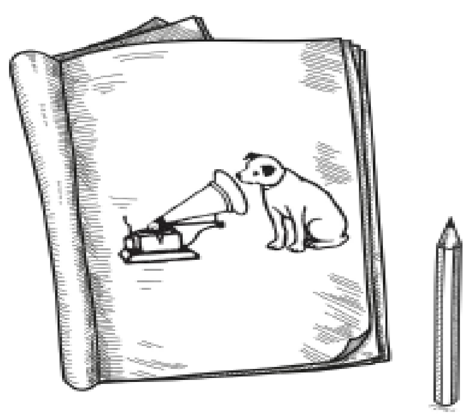
Organizing a Sovereign State Bank with Professor Richard A. Werner

January 7, 2025

Transcript



Catherine Austin Fitts: Ladies and gentlemen, welcome to *The Solari Report*. We are here to talk about sovereign banks and state sovereign banks with Richard Werner, a preeminent economist and banking expert worldwide who studied banking systems and started banks in many different places and is the author of a wonderful report, *Sovereign State Banks for Tennessee*. It's up on Solari. We hope his new reports for Florida and Michigan will also be available, with a publication shortly thereafter. Richard, you're doing great work. We can't thank you enough for joining us today.
Professor Richard A. Werner: Thank you for having me. It's always a pleasure to see you.

Fitts: You and I had an excellent briefing on the Bank of North Dakota with the former CEO and then a wonderful North Dakota Banking Association leader. After the briefing, I was asked by one of the people present, "Well, how do we organize this so a governor's office or treasurer's office could write legislation? How do we reorganize it?" I suggested that you and I have a conversation and go through all the different organizational issues and issues related to function and other things that you would need to envision when designing a sovereign state bank for your state.

Let me describe the areas: We will walk through **ownership, governance, audit and reporting, culture, functions, deposit insurance, economic benefits, and risk issues** today. If you were designing a sovereign state bank for a US state, what would the legislation have to embody? What would you and the governor's office, the treasurer's office, and the legislators, and the treasurer's and controller's office, what would you have to think about, envision, and figure out? Think of this as a legislative design session.

We'll have links to your studies and the Bank of North Dakota's website. I don't know if you notice the more briefings they get asked to do, but the more detailed their website gets about the functions, you can see they're trying to get more up on the line so their briefings are shorter. Before we begin, is there anything you want to say as a way of introduction?

Werner: Yes, I think the first point is really for the legislators to realize and be aware of that, and then with that mindset, tackling all these issues is the fundamental crucial fact. I think the single most significant selling point and action point why one needs to do this is the question of sovereignty. It's already written in Proverbs. We're talking about several thousand years ago. Proverbs

22:7 says, "The borrower is servant to the lender."

Now, of course, politicians and political leaders are supposed to be servants of the sovereign people but not of the bankers. Suppose they don't want to be subject to somebody else, be servants to bankers. In that case, we need, by definition, a sovereign bank, because if you don't have a sovereign bank, if a state doesn't have one or several sovereign banks, there could be several. The question should be, "Okay, how many? Should we do it or not?" It should be how many.

If you don't have a sovereign bank or several, then the state will often have to borrow from others and become a servant to those lenders when really, you're supposed to be a servant to the people, to the sovereign of the state. If you look at European history and US history, things have gone wrong again and again. It's this understanding that banks have an important function. They create the money; they literally create the money supply.

Do you want to have a sovereign bank so the sovereigns can create money, or do you want to borrow money from others and become their servants? That is the fundamental question. Once they realize that, it should be a no-brainer, even without the many other good reasons why you want to have this. That alone should be the key point to convince them that we need this, and only then can a state be sovereign.

If you are a servant to others, then you can't serve your people, and the state can't function. This is a major problem in many countries, and it is also a major problem on a national level. Developing countries and many European countries can't serve their people anymore because they serve bankers.

Fitts: Two issues: I would love to see this happen throughout Europe and throughout the world.

Werner: Exactly.

Fitts: We're talking about US states right now because the US enjoys the Constitution. Under the Constitution, the states have the power to do this, which they don't necessarily do right now in the EU. That is number one, but number two, the Fed is still a creature of Congress under the Constitution. The Fed has not been able to get rid of the Constitution. That's one of the reasons we work to preserve it, but that's one of the reasons we're focused on the US:

the states enjoy that power and can act freely now.

Werner: Exactly.

Fitts: If, for any reason, the EU would break up, then all bets change. I want to say why this is coming up now, and I'm very glad you brought this up because this is about sovereignty. It's not about money; it's about sovereignty and the rule of law. There has been a balance of power in the Western world between the private bankers who control monetary policy and the people's representatives who control fiscal policy, and there is real effort now on the part of the central bankers to assert control of fiscal policy. We propose that you push back the other way and say, "No, the people's representatives assert control of fiscal policy, and they need a sovereign bank to do that."

Werner: That's right. In fact, because you mentioned fiscal policy, even fiscal policy, it's an important point that often is forgotten or ignored. Fiscal policy is also dependent on the banking system's actions, which determine whether fiscal policy will be effective economically or not.

When you think, "Okay, at least there's fiscal policy, we have budgets, the politicians are in charge for good or bad, but the bankers are not involved." That's not true either because even for current spending, even if it's literally out of your tax money, so to speak, the bankers' decisions in aggregate, the banking system, will still determine the effectiveness of fiscal policy, the fiscal multipliers. When you look at the last 30 years, there has been an extraordinary phenomenon that's been happening, and that's been ignored by economists because they don't know the answer to the puzzle when it's quite easy.

What has happened is that the so-called fiscal multipliers have fallen and fallen and fallen. In fundamental economics, which is usually taught in basic Keynesian economics at universities, Economics 101, there's the automatic fiscal stabilizer in a recession. In recessions, tax revenues decrease, and government expenditures for unemployment benefits increase. Automatically, you've got more fiscal expansion, which is good because it alleviates the downturn and makes it less strong and less pronounced.

Then the argument is that fiscal expenditure government spending has a fiscal multiplier so that $1 spent will have more than $1 effect on GDP. That's no longer true. The multipliers in the past were high; there were multipliers. It's simply fiscal spending compared to GDP. What's the result on GDP? The marginal spending on GDP growth, the change in GDP, used to be sometimes 2, sometimes 1.8, but in the last decade, it's gone down 1.7, 1.5, 1.2, 1.1.

For the last decade or so, it's been less than 1. That means there is not even a multiplier. There's fiscal compression, so fiscal spending has a negative effect on growth. That's big news, but they don't want to talk about it because they have no idea why this is happening.

Fitts: I can tell you why it's happened.

Werner: I know why it's happened.

It's the banking system; it's the monetization through the banking system. For example, fiscal spending in 2020 had a big impact, but it was a one-off, and now we're back to the less than one fiscal multiplier.

Fitts: Also, I'm looking at it from the ground. If you look since World War II, every year, money is spent more and more on producing control and top-down control as opposed to economic optimization. You're throttling, throttling, throttling, and destroying.

Werner: That is the other thing that the actual spending pattern has become more wasteful. Also, military spending is a form of wasteful spending because that's not contributing or has positive long-term effects. It's basically destructive spending and then, yes, control measures.

Fitts: The big one, and you see it when you drive around America, but the big one, and it's the reason the food and health issues are so front and center right now, is that you are spending a fortune to poison your population. A poisoned population doesn't get anything done. To me, there's nothing more important than the productivity issue in an economy. If the government money gets a bigger and bigger market share, but is constantly focused on destroying productivity, there 'ain't no way' out of that. This is exactly why we need state legislatures to assert sovereignty.

