How a State Bank Can Solve the State Budget Crisis

by Ellen Brown and Gwendolyn Hallsmith

As the state legislature struggles through one budget crisis after another, it is becoming increasingly evident that austerity doesn't work. We cannot possibly continue to run state government by tightening our belts, slashing public services and raising taxes. Compounding the problem, history shows that when the budget is reduced, the money circulating in the Vermont economy is reduced along with it, worsening the recession.

Vermont's state government already has in its hands the power to solve the state's budget challenges—today and permanently. But it has been artificially constrained from using that power by misguided economic thinking and the banking special interests that hold sway in the state house. We, the citizens, have bought into the idea that there is not enough money to feed and house our population, rebuild our roads and bridges or fund our most important programs and that there is no alternative but to slash budgets if we are to survive.

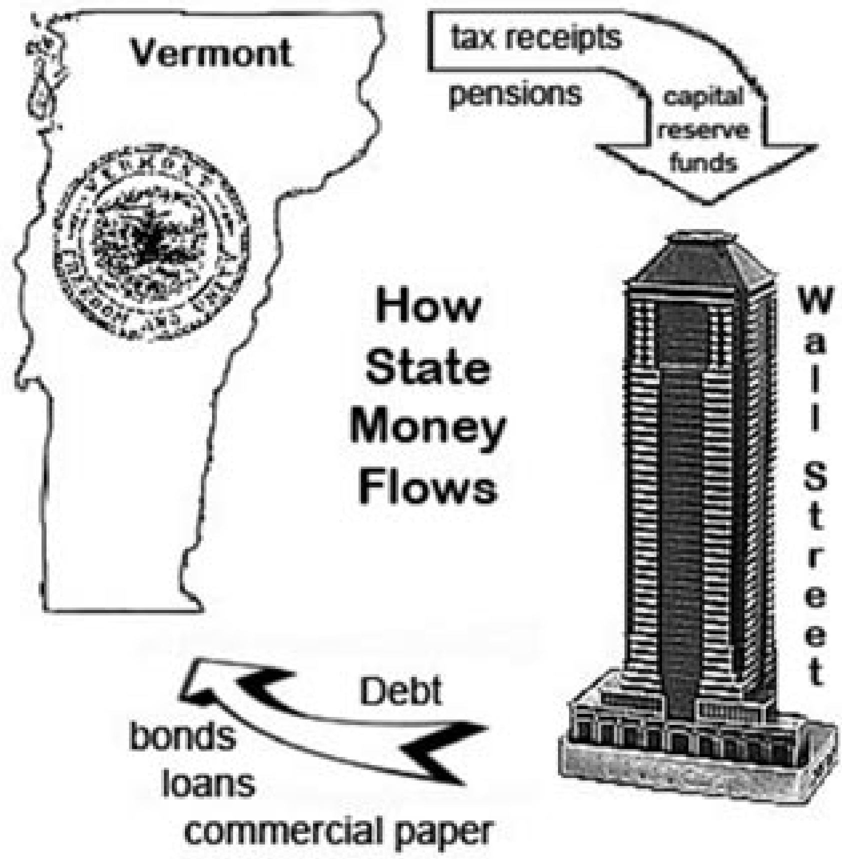
We have a mountain of critical work to do—insulating our homes, improving our schools, rebuilding our infrastructure, pursuing our higher education goals and so forth. And with many Vermonters unemployed and underemployed, the people are there to do it. What we don't have, we are told, is the money to bring workers and resources together.

But we do have it! Or we could. This year, we're told that the state has a $20-million budget "challenge," and the only alternatives are either to slash social programs that help less fortunate Vermonters or raise taxes. But if you read the fine print of the state budget, you'll find that Vermonters pay over $70 million in debt service to Wall Street on the bonds we use for infrastructure construction and maintenance. If we were paying ourselves that interest by issuing the bonds through our state financial institutions instead, we could easily balance the budget.

Vermont has been discussing the financial alternatives available to us for several years now, with three different pieces of legislation filed to study some aspect of state finance: state banks, the use of registered warrants, and the consolidation of state financial institutions. In addition, Beth Pearce, the state treasurer, has convened all of the state-level financial institutions—Vermont Economic Development Authority (VEDA), Vermont Housing Finance Agency (VHFA), Vermont Student Assistance Corporation (VSAC), and the Bond Bank—to look at where the capital gaps are in the state's portfolio and find creative solutions to help our state money work smarter for the interests of Vermonters. This year, the capital gap study group has been responsible for legislation that would transfer $10 million of treasurer's funds directly to VEDA for commercial renewable energy loans and an initiative that would extend the limit on municipal bonds to 30 years, with equivalent useful life of the infrastructure.

