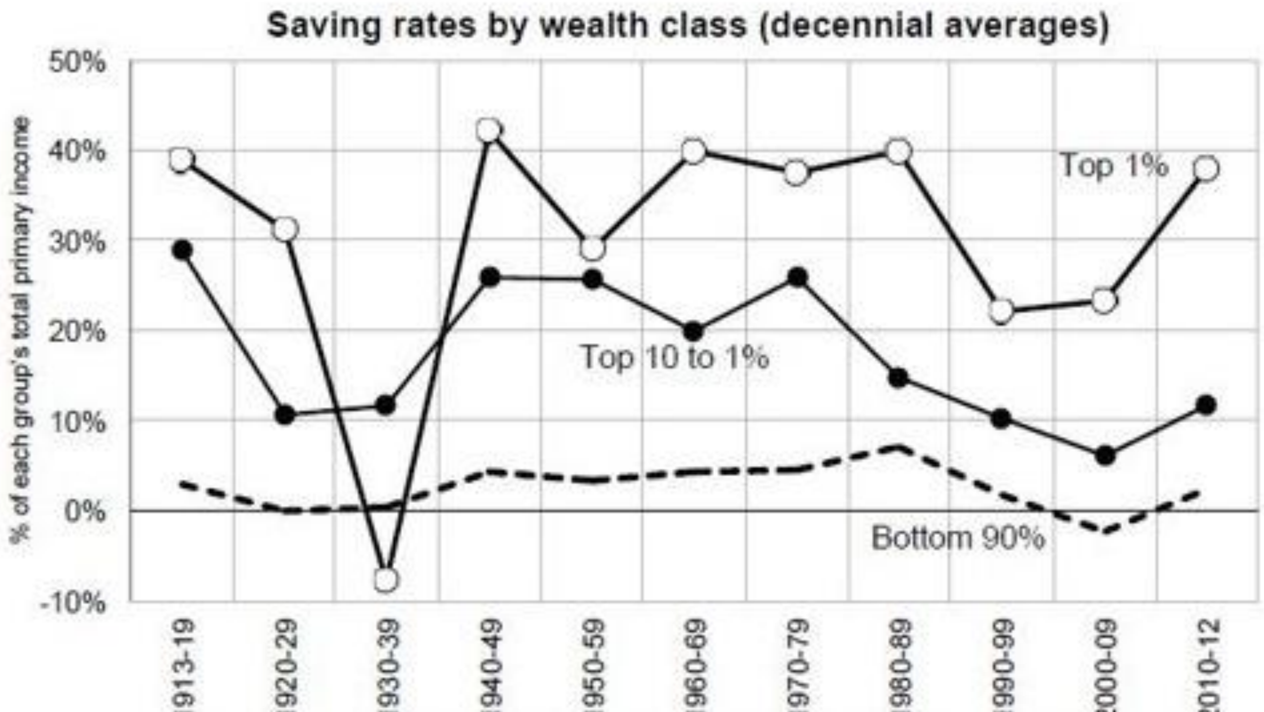


No. Not all income is spent on consumer goods. Debt repayment and savings don't add to demand.