Werner: That's right because the state legislature has more power over even the degree of effectiveness of any spending. There's the spending pattern as such, but let's say here's investment spending where we agree, in general, this should be stimulating for the GDP. Even then, it does depend on the actions of the monetary side of the banking system. By having a sovereign bank that can always ensure at least 100% effectiveness of that spending, so never have a negative fiscal multiplier, which is in the taxpayer's interest.

If we're even doing government spending, look at the national debt. We don't want it wasted on that level. Of course, there's the other question about what it is spent on, so that's fine. Also, once it is decided to be fiscal investment spending, the degree of effectiveness will still depend on the monetary sector. It's unnecessary to be dependent on that sector.

Fitts: Yes. It's fair to say all these issues are coming to a head. We're in that time. Let's dive in because the first issue I want to discuss is: **Who owns the bank?** Clearly, I believe that ownership by the state is the ideal situation because, again, if you're going to be sovereign, the sovereign needs to own. We have seen states, and Tennessee is one, where there are serious constitutional issues in having the state own it.

It is possible to put together something along the New York Fed model, which is it's owned by the bankers, but it's dedicated to servicing the state as a sovereign, and the state is deeply involved in oversight reporting and auditing and gets a piece of the profits. There's a hybrid model that can work if it's constitutionally not possible. Is that fair to say?

Werner: Yes, I think so, which is why I started with the sovereign point. Basically, the legislature and the politicians need to understand how important it is. Then, if there is any obstacle on the way, we must find workarounds. That's how important it is. If it can't be done directly with direct ownership, there are ways of getting hybrid ownership or control, at least indirectly, and it can be structured.

With that in mind, ultimately, it is a sovereign prerogative, which is why I was shocked to see that some United States have had these clauses put into their state-level constitution that they're not allowed to own a bank. Who put this in? Think about it.

Fitts: Very suspicious.

Werner: Nobody on the state level would put this in because it's like saying, "Certain things, we restrict ourselves. We tell ourselves we're not allowed to do." Why would anyone do that on a state level? Nobody. It clearly comes from outside the state. Somebody saying, "Oh, you guys, you better not do X, Y, Z. Put it in your constitution." How that happens might be an interesting question. Who proposed this? It's very strange and unnatural.

Fitts: One of the things you see in North Dakota, and I should say, many states used to have sovereign state banks, and everyone has canceled and shut down their sovereign state bank except for the Bank of North Dakota. I pointed out when we did the briefing. *Truth in Accounting* just published a new study of all the states and who has the strongest finances. North Dakota was number one. As far as I'm concerned, if you look at the history, that's absolutely related to the fact that it's the one that has a sovereign state bank. Interestingly enough, Tennessee was number two, but Tennessee needed a sovereign state bank.

So there is definitely a relationship between this, but we have seen throughout history that many of the states have had it before. It's worth going back and looking at the history. If your state is interested in doing one, it's very helpful politically to say, "We used to have one. The guy who kept his is much better off than we are."

Female Participant 2: "They really had to fight. Not only did they have to fight the evil empire, but they also had to fight being branded as Bolsheviks, revolutionaries, socialists, and communists. Really, they're just simply farmers who wanted a fair shake."

Male Participant 2: "The Bank of North Dakota's roots are planted in the early years of settlement and the out-of-state big businesses that manipulated the local economy."

Female Participant 2: "The thing that we know about farming is it's an industry where you have very little control. You have the weather, which you've got no control over. You have the banking interests and the costs of interest itself, which you've got no control over. You've got the grain elevators and the railroad, which you've got no control over. They were still competing in an international market even then, which they had no control over. The prices that they got for the grain and the cost of their seed, they had no control over. The idea that they could take control over some of these questions that affected their livelihood was a fabulous idea as far as those farmers were concerned."

Male Participant 2: "By 1915, North Dakota was ready for a revolt."

Female Participant 2: "Sometimes politics are led by charismatic leaders. You had in AC Townley a charismatic leader, someone who knew how to organize, someone who had been a Socialist Party organizer but had been fired by the Socialist Party in North Dakota, who decided that this is still a good idea."

Male Participant 2: "Townley's plan was simple: To break the control of out-of-state big business, North Dakota would control its own economy by creating industries that would be owned not by big businesses, but by the state."

Male Participant 3: "The League's program, I would call it state capitalism, actually. It was the idea of the state intervening to actually help not just save, but help evolve the existing type of capitalism into something that was more competitive with the outside economy, which would be corporate capitalism."

Female Participant 2: "You had an organizer who knew how to speak the language of farmers. You had banks that were playing into the hands of the argument. You had farmers whose crops had failed for the last couple of years, so they didn't have anything on hand. Everything aligned at one time in one place, which made it possible."

Male Participant 2: "In 1916, after only a year of organizing, the League swept into power. In 1918, it engineered a political landslide. Now the League had the power to implement its industrial program."

Female Participant 2: "There were three bills that the legislature in 1919 passed. The one created an industrial commission, which included the governor, the attorney general, and the secretary of agriculture and labor at that time, which was known to run the bank. That was the Industrial Commission. Those three elected officers were going to run the industries. At that time, all three of those officers, of course, were non-partisan leaguers."

"The first bill created an industrial commission. The second bill created the industries themselves, created the Bank of North Dakota, and allocated funds, start-up funds we would call it today, to the bank. Then the legislation also allowed for the creation of the state-owned mill and elevator. The third bill allowed the state to sell bonds to the tune of around $12 million to fund the industries. Those three bills were introduced in January and were signed into law in February. They had less than two months. They had passed those three bills, and the Bank of North Dakota was on its way."

Fitts: One of the things I wanted to bring up, and we'll get into it later, is that the sovereignty and ownership issues are not just of the bank itself but the actual hardware systems it runs on. What we've seen around the world as we've had more and more disasters and electrical systems go down, or satellite systems go down, one of the issues that keep coming up is whose hardware and software are you transacting your transactions on, and can they use that to hiccup or control you?

I'm reading a new book called Underground Empire, and I'll get a review before the end of the year. I don't know whether you've seen it.

Werner: Tell me more.

Fitts: Yes. It's about the hardware systems and how the US, for decades, built out the cabling under the ocean, the satellites in the skies, but built out the hardware infrastructure for telecommunications and financial payment systems, and then suddenly woke up and realized, "Okay, we can use this to control," and are using literally their control of the hardware to control global financial transactions and policies through their operational control.

One of the issues you must grapple with, and we've been grappling with some states, is, okay, if you're highly dependent on payment systems with legal jurisdiction or ownership and control outside the state, how do you start to create resiliency? How do you begin to create options so that's not a point of control?

Werner: Exactly. Of course, the good thing is, as soon as people realize how important that is within a state, then you can build a state-level infrastructure because it doesn't make sense then to route everything off around the world or once around the world, and therefore have many other people participate and give them control, partial or complete control. It doesn't make sense. By focusing on states and the state-level activity, you can build something that's much more resilient and does not rely on these outside forces, which should be a priority.

Fitts: Yes, I couldn't agree more. Okay, so let's talk about **governance**. In North Dakota, we have, it's called the Industrial Commission. It's the governor, the ag secretary because agricultural loans are so important in North Dakota, and the attorney general on this three-person governing board. Then you have an advisory board of people who the governor basically appoints, but you're looking for certain profiles of people from different parts of the community.