Yet even with these measures, some capital gaps remain elusive. The PACE (Property Assessed Clean Energy) program, a municipal program for residential energy investment, has had a difficult time getting off the ground because the complex web of financial arrangements required to make it work (in the absence of general obligation municipal bonds) make all the financial packages just too expensive. One of the benefits of the PACE program was lower cost financing, and it is becoming clear that opposition from the banks is making this perfectly legal form of finance impossible.

A state bank that had the authority to take deposits of tax revenues from state and municipal governments and a banking license to make loans based on the capital base and deposits would solve all of these problems.



The state bank would not be a "retail" bank: it would not have individual or business accounts. It would be a wholesale bank, acting as the capital base for the smaller state-chartered banks, such as Merchants, Randolph National, Northfield Savings, Community National Bank, Mascoma Savings Bank, Passumpsic Savings Bank, National Bank of Middlebury, Wells River Savings Bank and others. This would enable them to take deposits from their area municipalities and put our tax dollars back to work in the community. Right now, the only banks big enough to do this on a state scale are the largest Wall Street or foreign banks. TD Bank is based in Toronto, and it takes over 50 percent of the deposits from the state and local governments.

The way the system works at the moment, our tax dollars go to Wall Street, and we are then allowed to borrow it back in the form of bonds. We could keep the profits from the bonding and borrowing the state government needs to do here, in Vermont, by creating a public bank for public purposes. This would not eliminate the need for the other types of banks, but it would secure a public benefit for the use of public dollars.

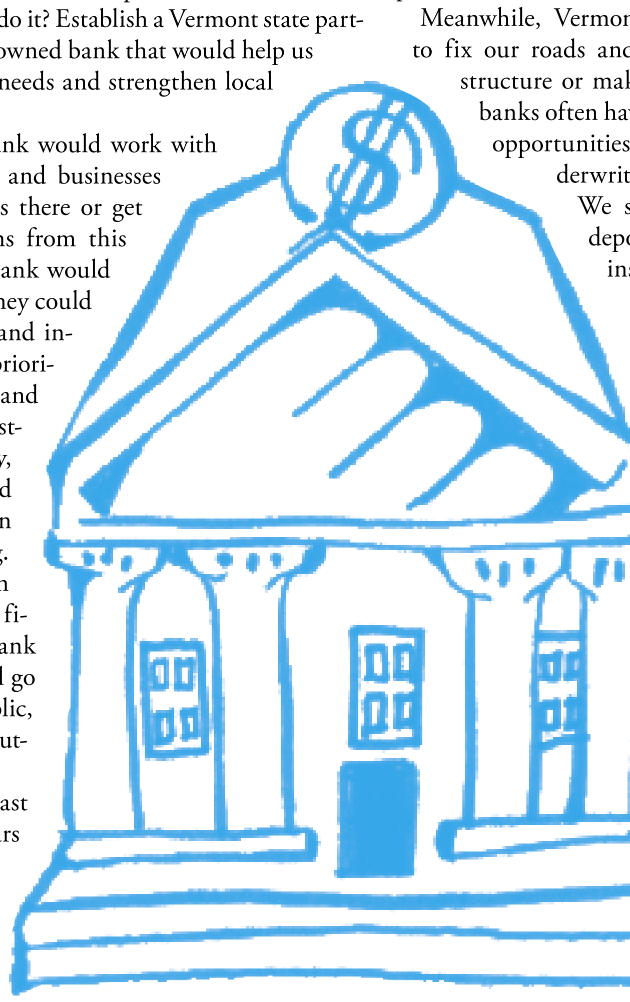
A New Bank to Build a New Economy

by Senator Anthony Pollina

Building a new economy has to include new ways to access capital to invest in new priorities.

The best way to do it? Establish a Vermont state partnership bank, a publicly owned bank that would help us with our public finance needs and strengthen local economic development.

A state partnership bank would work with local banks; individuals and businesses would not have accounts there or get mortgages or other loans from this bank. The partnership bank would back the local banks so they could increase access to loans and investment for Vermont priorities: building businesses and infrastructure and investing in renewable energy, agriculture and food systems, weatherization and affordable housing. It would save money on public infrastructure finance costs, and any bank profits that are made will go to the state, to the public, rather than to private out-of-state banks.



Here's the deal. The vast majority of our tax dollars and other money taken in by the state of Vermont are deposited in TD Bank (a large Canadian multinational). TD charges us fees to handle our money. They lend our money around the world, make a profit from our money and then put that profit into the pockets of their shareholders.

Meanwhile, Vermont borrows money from Wall Street to fix our roads and bridges, invest in municipal infrastructure or make renewable energy loans. Our local banks often have to reject entrepreneurial investment opportunities or turn to Wall Street banks to underwrite loans to grow Vermont businesses.

We should bring that money home and deposit our state dollars in a Vermont institution.