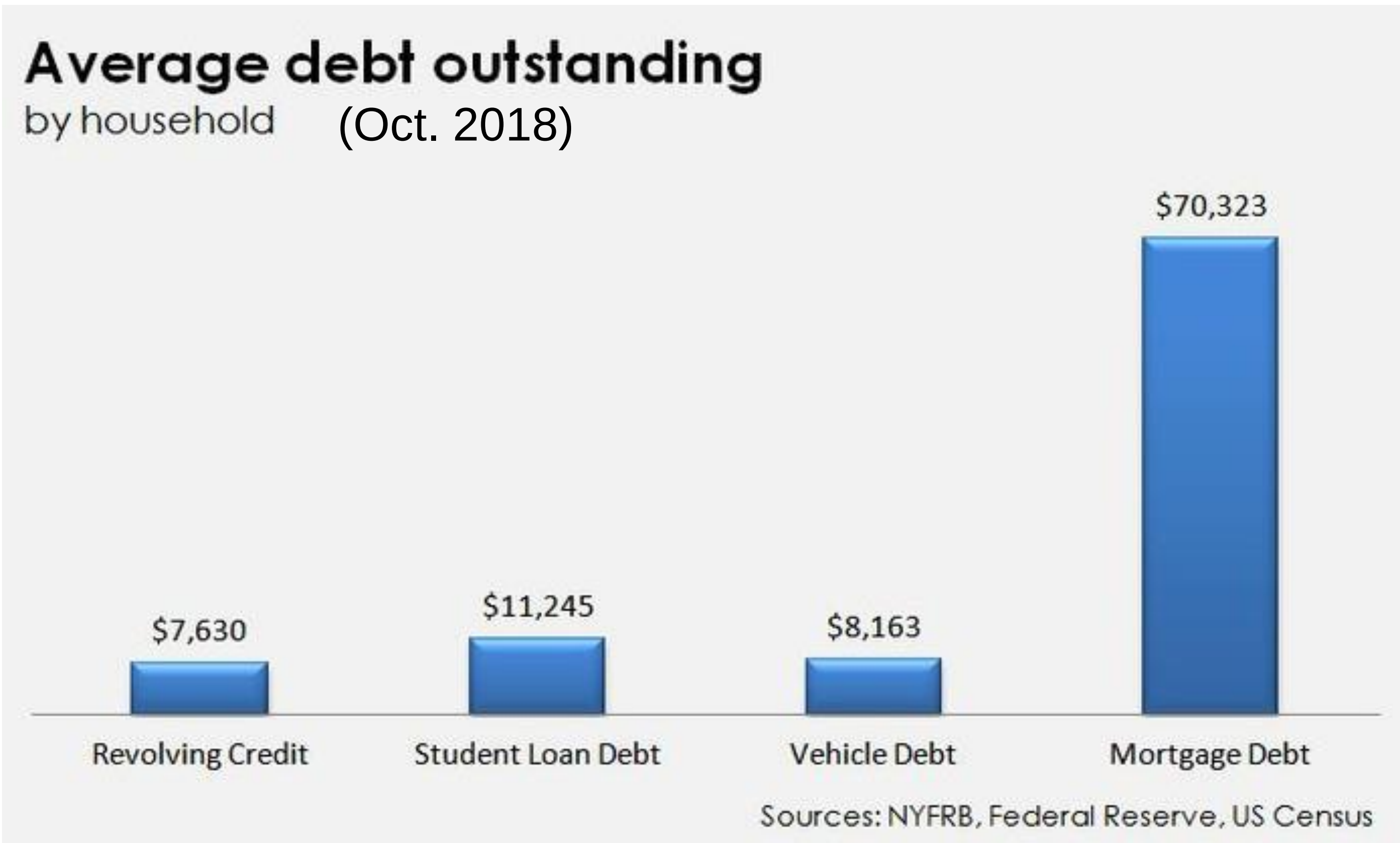
And the savings rate for most US families is very low …