They're an advisory board. They meet monthly and provide many functions that we typically think of as a board. Then, beneath the board, you have the management and the leadership. You've got three layers, governing, and managing. I think the first question to be asked if you're going to design legislation is, who are the political officials you need to be involved? Do you need the governor? Do you need the treasurer? Do you need the controller?

Do you need agriculture, which is the equivalent of a commerce department? Who do you need on the governing board, and how will that system work? That's the first thing that needs to be decided. Part of that decision, I think, is because so many states are looking at doing a bullion depository. Does that governing board govern both the bullion depository and the state bank, or are they separate boards? Do you have any thoughts on that?

Werner: Yes. I think one must think of the long run and the long-term future and always keep in mind the issue of resilience to attacks, interference, and attempts to undermine and dismember the system. We should look at those states you mentioned. There were quite a few states that also had a state bank, but they essentially discontinued them.

I think we should do case studies of that as well because I'm sure that will show. If we investigate exactly how this happened, it will reveal who the players are and how they do it. Of course, in the end, they get the locals to agree, but there will have been outside forces at work, which will be quite interesting to see. We can also learn what they're likely to do once we succeed in some of the states setting up additional state-level sovereign banks. These mechanisms will come back into play, I'm sure. We must make it resilient against that.

That is in favor of having the Bullion reserve in a way separate, just institutionally, because the fundamental principle of resilience is decentralization. Whenever possible, you don't have a centralized pyramid; you have a decentralized system that is collaborating. Then, if one is attacked, you still have the other. If somebody brings down or a resolution comes up and gets a majority to discontinue the state bank, you still have the Bullion reserve. Creating more entities makes it harder to take them all down.

Fitts: Here's the question: I would definitely have the management and the advisory board separate because they have very different functions, skills, and experiences. At the same time, the political governing board, if you have two separate boards, then there's a divide and conquer.

Werner: True, we have to be aware of that. We don't want arguments and so on. Also, the other thing is, there are scale economies and synergies if you have things together. One should try to find a fusion of that.

For instance, one could have the gold Bullion reserve separate, but it needs service providers. It asks the state bank to be the service provider for almost everything, so that even if they shoot down the state bank and it's going to be closed, you still have the separate structure. Then, the Bullion Reserve could work with other institutions or set up another institution.

In fact, by having separate entities, one could already put in place within their founding documents the ability to turn those into a future state bank if needed. The Bullion Reserve could become a state bank if, for example, somebody wants to close and succeed in closing the state bank, the Bullion Reserve becomes the next state bank. Basically, there's a situation where you need to expand into state banking. For all the decisions made, we need state banks going well, and then the Bullion Reserve can be expanded into a second state bank.

Fitts: Even if you have the political governing board separate because you will want to be involved in precious metals, the people you might not involve in the state bank, you're still going to have the governor, AG, and a treasurer be involved in both. Even if you don't have the same governing political board, there will be a lot of crossovers between the two boards. To me, that's good, you need that.

It is essential to point out that the governor appoints the advisory board, but it's important in legislation to stipulate what kinds of people you want. You want certain people from the business community and certain people from the banking community. If Ag loans are important, certain people from the farming community. I think it's very possible in legislation to envision the categories you want people in and leave room for others because there's always an addition. I think that's part of bringing the constituencies together who help you create this new entity.

North Dakota is defined by the extraordinarily positive relationship between the state banking community and the state. They've done an excellent job of the state bank not encroaching on the private sector but simply supporting it. When you design the legislation, you want to have those conversations with the constituents that you will hopefully be supporting through the bank. I just wanted to point that out.

Werner: Absolutely.

Fitts: Let's talk about **audit and reporting** because one of the things that you need if this is going to produce the conditions of sovereignty is to be very clear in legislation about whether there will be an independent auditor. Who picks the independent auditor? Is it the bank with the approval of the treasurer, or is it the treasurer with the bank's approval? It seems to me you need a joint agreement.

Then, you need very clear reporting from the auditor to the advisory board, to the political board or group, to the legislature, and to the state offices coordinating and working with the bank. There needs to be a very healthy feedback loop in law describing how the disclosure will work. Of course, it's all going to be very public. The financials are going to be available to the public.

Werner: Yes, exactly. Of course, one can also check with North Dakota again about how they've handled this. Bot in the legislation and in practice, and they get some feedback because they've been doing it for a century. I'm sure they're quite familiar with various issues related to the interplay of different political positions and institutional offices.

Fitts: Right. One of the most important things is that when you talk to people from North Dakota, they stress repeatedly, and I know this is true from having spent time in North Dakota. The bank was successful because of its culture. They keep saying that if you do this in a place that doesn't have our culture, it won't work.

Werner: Yes. Now, that's an interesting point, and I want to share it with you. It's a map of Europe. Can you see that?

Fitts: Yes.

Werner: What is this map? This map shows the US states with the highest population percentage from European countries. When you go to Britain, Utah comes up. The majority of people are from European countries; the top European country for Utah is Britain. Go to Germany. What does it say? It's North Dakota. That means most Europeans of European ethnic origin in North Dakota are German. Most Germans are in North Dakota and in Norway further north.

Fitts: Isn't that remarkable?

Werner: Exactly. Of course, Germany is the source of this decentralized banking system that all the East Asian high-growth economies copied. Japan got it from Germany, and then everyone else got it from Japan. Korea, Taiwan, China, and Singapore got it from Japan. Japan got it from Germany. I'm sure if we look at what its farmers say, "We need a state bank." I'm sure this is already a century ago; they were a bit closer to their roots in Germany and must have been aware of how powerful it is to have your own local banks.

Fitts: Right.

Werner: I'm sure that that was a know-how, a knowledge transfer, and input from Germany. Once I saw this, I thought, okay.

Fitts: Isn't that fascinating?

Werner: Because they're saying it's the culture. What is your culture? Of course, they want to make it as unique as possible. There is a German connection. That is perhaps your culture, so we are talking about the same thing. Whenever they talk about culture, they make it sound as if what is so unique is that nobody's like North Dakota. Of course, in some sense, that's true for every place; we're all unique. In fact, each person is unique. God created us uniquely, but there are clearly culturally common features that we can link places and people to. I think the important link, there is a direct link to knowledge of decentralized banking.

Fitts: When you read the report for the Sovereign Bank for Tennessee and you read the success of Germany and its banking system. As it applies to banking, I would also say it applies to Christmas meals and dinner. The Germans basically created the culinary tradition of Christmas.

Werner: That's true. They brought it even to Britain. It was Prince Albert, Queen Victoria's husband. She was German, but she'd been born in Britain, whereas he came straight from Germany. He introduced all the Christmas trees and all that, all the decorative things in Britain. He also introduced many decentralization ideas and was very interested and concerned about poverty and schooling; he introduced schools.

He became a bit of a social reformer. What happened? He died suddenly, very young, because that sort of thing has not remained popular among the established elites in Britain. Of course, she was devastated, and she built all these monuments to her beloved Prince Albert. If you look at him, he was just very German, and that's not so popular in Britain.

Fitts: I do think it's very important to understand. If you look at the history of the Bank of North Dakota, the culture has - if you look at the history, we're going to talk about **functions,** but they've slowly and steadily evolved functions, and the legislature has asked them to do things, or they have asked the legislature to do things, or the bankers have asked. As time went by and the needs of the economy and the people changed, they evolved and changed together with it. It happened because there is a culture that is extremely conservative but very caring about their farmers, industry, and businesses.