It starts with moving some of those tax dollars from TD Bank to a Vermont public institution. The Vermont Economic Development Authority (VEDA) could serve part of this purpose if it were licensed like a bank to take deposits of tax dollars from the state and local governments. A bill I introduced this year, S.55, would take a look at all our public financial institutions—VEDA, the Municipal Bond Bank, the Vermont Housing Finance Authority (VHFA) and the Vermont Student Assistance Corporation (VSAC)—to see what economies of scale can be achieved by combing their functions and looking at public banking as an option.

The Vermont state bank would then partner with Vermont-owned banks to invest our dollars here at home. Among the possibilities are providing lower cost financing to Vermont municipalities and schools for infrastructure, low-interest loans for weatherization and renewables and financing for entrepreneurs and businesses. A big savings comes from the ability to avoid bonding debt. This year, Vermont will send over $70 million to Wall Street banks just to pay off bonding debt.

Even starting small will bring big benefits. Depositing even $25 million of our tax dollars in a state bank would allow it to lend as much as $22.5 million in loans (reduced by the 10% reserve requirement). These loans could be prioritized to meet other important state needs like energy, agriculture and local infrastructure. This year, Vermont State Treasurer Beth Pearce has proposed using $10 million in state funds, which would otherwise go to out-of-state banks, to fund a new energy loan program through VEDA. The authorization is included in H.395: An Act Relating to the Establishment of the Vermont Clean Energy Loan Fund.

North Dakota has a state bank that works with local banks in much the same way. It generated $60 million in profits between 2009 and 2011 and a third of a billion dollars in the last 10 to 12 years—all sent back to the North Dakota General Fund. Imagine filling the Vermont budget gap with profits from a Vermont bank. In 2010, the Vermont Legislative Joint Fiscal Office said the idea of a Vermont state bank had "considerable merit" and deserved further study.

Most Vermonters understand very well the benefits of buying local and we make a special effort to do business with our neighbors. We do what we can but know we can do more.

Declaring our independence from Wall Street banks, controlling our money and targeting our investments is a common-sense part, a critical part, of building our new economy. A Vermont state partnership bank is the best way to do it.

The Food Energy Challenge

by Richard Czaplinski

One of the many challenges of the new economy will be to clearly understand how our fossil fuel energy consumption and the resulting climate change impact the food we eat.

It seems food prices are increasing with the price of oil and gas, and there is a reason for this, as was explained to those attending the March transition town lecture at the Kellogg-Hubbard Library. Eric Garza, an adjunct professor at the University of Vermont, explained why this is so and much more. He showed a graph of data on food and fuel price indices from the International Monetary Fund from 1992 to the present. From this graph, it became very clear that food price increases followed fuel price increases quite closely.

Food and fuel are closely connected because the production of food has become highly mechanized. It is now more highly packaged and is also transported over much longer distances, all of which take lots of energy to accomplish. Other factors that have increased the ration of energy input to food calorie output are the increase of processed food and the increase in energy used in the home to store and process foods, such as refrigerators, freezers, blenders and the like.

This was clearly illustrated by a graph Garza presented, showing how the energy required to put one calorie of food on our plates has increased over the last century. In 1910, it took about one calorie of energy to put one calorie of food on the plate. Now, it takes about 15 calories. The increasing amount of fossil fuel used in food production has consequences that affect all of us.

Food security, that is, a stable and reliable supply of food, is necessary for a stable society. Another illustration presented by Garza was similar to Maslow's hierarchy of needs. The illustration shows a triangle, a stable and strong geometric form, representing food security. The first need at the base of the triangle is food availability. Food must be produced, and this takes energy. As energy, particularly cheap energy, becomes less available, the question becomes, "How will we produce the amounts of food needed?" Some basic changes in the way food is produced will be needed to produce it using less energy. This is where we must understand how much more valuable the food we produce close to home will become.

Once food is produced, a major problem arises if it is not accessible. If the food is needed where it can't be grown, it needs to be transported. Again, another question arises, "Will we be able to transport food with increasingly scarce and, mostly likely, much more expensive fuel, or can we grow more food closer to where it is needed?"

Accessibility to food also depends on food price. As mentioned before, the close connection between fuel price and food price may quickly put food, or at least enough food, out of reach of people with lower incomes. This has large societal implications. In the United States, which has had a cheap food policy to keep food prices down since the mid–20th century, the portion of a typical family's income that was needed to buy food has been under 10 percent. This is extremely low compared to other nations of the world, as shown in Peter Menzel's book, *Material World: A Global Family Portrait*, published in the 1990s. In some nations, a typical family spends up to 90 percent of their income on food.

These signs of the coming food energy challenge have motivated some to begin exploring and taking action to see what can be done to move in the direction of increasing our food security in the future. Another article in this supplement (see page 9) describes the local transition town initiatives and what many are already doing to meet this and other challenges of fossil fuel consumption and resulting climate changes.