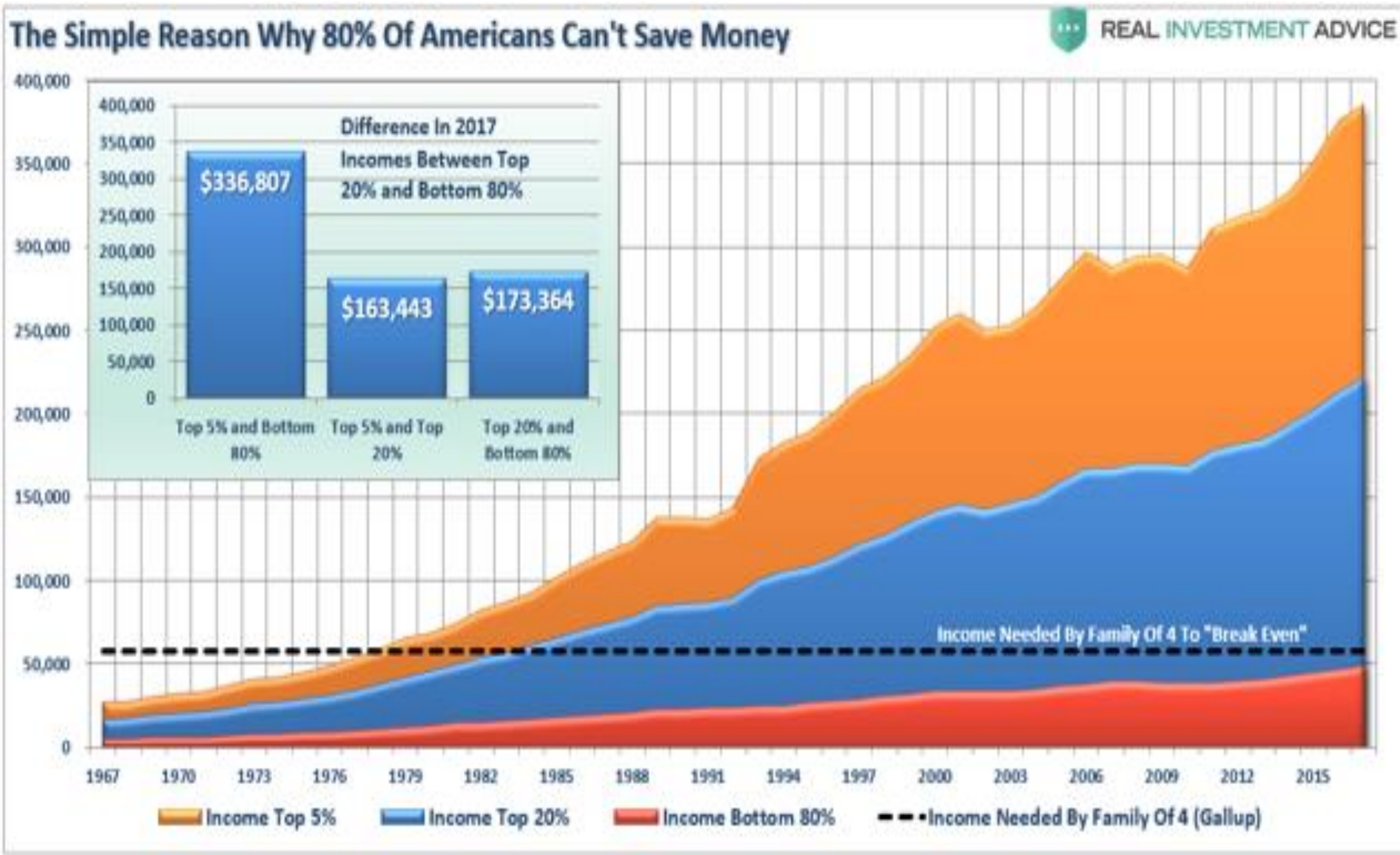
The rich save more as a fraction of their income, except in the 1930s when there was large dis-saving through corporations. NB: The average private saving rate has been 9.8% over 1913-2013.