One of the stories we heard from the former CEO is how they had stepped in during a particularly bad time in the commodities markets to make loans through the local institutions that had no interest for two years and were helping save farmers. They said, "We depended on the local institutions to know which farmers would be here in five years."

Essentially, it's a character loan. In fact, in five years, the banks had bought back all the loans, with no defaults. They took no losses because the banks knew the local farmers' character and economics, and then there was trust going from the local banks to the Bank of North Dakota, so the whole thing worked. It works because you have a very careful conservative culture that cares about its people. It's not a culture that produces speculative bubbles.

Werner: Exactly. In that sense, yes, we entirely agree about culture. It's a culture we'll get to learn from. Therefore, we can learn these lessons; other states will also benefit.

Fitts: I would say it was a very German culture until the EU happened. The EU seems to have changed.

Male Participant 4: "Some of the things that we can do at the Bank of North

Dakota are just incredible. New industries that we've helped develop were at the forefront of every major economic initiative, whether it's building airplanes in Grand Forks with Cirrus or ethanol plants, or helping the farm economy. It's responding to our needs across the state and the ability to have an impact and to have a positive impact on the state and to really help fulfill the mission of the administration as they work forward in looking at the vision for the state of North Dakota and working with the legislature to fulfill their vision for where the state should be going. It's being an impact player in the state of North Dakota. That's going to be our course for as long as I can see."

Male Participant 5: "It's very interesting that even though there have been some attempts over the years to sell the Bank of North Dakota or to abolish it, that the bank has really worked to serve its own niche in the North Dakota economy."

Male Participant 4: "I always tell our staff that when you are an organization of one, it's easy to become extinct. Our mission has been consistent that we are here to encourage and promote agriculture, commerce, and industry. I don't think we can ever get too far away from that. What we can do is be more diligent in how we deliver those services and make sure that we are always market-driven and that we're able to react to it."

"An important part of economic development is as our people come forward with creative ideas and try to do things, and almost every case of financing is part of the equation that creates more jobs and more opportunities." That's what the Bank of North Dakota does, and it needs to continue to be an important part of our growth and development."

Male Participant 6: "Well, I think that's so."

Male Participant 5: "The fact that it has matured into the kind of bank that it really shows why it serves a purpose, even though some argue a socialist institution. Now, that might seem unusual, but it really does underline how hard the bank works to be a part of the state of North Dakota and the economic development that we see for the state of North Dakota. It is a part of the infrastructure, is a part of the history and tradition of North Dakota and is really a full partner in the state of North Dakota."

Female Participant 3: "It's an amazing part of history. It really is an amazing part of history. I think the industrial program and the effort by the non-partisan league really was a wake-up call both for the state saying they could have some control over their economic destiny as well as a wake-up call for the interests, if you will, the grain and railroad and banking interests that they couldn't take for granted the people of North Dakota or the industry of North Dakota. We've got a lot to be proud of in this state, and we should be. The bank is just one of those institutions that we can be proud of. Both for creating it as well as managing it as well as we have. It's pretty phenomenal."

Male Participant 6: "Really interesting again."

Male Participant 7: "I think the people in North Dakota still believe a lot in themselves, and the Bank of North Dakota manifests that. By golly, we think we ought to control our own destiny, and one of the ways we can do that is to own our own bank."

Fitts: Let's talk about **functions.** This is really where it gets rather interesting. Obviously, you can't write culture when you write legislation, but you can describe functions. If a state does not have a sovereign state bank, you have a treasurer, a controller, reserve funds, and pension funds doing these functions or some of these functions now.

One of the things you want to decide is how the bank interacts with those functions. You want to make sure the people doing those functions find the bank supportive and not trying to take or replace functions away. You must think those things through with those different offices. Is that fair to say?

Werner: I would say so.

Fitts: The state of North Dakota has said it doesn't matter who does them if everybody's happy with how it's getting done.

Werner: Exactly. As you said, with transparency, this being quite visible, this is a public institution. There comes automatic accountability. It's a local institution; it's accountable to locals. Of course, in a way, there is still flexibility for certain details, and I think that's something to keep in mind. Not everything has to be set in stone; if something turns out to be better, this and this way, then of course, things can be amended as long as the principle remains unchanged; every state needs at least one sovereign bank and needs to be in charge, in control of its bank.

As there's a warning here, my experience in the UK has been that people also listened to me early on, and then there were politicians and government officials saying, "Yes, okay, let's have some more state bank." There were initiatives to set up the British Business Bank, which were done by Sir Vince Cable, who backed me in my banking projects. He even joined the board of my bank project company and so on. He was Secretary of State for business, so he did the British Business Bank. Then, they set up two more types of banks.

I think one was considered a green bank for sustainable investment, and another one had a fundamental flaw, and that's where you immediately see there was interference to try to distort things to the extent that it became useless. They weren't banks; they didn't have a banking license; they didn't have banking functions. They're only banks by name; they're just government institutions, another fund. They were funded with budget tax money every year, and they would spend the money. They were not banks. It's a joke.

Fitts: Under the law, they will allow you to call it a bank when it's not a bank.

Werner: That's the government; the government could do anything, but normally, you're right; for any financial legislation, you're not allowed to call something a bank if it's not a bank. In Britain, if the government does something and they want it by name only, but not in reality, they're not banks. These projects were undermined too early.

They hired people from the city of London who had been senior bankers at large banks, and of course, they knew what they were about to do, namely, make sure these were not real banks.

Fitts: Right.

Werner: That's one thing to keep in mind. If we have the fundamentals firmly decided, there should be real banks with real bank functions, but of course, as we discussed, and as everyone knows, they will be banks mainly of the state and of the other banks. The customer side is not retail normally. There can always be small exceptions here and there, but fundamentally, the state and the other banks are the main customers.

They can join consortiums. They would join in large lending to back up the small local bank when the loan is too big, then, of course, you would join; therefore, the local company or the local farmer would become your customer, but the principle is that. That shouldn't be changed.

Fitts: The core function is running the state's bank accounts.

Werner: Exactly.

Fitts: Instead of the state keeping its deposits in all the big New York Fed member banks or other large private banks, they're keeping your deposits in the state bank. They are running your bank accounts, and that means they are controlling the data about what your bank account is doing.

Werner: Exactly. That's an important point. We should keep emphasizing the data angle because, increasingly, that's where much of the interference and then control happens, as well as the leakage of data and being sold to third parties.

These very worrying developments happened in Europe. The European Commission produced a new directive a bit more than 10 years ago. Directives always come from nowhere because the European parliament has no powers. It's just the rubber-stamp parliament. All legislation comes from the European Commission, which is unelected. They're the bureau of this European Soviet Union parliament, but they have no power to table any laws, just like in Europe.

European Commission had this new directive called PSD2 (Second Payment Services). This PSD2 directive sounds very technical and digital: this and that digital, but it is, to put it very simply about, one thing the banks have been quite good at in the past, for the last 200, 300 years in Europe, is they have not sold our private information to third parties. They've not done that. In some countries, it's in the legislation that there's bank secrecy.

They're supposed to keep that data secret. They certainly can't give it to anyone else. They have not done that. They've even been very modest about using it themselves to market their services to us. Banks have been surprisingly good at that. To anyone coming from Google or Amazon, it's like, "Wow, you've got all these data and all these people. Well, why aren't you utilizing it, exploiting it to sell them stuff they don't need?" We should be grateful. The banks have been quite good on that point.