A Farmer's Plea for a State-owned Bank in Vermont

by Ignatio Villa

In Vermont, we have all been thinking outside the box. Let's keep doing it and create a new economy. I moved to Vermont three years ago to work on an exciting piece of that new economy: a small dairy farm starting to add value to its milk by making cheese. I added another value-added enterprise to this system, whey-fed pigs. Our pigs use by-products from three value-added, artisanal enterprises: cheese, beer and bread. This, in my view, is part of the new economy—one that seeks to create wealth from the sunshine we harvest here in our own state, which, mixed with our labor, our ingenuity, and people who appreciate what we do and are willing to buy our products, make for a good model of a new economy.

In giving up a higher paying job to do this, I took a significant risk that I might not be able to support myself. I tell my friends that I retired into poverty, into one of the lowest paid professions: growing food. I love what I do, and I know it is the right thing for myself, for my neighbors, for the community, for the state and, at the risk of being presumptuous, for the planet.

Vermont has been a wonderful place to take on this initiative. There is support for what I am doing everywhere I go. I have received help in the business-planning process, I have received help from legal counsel for the creation of the business, and I have had nothing but encouragement from the state agencies and their staffs. If there is a good place to work on the pieces of a new economy, it has to be Vermont.

It is exciting for me to discover that in Vermont we are giving serious consideration to the creation of a state-owned bank, much like the one and only model offered by North Dakota. It appears that I was not alone in my limited understanding of how the money supply is managed globally and how important it could be for Vermont to be able to create its own alternative means of supporting the right kind of economic activity. It is the beauty of our size that, before long, we all seem to know each other, or of each other.

The creation of a new state bank is just one more example of how a small and creative bunch of people can give leadership for new ways of doing things. We can be nimble, we can be creative, and in the end, others might follow. We need to respond to the urgent needs of the people, to the urgent need to create a new economy that benefits the people and keeps the wealth that we generate where it belongs—within the state where it can, to the extent that it may, contribute to a higher quality of life.

I am writing this to ask our legislators to move swiftly toward the creation of Vermont's state-owned bank. I see it as a benefit for small farmers in a couple of important ways. First, the bank's capital will enable the small banks in our communities to accept deposits of municipal taxes, which will give them more funds to lend to small businesses. Second, by reducing the money we are paying out of state in the capital markets, we'll have more money for important state budget needs like health care reform. As a small entrepreneur, this is one of the most important services the state can provide to support the small business sector.

	NEW ECONOMY	OLD ECONOMY
Finance and Means of Exchange	We slow down the demand for growth by changing the way we make exchanges with each other and the ways we create and save our wealth. Time banks, commercial barter systems and public banking are required for the new economy.	A growth imperative is required by our banking system and bond holders who demand a significant return on their investments. All money issued by these banks is created with an interest rate attached.
		The earth is being worn and destroyed by the pressures created by economies that always demand growth.
	Public credit money is issued by the government to meet the current finance needs of the society, without debt.	Global warming is a direct result of the growth demands of our financial system.
Ownership Models	We recapture our common heritage through structures that empower people to work together to better share resources and conserve our life-support systems. Sharing and making our collective system of resource distribution more equitable will help restore economic balance.	We live under an illusion that privatizing our public or common resources, such as land, water, oil, minerals and forests, for market functions will deliver the cheapest goods for all.
		We have a national government that makes decisions to favor the corporate and financial interests rather than the public's.
Values, Metrics and Management	We will measure current conditions in ways that establish values that favor human and environmental health and happiness over the raw accumulation of monetary wealth. The institutional arrangements to run the system will reflect these new values and will be measured by their real impact on our mutual well-being.	Our economy has produced such massive disparities in wealth that our sense of a middle-class equality is being destroyed.
		Our public values of free markets and globalization are tranferring a large portion of our collective wealth to profit a small international oligarchy of financial manipulators.
	Happiness and well-being will become the publicly shared values rather than monetary acquisition and status.	Our legal and financial system is so complex and so tilted toward the interests of the debt owners that most people cannot understand the agreements they make to get basic credit and services.
Economic Functions, Outputs and Products	The health care system will be based on preserving health with preventive care, healthy food, water, air, relationships and communities.	Our health care system is based on the idea of medicine for profit in which people are worth more sick than healthy.
	Public education for lifelong learning and job retraining. No for-profit schools, colleges or universities.	Our youth are graduating into life with a huge debt burden that will cripple them from becoming the creative force we need.
	Local, organic food systems provide the majority of our food and self-reliant communities.	Our food system is driven by cheap food produced by huge companies motivated only by corporate profit.
	We will support renewable energy, efficiency and the reuse, recycling and renewal of the productive cycle.	The energy choices we have are steered by vested interests in the fossil fuel and nuclear industry that rely on enormous government subsidies to survive.