Source: Emmanuel Saez and Gabriel Zucman, The Distribution of U.S. Wealth, Capital

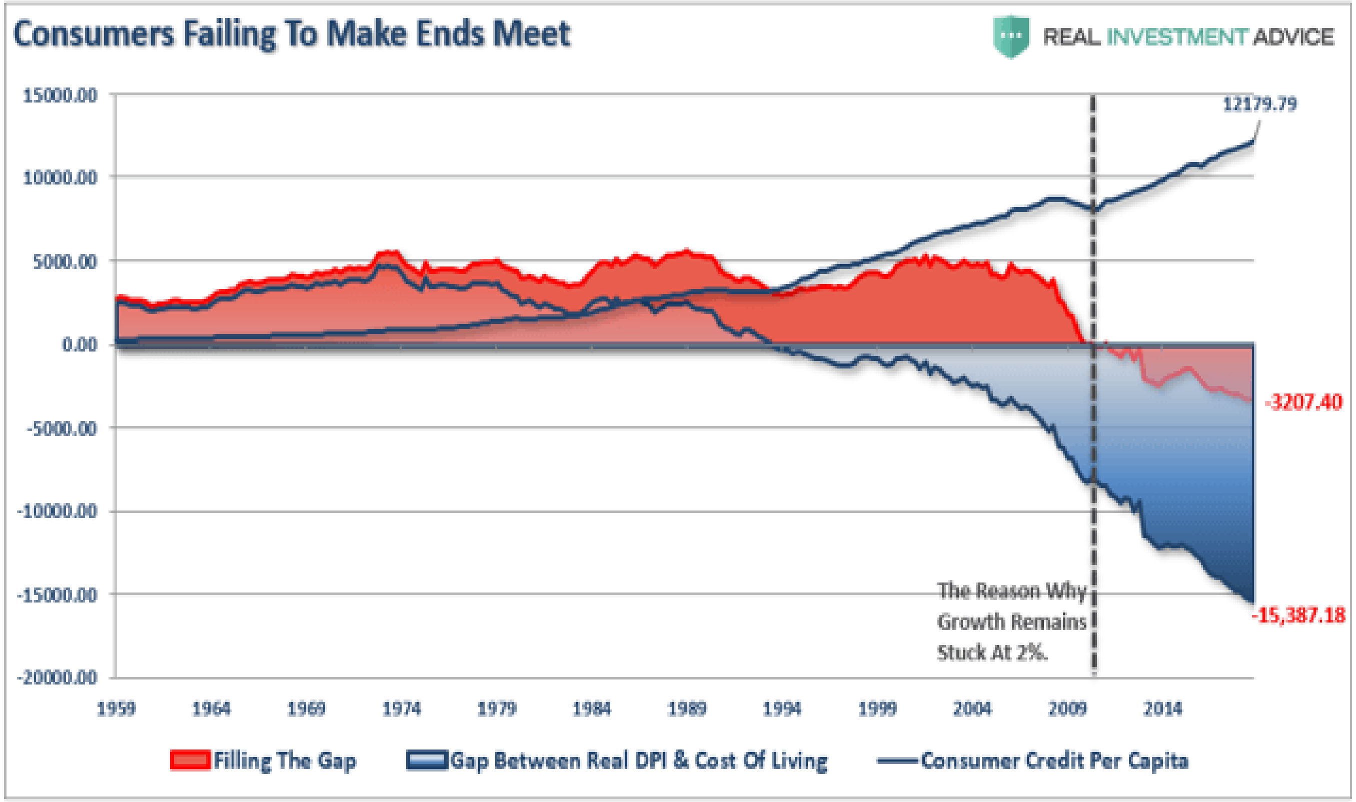
While US household debt is very high. Recall: Money going to debt repayment is extinguished with the debt.