That means, of course, in Europe, the majority are small banks, local banks, and they haven't done that. PSD2 is about totally ripping that out from the banking system and forcing banks to pass our private information on our transactions to third parties, namely this whole new so-called FinTech sector, which was government-developed to compete against the banks because the plan since around 2008-2009 has been to dismember the banking system and target all the many functions banks do by having separate digital service providers for each function compete with banks.

The biggest obstacle is that people don't want that so that they won't use these alternative service providers. That's why the European Commission created this law, which works the following way: If you're on your phone and you get an ad or somehow somebody sends you a link to something, "Oh, a new service provider. Oh, that sounds interesting." Watch what you click. If you click this, "Oh." If you go further, you must agree to the terms and conditions. Watch out. Don't agree, but of course, we all know if you want to move on with something and see, you must agree.

Then you're probably made to even confirm that you've read it because nobody reads it, so they force us to lie daily about all these things. That's enough. If some fintech company has you agree to their terms and conditions according to the PSD2, they now have your permission to go to your bank and get all the information on you, all your transactions, and all your history. The bank must give it to you now. That applies to all European banks. PSD2 is very insidious. These people can now use your information to sell your information and compete against your bank, driving your bank out of business.

Fitts: But that data can also be used to implement a social credit system.

Werner: Anything. The social credit system is a control system. Basically, it becomes something that can be passed on to anyone. It's insidious. Where was the debate about these laws? Of course, there's no debate. This is Europe, EU. It's a dictatorship, and they just enforce that. Nobody wants this. Nobody would agree if people realized what this is, but there's no discussion, debate, or vote on it.

Fitts: It gets back to this issue of hardware and software.

Werner: Precisely.

Fitts: The hardware and software issue is just starting to be understood; it's just beginning to be understood. As it is understood, the whole legal issue is whether I own my data or whether it can be taken and used against me to control me and take my assets. It's going up, up, up. Function number one: you run the state bank accounts. We'll get into it later, but that means deposit insurance. With The Bank of North Dakota, the state provides the deposit insurance, not the FDIC. They are completely independent and free of the FDIC. Now, the major deposits are the state deposits, so that's not taking a lot of risk, but it is an issue in legislation that needs to be dealt with.

Werner: That's right. I think it's an important point. I suspect it's a point that will be used by opponents and enemies of these proposals of state banks, and they will try to scare legislators. "Oh, but you don't get FDIC deposit insurance, and your customers don't get this insurance." Well, there are some important things to remember as a counter-argument. The FDIC has an amazing track record in closing United States banks in America. That's its job; its real job is to close banks. It has closed dozens and dozens, hundreds of healthy banks. It's not even a secret: healthy banks. Because, initially, we think, "Okay. Well, they closed down banks that have completely failed and are in trouble."

No. They can close, and they have closed many healthy banks. In fact, there's a whole study by the Fed because when a bank is in trouble, then it also economically acts differently. As an economic sound scientific study, the idea was what happens when you close a bank? If you close a bank in trouble, the effect may not be large anyway. We want to have data on when you close a healthy bank, "Oh, where can we get FDIC?" They've done it many times.

Of course, the conclusion was if you close healthy banks, there is a significant negative impact on the local economy, which only economists could be surprised by, but that was the finding. The FDIC has a record of closing banks with very few recourses. That's already why you don't want to be part of this FDIC system. Secondly, when it comes to actual deposit insurance, if you want to have your own system, you can run your own one. In Germany, the cooperative banks have had and still have their own deposit insurance system. The savings bank *Sparkasse* the savings banks, they have its own deposit insurance system.

Then the EU came in and said, "Oh, we need a European deposit insurance system." Then, they forced the savings banks and the cooperative banks in Germany to participate in that system and make contributions, even though they had their own systems. There are now two double-deposit insurance systems. They were forced to join, and they didn't want to join, but they had to.

Sadly, they were wise in not wanting to join, but they had no choice. That's the power of the EU. Really, you don't want to be part of this FDIC system. It's easy to run independently if you want a formal deposit insurance system. One can run one, and that will be my recommendation for the next stage.

We haven't discussed this yet, but as you point out the advantages of having a state bank, we must add this particularly when we talk to the state-chartered banks, the state-level banks in the states of Florida, Michigan, Tennessee, wherever the plan is to have our own state-level deposit insurance system allowing all the banks to leave the FDIC umbrella. Of course, there may be, and we must look at the legal framework. What are the conditions for them to be allowed to leave the FDIC? But it's quite clear that one of the conditions will be that there's an alternative deposit insurance system that nobody has created, but we should create them on a state level, and the state bank and the state can be part of this.

They can be better funded because you fund from contributions. If you run your banks according to principles and mainly have bank credit for productive business investment, it's the soundest banking system—no banking crises.

Fitts: Right, but it argues again for the importance of a conservative culture.

Werner: Exactly.

Fitts: A very conservative culture.

Werner: If you have the right lending pattern, you won't get into trouble. If you break lending into three types: bank credit for consumption, asset purchases, and productive business investment. The latter is the type of bank credit that's sound and has never resulted in a banking crisis in history. Whereas the others create inflation, they create asset inflation and banking crises, and that's usually the problem. If we introduce principles where the state bank encourages all the state level to state-chartered banks to lend more and mostly for productive business investment, we know we're de-risking the system, which will be very important.

The German deposit insurance of the cooperative banks is 200 years old, and the savings banks are around 200 years old; they never needed state money and no depositors. These, in the past, were thousands of banks. No depositor ever lost any money, and no state money was ever injected. There were some situations where occasionally there were some issues with a local bank, but they could always sort it out themselves. They never needed to save money. That, of course, is a great advantage then: You are not dependent on this interference from outside. In this case, interference should be avoided at the federal level.

Fitts: Right, but I would argue if you're starting a new state bank, you don't need the FDIC, but if you add banks in the state to your insurance program, you want to have very tight underwriting, and you want to do that on an evolutionary basis. Certainly not a big bank basis.

Werner: You don't need it. You don't need the FDIC.

Fitts: The one thing I want to point out is that as a technical matter, the Bank of North Dakota will take a retail deposit, so any citizen of North Dakota, any resident, can deposit, but they must drive to Helena to do so. There's no electronic banking. As a political matter, you're not saying, "No, we won't take your deposit."

Werner: I think it says so because you want to have a bit of optionality. There may be situations where it turns out that's very useful, or helping a particular company that needs help or helping the local small bank is a needed arrangement. It should be possible, but why not? You never want to restrict your abilities and capacity.

Fitts: Right, but they're very adamant: They do not want to compete with the bank.

Werner: Yes, I think that's clear.

Fitts: They're there to support banks and credit unions. We've discussed **deposits**. If you want to read more about how the Bank of North Dakota does it, just check out their website. I want to talk about **loans** and **services**. If you look at the history of the Bank of North Dakota, they have four areas of loans they're doing. Agriculture, because it's so important in North Dakota, infrastructure loans, business loans, and student loans. Then there is a variety of what we might call 'cats and dogs' of programs that have come up, or they've responded to a special need or the legislature.

Either the banking community, the bank, or the legislature has responded to a special need. Let me talk through this because they have a very interesting loan book. Of course, agriculture is the big one. When we met with them, one of the people pointed out that, on average, total deposits in community banks and credit unions is 30%, but in North Dakota, it's 83%. It strikes me that one of the reasons that may happen is they try to work completely through the local banks. They want the local banks to take positions, but they are there as a backstop and are there to do the loans that the regional banks won't do, or as participation, or even in some urgent situations, they've bought loans off the small bank's books.