80% of Americans must borrow just to meet expenses.



Borrow how much? The gap between annual real disposable income and the cost of living is $15K per capita.

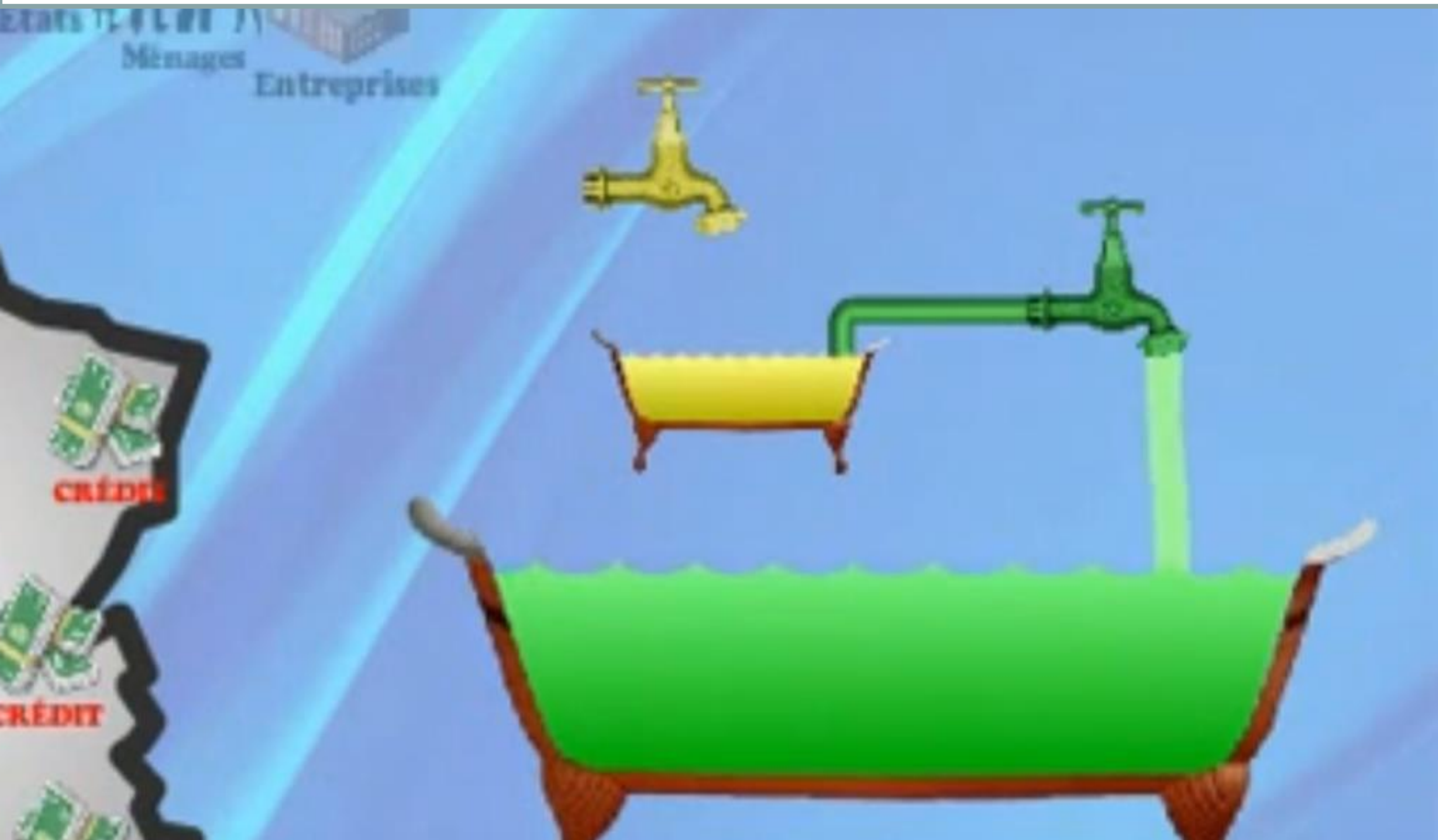


So assume a UBI of $12K/year.

- If 80% of recipients used it to repay their consumer debts (credit cards, student debt, medical bills, etc.), that money would disappear with the debt.
- The 20% who can meet expenses would not need to spend their UBI. Most would save it or invest it in the financial (non-consumer) markets.

- Net result: NO appreciable increase in CPI.

The money created by banks as debt would just be replaced with debt-free money created as People’s QE.



Other federal options: (1) Restore postal banking

- Safe, popular alternative to bankrupt commercial banks, 1911-67.
- Could serve the unbanked and underbanked today.
  - 25% of households
  - Sen. Kirsten Gillibrand's postal banking bill (2018) could avoid 400% payday loans, $40K over a lifetime paid in deposit and checking fees

(2) A federal infrastructure bank -- compare Roosevelt's Reconstruction Finance Corp.

- $500 million capitalization
- Loaned or invested over $40 billion from 1932 to 1957
- Issued bonds, mostly bought by the Treasury
- Funded the New Deal and World War II
- Net profit to the government: $690 million

Compare: Germany's KfW & green energy

- Half of German banking assets are in the public sector.
- Germany has been called "the world's first major energy economy": renewables generated 41% of its electricity in 2017, up from 6% in 2000.
- KfW and the German public savings banks (Sparkassen) provided over 72% of the financing and were instrumental in the transition – both as lenders and as facilitators, coordinating stakeholders and setting up renewable energy cooperatives.

Compare:
China's public development banks

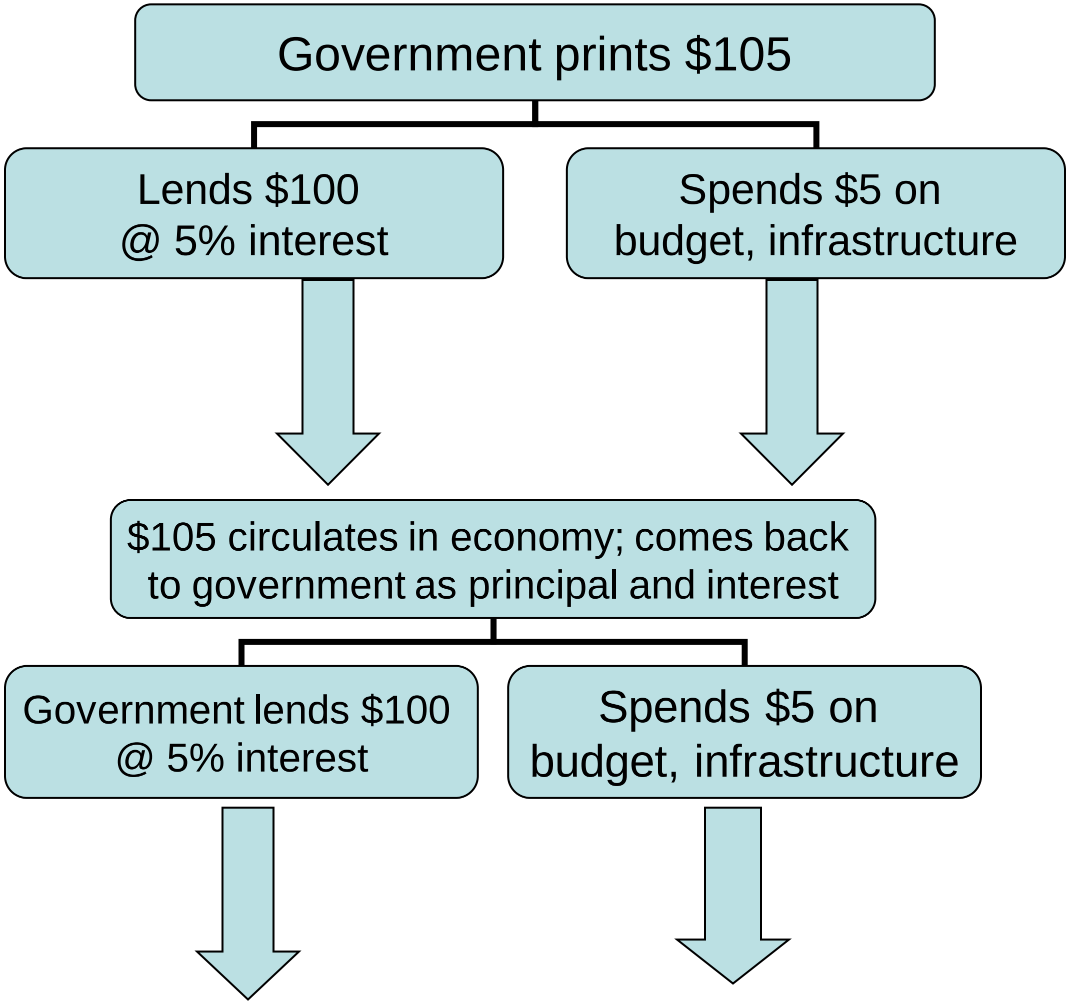
- China built 12,000 miles of high-speed rail in a decade
- World's largest dam and power station
- How funded? The government owns most of the banks.
- Debts not repaid are written off.

And if Congress or the Fed won’t act? We can create money locally.

Money creation by public banks is sustainable, because profits return to the local economy.

The colonial Pennsylvania model:

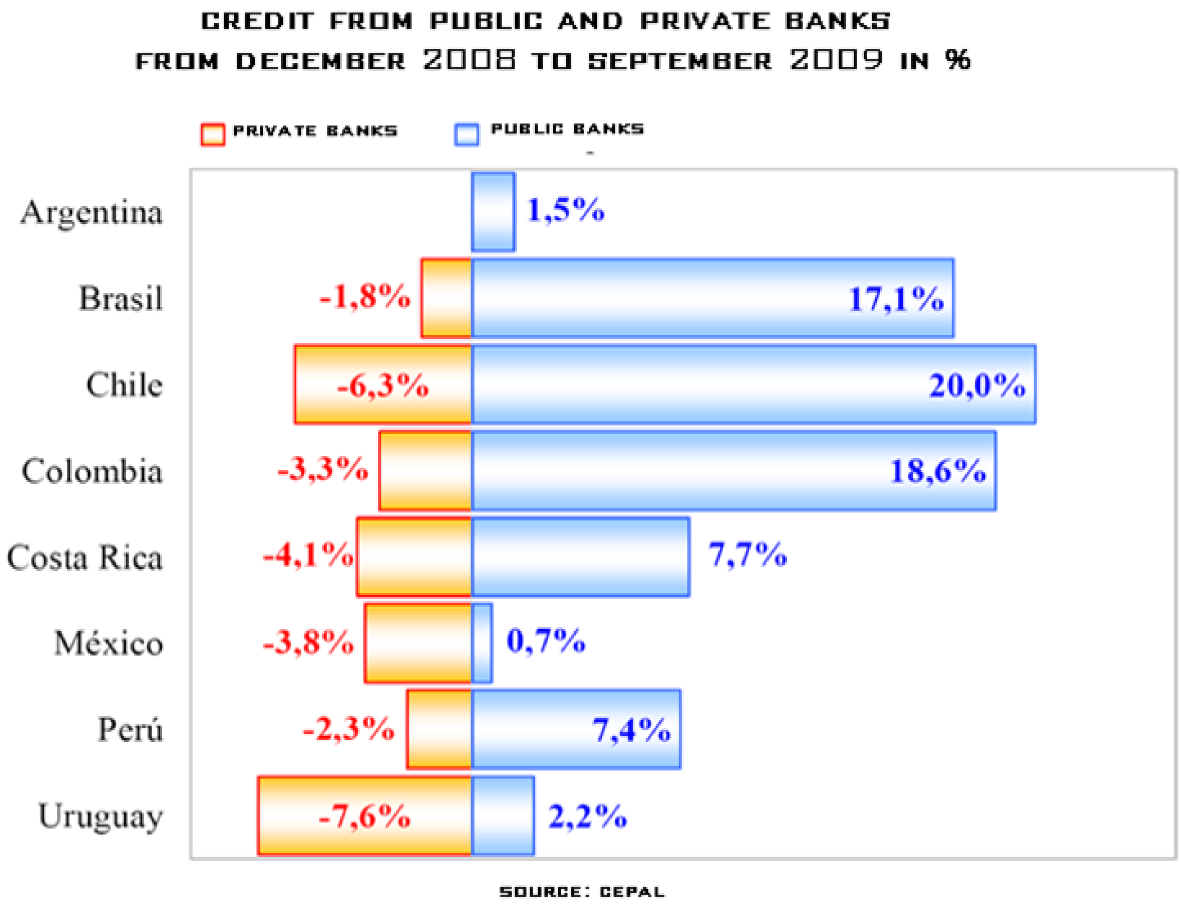
- No taxes
- No inflation
- No government debt