If you look at what happened to Silicon Valley Bank, if there had been someone to buy their loan portfolio off their book in that liquidity situation, they may have been better. Their ag loans, infrastructure loans, which they will do directly with a municipality, and then their business loans; they like to work through the local banks and then student loans, but only for students in North Dakota or residents of North Dakota. It's very North Dakota-centric.

Werner: It makes perfect sense, and that's the whole purpose. That's the model where you support the local banks chartered in North Dakota and businesses and communities through them, and you a back stock. Essentially, it also reduces the federal centrally planned organizations' ability to interfere in your state. Of course, we see that in other places. You mentioned Silicon Valley Bank, which was quite shocking because when you go through it, it looks quite strongly like an orchestrated takedown of the bank.

That is unnecessary until the spotlight is on the regulators. What is the media doing? They're still in the same mode they were put into after 2008, "Oh, the big banks and the banks are bad, and no one else is. It's just the banker's fault." The bankers must do what the regulators tell them, and they have always done. When the regulators don't do their job or give the wrong incentives, we get these crises. The journalists have been extremely bad in ever questioning the regulators, whether after the 2008 crisis or something like Silicon Valley Bank. Where was the Federal Reserve? It only came in as a lender of last resort after the FDIC had closed the bank.

Fitts: But JP Morgan stayed open 24/7, according to the reports. They and Citibank are the largest banks in the New York Fed, and they're staying 24/7 trying to poach the deposits while Peter Thiel and other people are calling everybody and telling them to get their money out; JP Morgan is staying open to make sure that they can suck up all the deposits. It looks to me like the New

York Fed was running them.

Werner: Exactly. The other thing is that the Silicon Valley Bank had joined the FedNow pilot program and, as a result, could no longer stop the flood of money going out because it was in the FedNow system. They had delegated that to the Fed, not realizing that the Fed would use it against them. Usually, you can just stop the outflow and win a bit of time, but that wasn't possible because of the FedNow system. Already previously, the management was doing some strange things. I've seen it in the UK where a small savings bank was taken down, and it was really with the collusion of the management, colluding with the regulators. That's what it looks like, at least.

In this case, step number one, or event number one, was an outflow of deposits. Now that that happened, it was very large, I think more than a billion dollars in the previous year, 2022. What's the management response? Normally, bank management responds by raising deposits. That's what they should have done, and they didn't. They decided, "Oh, we've lost deposits; what can we do?" Of course, the FDIC had been going around already with this chart of this picture of the so-called hidden losses in the banking system, which merely valuation losses when interest rates rise.

Whenever interest rates rise, any asset since we use net present value discounting by using interest rates to discount the value of assets. Of course, asset values, in theory, have gone down, but banks don't have to mark them to market. The FDIC was already marketing the idea that there was a problem in the US banking system, which is very biased information. They also didn't point out that when rates go up, the liability side of banks goes down in value as well. Therefore, banks are hedged; they have a long book, the assets, and they have a short book, the liabilities, and it's a hedge fund that doesn't have to mark to market, which is quite a stable system if you do the wrong thing.

Then, bank management decided, "Oh, let's sell some of the US's treasuries at a loss," which doesn't make any sense. Why would you want to book losses? It's almost to prove the FDIC's point, "Oh, there's a problem in the banking system," which is not true. These are mostly treasuries, and you hold them to maturity. Never is there going to be a problem. Silicon Valley Bank realized these losses quite unnecessarily. Instead, they should have used them as collateral to borrow from the Fed.

Fitts: Now the Fed has a Bank Funding Program that will do that.

Werner: Only now. I thought the Fed was created in 1913 for that purpose, but it was in 2024 that they came up with this plan. Now we have a plan.

Fitts: They did it in 2023, the Bank Funding Program.

Werner: It's a joke because, of course, the Fed could have always done that. They can do anything. They don't need to call it a new name or program. When they want to, they do things without even announcing a new program.

Fitts: I think this is why you want a state bank, because if you look at the loan book of the Bank of North Dakota and then the services, what they're doing, so for example, is offering collateral valuation services at the request of the banking association and the small banks. They also offer correspondence services and international wire transfers.

Werner: Exactly. That's an important function that a state bank can and should fulfill. It's a function that if you had the right central bank, the central bank would also do for them, but the Fed refuses to do that. It is the same as the Bank of England refusing to be the correspondent bank. In Germany, the Bundesbank, which has always been publicly owned, has acted as a correspondent bank for any bank, even foreign banks.

Fitts: I believe what this does is the small rural banks can stay in business.

Werner: Exactly.

Fitts: They have a sovereign state bank that can provide those functions they can't offer economically.

Werner: Exactly. This makes perfect sense. Then, you see what the real objective is. It's revealing because if the bigger, more central bank, either the Fed or the State Bank of North Dakota, aims to support the banking system, it would offer these services. Still, if the goal is to get rid of small banks, then you would not offer it. That reveals preference. That's what we see. The Fed doesn't offer this, the Bank of England doesn't offer it, but the Bank of North Dakota does offer it because that is their purpose. They want to support the smaller banks.

Fitts: I want to go back because we'll get to **economic benefits**. I want to get back to this number that the total deposits in community banks and credit unions is 30%, but in North Dakota, it's 83%. If you read your paper on *Sovereign State Bank for Tennessee* and then Florida and Michigan, as soon as we get it up, you realize that the economy's health depends on all of these small banks. In other words, and you make the case, you can get growth with no inflation.

If you look at the difference between 30% and 83%, there is a reason that the North Dakota economy, during the bailouts and the financial crisis, I think it was the head of the banking community who said that North Dakota was in a recession for a week. I'm assuming that is part of North Dakota's extraordinary economic health.

Werner: Exactly. It was the same in Germany. The small local banks, which in Germany are 80% of all the banks, a small local bank, they increased lending to small firms because they realize, "Oh, the big banks are in a credit crunch and in trouble with all their speculative international transactions. We'll step up lending," and they did. There wasn't even a week of recession in Germany because the majority of people worked with small firms, small firms dependent on small local banks for their funding, and that's how it works. The economy was very stable in Germany.

Fitts: Your problem was that some banks had bought fraudulent paper from the Americans.

Werner: Yes, the bigger ones, the Landesbanken (bank of the land), which are bigger banks. If you investigate the background, you will see how everything was set up there. It was a way for the US financial crisis to be exported, and it already was part of this plan to take down a vassal competitor because it was literally flogged to Landesbanken after the EU had interfered and said, "Oh, this Landesbanken, we're going to pass some directives in the EU, Brussels, which is under US influence, which is the political arm of NATO that the Landesbanken and state banks have to change their business model. They have to be more commercial and behave very differently."

That's when Bear Stearns and whatever Morgan Stanley toxic waste, high-grade structured credit product salespeople came up and sold them this stuff from America, which turned into toxic waste.

Fitts: My theory is that Obama got the Nobel Peace Prize because he bought back all the ‘crap’ that America had sold to Europe. He got the taxpayer to go along with it. Let me go back because you saw an effort in the last 20 years to get the banks, particularly the small ones, to adopt sophisticated underwriting and compliance systems that would integrate them into software, leading us into a social credit system. What that did was basically stop banks from doing character loans. If you listen to the history of the Bank of North Dakota and the small banks they're servicing, they are doing character loans.

I suspect the system can still do that because the Bank of North Dakota is there and is not in the FDIC system. They can't squeeze them into the sneaky evolution of social credit systems with complex software.