25% of banks globally are publicly-owned, including the world's largest banks –

- The two largest banks by market capitalization (ICBC and China Construction Bank)
- The largest bank by deposits (Japan Post Bank)
- The largest bank by number of branches (State Bank of India)
- The largest development bank (China Development Bank).
- The world's seven *safest* banks are also publicly-owned, leading with KfW, Germany's public development bank.

Public banks avert banking crises by lending counter-cyclically.



Public banks are the heavy hitters in climate finance.

- They control 20% of assets globally but contribute nearly 50% of climate finance.
- "Private finance has no appetite for saving the planet without first feeding insatiable shareholders." – *Thomas Marois, Univ. of London*

Recent studies show that public banks are also:

- Safer.
- Less corrupt.
- More profitable.
- Avert banking crises by lending countercyclically.
- Serve local economies rather than private investors.

In the US, we have only one state-owned depository bank — in North Dakota – but it’s a stellar model.

- ND was the only state to escape the 2008-09 credit crisis
- The nation’s lowest unemployment rate
- Lowest default rate
- Most banks per capita

North Dakota has had its own bank since 1919.

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

Wall Street Journal, Nov 16, 2014

"It 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. Meet Bank of North Dakota, the U.S.'s lone state-owned bank, which has one branch, no automated teller machines and not a single investment banker. . . . Return on equity . . . is 18.56%, about 70% higher than those at Goldman Sachs and J.P. Morgan."

Not due to oil:
The BND has had record profits for 15 years despite a massive oil bust.

- Spring 2019 annual report showed:
  - – total assets: $7 billion
  - – capital: $861 million
  - – return on equity: 18%.

Why so profitable?

- No private shareholders.
- No bonuses, fees, commissions.
- No high-paid CEOs.
- No advertising.
- Massive deposit base – all state revenues.
- Partners with local banks, which act as the front office. No need for branches or ATMs.
- Savings are passed on to borrowers and communities.

Finanzgruppe
Sparkassenstiftung für internationale Kooperation

Local German public banks also outperform private banks

2015 report comparing private German commercial banks with public savings banks (Sparkassen), regional banks and credit unions:

Total deposits and loans are about the same. Yet private banks are less profitable and pay less than half the taxes.

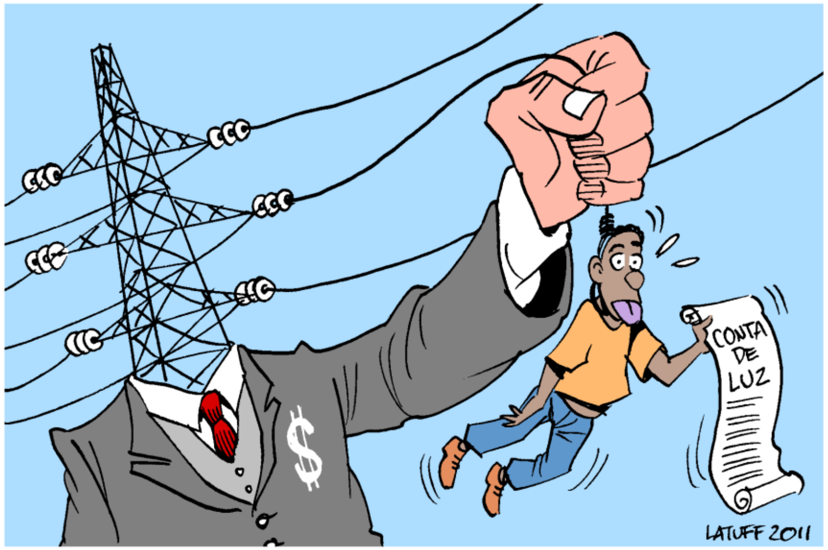
Bonn, January 2015

Policymakers ask: Why do we need *publicly-owned* banks?