Werner: That's right. I met a local savings bank CEO in Germany, a small local bank, and he told me that at least 40% of his business loans are character loans without any collateral because he knows these firms very well and they've been known to them for decades.

Fitts: The US regulator push stops the character loans. It forces more money into the investment portfolio by buying long treasuries, which, of course, get slammed if interest rates are raised. However, it also causes the banks to spend a fortune on expensive software that can provide all this data to the centralizers.

Werner: Yes, exactly.

That's right. These are all tricks to centralize. Exactly.

Fitts: It's all a digital invasion, and somehow, I believe they've probably avoided some of that. One of the things you see if you look at their loan book is that occasionally, the profits are rolling out of the bank, and ultimately, the state gets dividends. However, the legislature can create low-interest-rate loans for a particular purpose. One is school construction, where the bank will make lower interest rate loans to schools to construct new school facilities. Either the legislature can provide appropriations for that, or they can have the bank do it, but then it comes out of the profits that create dividends for them.

The legislature funds it in one way or another, but that happens occasionally. If somebody's looking at legislation, you want the legislature and the bank to have the flexibility to do so, subject to the approval of the legislature and the approval of both the political oversight board and the board with all the bankers and business people on it.

Werner: Exactly.

Fitts: If you know their history, they've responded to what their local banks need. Something happens, and it generates an interest, and that interest flows into both the legislature and the banking community, and then it comes to the bank, and then together, they respond. I think that's why the culture issue is so important because it's not a response to, "Okay, let's go make money using state credit." It's a response to the small business people, the schools, the municipalities, and the farmers who have a need. How do we respond in a financially responsible way?

Werner: Precisely. I think that's very well put, and you're absolutely right. That is the true culture that they were referring to, which is, of course, the culture also that we have in the German cooperative and local savings bank networks. It's responding to the need and always looking beyond. It's not about, "Let's make money as the number one priority and then forget about everything else." Number one is, "What is the need? What can we do?" Banking can do a lot to help under all sorts of circumstances. "How do we structure it so that it is properly done and workable and will not make us lose?" You will do so many different things if you have this different sequence and order of priorities, won't you?"

Fitts: The thing I think has been successful for them is that they're focused on productive activities. How do children get an education? How do we have schools that are functional and work? How do we grow a crop? How do we, as a state, produce and export crops? How do the business community thrive, and how do we protect the banking community so that it's functional and solvent, including small banks?

Werner: That's right.

Fitts: We did a great interview with you on plunder capitalism, and we went through case studies of how the central bankers moved in and wrecked an economy so they could pick up assets cheaply. Austerity by the ECB, German, and French banks was a way to plunder Southern Europe. How does the state bank stop that kind of plundering game from going on?

Werner: The culture is the decision-makers considering the original goal; what is the goal? We want to ensure that North Dakota is a strong economy in the long run, businesses have what they need, there will be sufficient investment in productive things, education needs to be supported, and so on. It's the priorities; the decision-makers have that in mind and then use the power of banking and the power of having a state bank to get behind these objectives. Then it's quite natural, and, of course, at the same time, they are professionals, and they know the banking business so that you make sure you're not going to make losses, but these are your real objectives.

You are essentially a development bank that is developing and securing the state's long-term future in all its dimensions, so you have a much bigger remit, really, and not just, "Oh, let's make money." Or, "How can we maximize next quarter's profits?" It's not their priority, but if you do this well, and in the long run, if you have this different remit, you will find that the state bank will be financially sound and profitable, and everyone else is as well.

Participant 1: "The bank's primary function has always been to serve as a depository institution for political entities, counties, the state, and state-owned institutions. This is still the main source of its deposit base. The role has not changed over the bank's history, but it has changed, especially on the lending side."

Participant 2: "50 million."

Participant 3: "The first one on the first page is to continue to be the primary facilitator for loan participation with North Dakota Banks."

Participant 1: "Since the 1960s, the student loan program, commercial lending programs, agricultural lending programs, and even entrepreneur and new business have been more of a venture capital function. Now, all of that has been allowed under the original legislation that was passed back in 1919. It seems that no one has had to go back and invent this institution. All its powers were created then after a period of penance, of course, for the sins of the 1920s, and it probably has paid for those sins; I would say it's now rediscovering its original potential."

Participant 4: "The Bank of North Dakota has grown and changed many times, but it has not strayed from the original plan laid down by the Nonpartisan League."

Participant 5: "They behave like a bank, but with an economic development mission, which is the neat thing about the bank in North Dakota that's still part of that whole NPL route that was put down in 1919. Way back then, I think it was really the intent of legislators who created the Bank of North Dakota to create a bank that would help agriculture and commerce, and industry and help the development of those sectors of our economy. There may have been a time when the bank drifted from that, but I think it's there today."

Participant 6: "My view of what the bank should be doing is that I came to the bank in 1993. I would encapsulate it by saying the Development Bank of North Dakota. My view of banks is that they are to lend money to people, whether it's to start a business, to buy or expand their farm or ranch, to buy a home, to get a school loan, whatever it is, that a bank is successful if it does a good job of lending in its community that helps the community grow and prosper, that's what makes the bank grow and prosper. That's my philosophy of banking, I guess."

"When I came to the Bank of North Dakota, the total loan portfolio in 1993 was $200 million. When I left there, 7 years later, it was $1.2 billion. That's $1 billion over that timeframe that we invested in North Dakota Farms and businesses and homes and students and all those kind of things. Ultimately, and its reason for being is to serve the citizens as the development bank, help invest money in North Dakota so that they can grow businesses and farms and build homes, and get an education."

Fitts: You can tell it takes time to grow it, and starting a bank where the treasurer's office does many of those functions, the Bank of North Dakota has approximately 180 employees. If the treasurer's doing many of those functions and you want to leave them in the treasurer, you can start very small.

Werner: Yes, I think so.

Fitts: Let me turn to **economic benefits and risk issues**. One of the risk issues is that states generally have rules about compensation and personnel. If you want to attract people in the banking industry and are competitive in the banking industry, you may want to have a separate compensation schedule. Have you ever looked at or thought about that?

Werner: That may be the case, but when I had this issue, and in fact, it was posed to us by the UK financial regulators in a formal meeting. They said, "Oh, we look at your projections for your community bank proposal and the cost breakdown, we see that you have very modest salaries for your senior and top executive." We said, "Yes, they are modest, but we're confident we can hire people for this." Then, soon enough, we get a letter saying, "Hire those people," i.e., "We don't believe you. See if you can hire them."

Of course, at the same time, by hiring them, the regulators were increasing our costs because the earlier you get the whole full senior executive team in place in the C-suite, costs will really go up, and you'll run out of money quicker. That may also be an angle, but they wanted to see whether we can do it.

I recruited in Germany where there was absolutely no problem, with many applicants. They all thought, "This is an exciting idea. Start a German-style local bank in the UK. Oh, that'd be great. Do that for a few years, get the experience."

To them, it was quite exciting, but also, at the same time, the ECB is forcing the community banks in Germany to merge, so you do have room. People feel they're more superfluous and maybe they are being asked to leave because of all these mergers of community banks are happening under ECB, European Central Bank pressure.

In any case, we managed to hire the top suite, the senior executives, with no problem. There are no bonuses, just standard salaries considered by the UK state as extremely modest. It was not a problem.

These are people who are trained bankers but are highly motivated by the objectives that we discussed. That's really who they are. They are always looking at the bigger picture, and they realize banking greatly contributes to society. If you do the right type of banking, it's a fantastic contribution to society because you are allocating resources.