- We already have lots of banks, and governments have loan funds.
- The difference is leverage -- $1 of capital can fund $10 in bank loans.
- Private banks can leverage but are costly.

The high cost of private finance

- School districts are paying over 3x principal on Capital Appreciation Bonds.
- Debt-strapped governments wind up privatizing public assets, which means high user fees and tolls.



Bank fees are another huge cost.

Half the cost of infrastructure is interest.

Bay Bridge retrofit:
principal, $6 billion;
interest, $6 billion.

Bullet train:
principal, $9.95 billion;
interest, $9.5 billion

The magic of leverage -- IBank possibilities

Capital: $400M unencumbered capital

Deposits: $4B x 1% interest = $40M cost of funds

Loans: $4B less 10% = $3.9B to lend or invest:

$3B @ 3% = $90M profit

$.9B in required reserves @ 2% = $18M

Gross profit: $108M

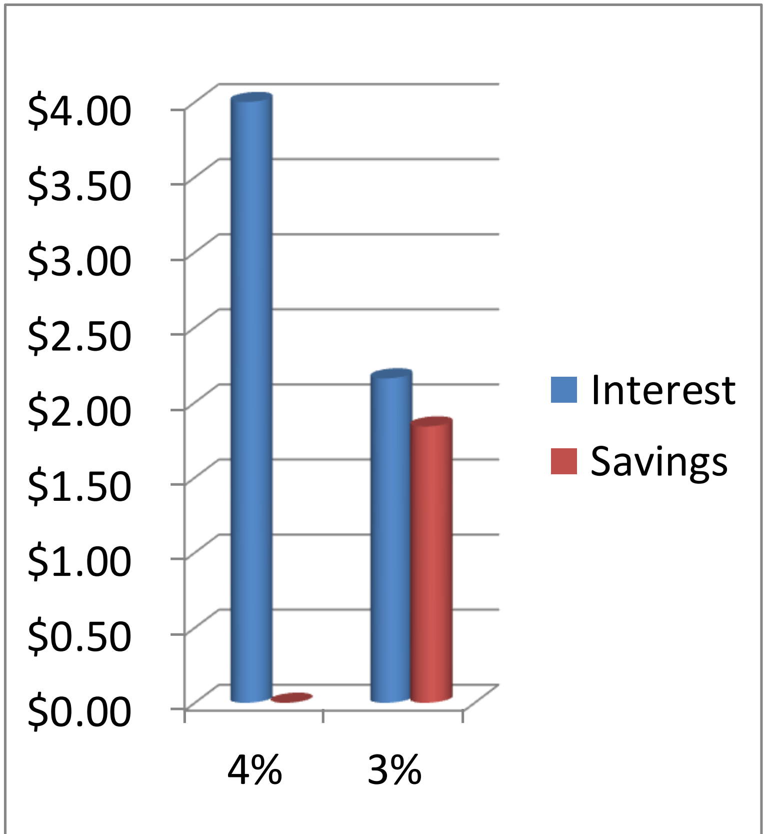
less $40M for interest

less $41M non-interest costs (30% of profit)

Net profit: $27M = 7% ROE

Calif. Prop. 68 – Parks, Environment and Water Bond (2018)

Interest owed in $$ billions



State Bond Cost Estimates	
Authorized new borrowing	$4.0 billion
Average annual cost to pay off bonds	$200 million
Likely repayment period	40 years
Source of repayment	General tax revenues

Principal	$4.0B	$4.0B
% interest	4%	3%
Duration	40 yrs	30 yrs
Total interest	$4.00B	$2.16B
$$ saved	0	$1.84B
% interest saved	0	46%

Potential savings for California

- 100% renewables required by 2045.
- Projected cost: $350 billion.
- Projected savings if funded through public banks: $90 billion (25%) (more if the fed funds rate goes to 0).

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PublicBankingInstitute.org

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