Fitts: If you look at a successful community bank and the people who run it, it's a fun job because they're very intertwined with the community.

Werner: Exactly.

Fitts: They see what's going on, and they learn. They are an absolutely fantastic local resource on financial literacy and what's going on in the eco, and they understand the local economy.

Werner: Exactly. What are the trends? What's happening? Once the local bankers do this job, they realize their role. I think it's very satisfying as a job because there's a need, you are responding to the need, and you're helping, but at the same time, it's more than that: You are actually an integral part, maybe even a catalyst for all sorts of positive developments, new developments, always funding new innovations, technologies, and all the various developments so you can see how people are motivated.

Fitts: If you go through the Bank of North Dakota's website and their loan book and their loan, the more we ask them for briefings, the more they put up on their website. If you look at all the projects they're dealing with, it's a fantastic and highly complex portfolio of projects that are very interesting and, I think, very satisfying because they're all so fundamentally productive.

Werner: Exactly. In Germany, this has been realized by those working in the corporative and savings banks already for the last 150 to 200 years. They've established training centers. There's even a university that is owned by the corporate sector. The senior executives go on regular training programs, as well as juniors at all levels. If you want to be in a leading function in the bank, then there's a certain program you must do, and they all speak very highly of this, so I'm sure part of this training is this realization that you are contributing important things to society. Then, in places where you don't have that, there is a very stark contrast. The economy will perform differently.

Fitts: If I'm starting a state bank, how do I capitalize it? Do I need an appropriation from the legislature to get it going or to capitalize it?

Werner: I think, yes, but the important thing to realize is it may be easier to get the money than you think because we have to look at the details, how this is done. Often, there are different resources you can use, and the chief financial officers would know this.

The budget is part of the resources that are fought over and, therefore, very competitive and difficult, as well as politically, where there are many opponents with different emphases. The money should not come from the budget. It should be possible to use the money from other state sources such as what is called reserves or capital expenditure, a long-term investment that is not from the budget. There are such resources, and that's really what it is.

Fitts: You make it an investment from the reserves?

Werner: Exactly; an investment from the reserves. In fact, it should be part of reserve management. The finance director would know about this because there are people focusing on that, and they can buy bonds and stocks, whatever, and invest outside the state.

Of course, they will usually have a bit of a bend where you want to support the state with these investments. Certainly, this is the case here. It should come from their long-term reserve management and investment. This is a profitable investment.

Fitts: You could set it up if you wanted it to be not permanent. If you don't want an equity investment, you could set it up as a preferred stock or debenture and pay it out over time. Of course, once the bank is set up, it can start making loans and just creating money out of thin air.

Werner: Exactly. This is the other thing that's often neglected when you analyze these: by having more local banks and having a state bank, you are literally adding to productive capacity, and you are creating new money that is used to put that productive capacity in place, which is why it's non-inflationary and you get growth and prosperity and job creation. There's no downside. What's there not to like?

Fitts: It seems to me, if you're trying to write the authorities for a bank, both for what loans it can make and what services it can make, you'll need to make very clear the intention is to support and not compete with the private sector. You're going to have to set up the advisory board and the board so that you have sufficient oversight and direction that you can leave a lot of flexibility to the bank and the bank management subject to the review and input from the advisory board and the approval of the commission.

That means that, over time, the advisory board, the legislature, and the bank will evolve together. I return to what we keep hearing: That's why the culture is so important.

Werner: Yes. I agree.

Fitts: As somebody who's cleaned up a lot of financial fraud, and I cleaned up a lot of fraud from the SNL crisis in the '80s, the culture was the opposite. 'Oh, the mess they made'.

Let's talk about a couple of **risk issues**. The biggest risk issue is that the Bank of North Dakota is totally dependent on the Fedwire. Even though you might not have the FDIC in there or the regulators asking you to do all sorts of social credit compliance, you depend on the central bank's electronic wire system. I don't know anything about telecommunications in the state, but you're probably dependent on telecommunications providers outside the state.

One of the issues that's increasing these days, not just in banking, but in many functions, is if our digital assets and digital transactions operate on an electronic system, do we need legal and operational independence in those systems within a state? I believe the answer is yes, but that's a big new scope of work to contemplate for a legislature.

Werner: Yes, that's true. I would agree with that. Essentially, if you can create the basic framework of a local alternative system that you could switch on quickly if there's a problem with the Fedwire, that would be good planning and in everyone's interests. Because it's local on the state level, it should be possible to set up something. Also, the advantage of local banking and local banking relationships is that you can fall back to basic analog records.

Fitts: Apparently, they had their own check-clearing system before they went fully on the Fedwire, is my impression from listening to them. When you talk to a banker, they can't conceptualize that there would be a problem with the Fedwire, but to me, the Fed fast payment system, FedNow, is voluntary. If it should become non-voluntary, then I envision a day when the Fed system could become a problem.

Werner: Absolutely. You've seen the Fed's motives and actions, and often, they've been anti-bank and anti-small bank. Then, situations can arise where the Fed's actions are problematic. It will be a lifeline to small banks if you have an alternative system, and as the state bank, it will be an ideal location to operate that.

Fitts: Right now, the Fed is under the jurisdiction of Congress and subject to the Constitution. We're just about to publish a new series by John Titus, and he's absolutely of the belief that the Fed wants freedom from the Constitution and congressional oversight. If that day should come, I do not want to be dependent on the Fedwire.

I like resiliency. If you look at the disasters, if you look at what's happened around the world, I don't know if you saw this, the governor of the Central Bank of New Zealand gave a press conference after the cyclone a couple of years ago, and he said, "Thank God we had cash."

John and I on *Money and Markets* said, "I guess he didn't get the memo." The Norwegian central bank has just come out and said, "We've been moving to cashless, and now we're going to reverse that because we're looking at what's happening in these disasters, and we don't want to be dependent on electricity and have the whole system go down."

Werner: Absolutely. I've seen it recently at a university. I was giving a lecture, and certainly, they had a power cut. In that part of town in Europe, it seems to happen. Then, because they'd gone already cashless, that's the end; you can't pay. I took the students to a local pub across the road. We had to leave the building because nothing worked. Then, fire security, they all said, "No, you have to leave now." I wanted to finish the lectures.

I went to the pub, and the pub asked, "You've got cash; that's fine." I had some cash with me-and that was it.

Fitts: There you go.

Werner: During that crisis, if you don't have cash, you've got a problem. Cash is the system we already have, but we should make sure we don't lose. Otherwise, we're on the verge of losing it.

Then, by having local banks and a system, and with a state bank in the background, you can actually set up financial instruments from scratch. You can even go back to something as simple as the tally stick system because it's forgery-proof the tally. Just wooden sticks with notches, and you split them forgery-proof, and the bank keeps one, the other one circulates, and so on. All writing records and two signatures show that these systems are workable on a local face-to-face basis, and that's really what money is. You don't need anything else. Even with cash, one could produce just a promissory note, even written in hand by the bank manager, and will do the job.

Fitts: You can always clear by Pony Express if you have to. I wanted to bring up two ideas: one that you introduced and one that I loved that could or could not involve the state bank. One is that the Treasury Department has a capacity called Treasury Direct, where retail investors can go to the treasury website and buy treasury securities directly from the treasury.

Having been an investment advisor for 10 years, I don't know an investor in a well-capitalized and financially solvent state who wouldn't love a North Dakota Direct or a Tennessee Direct, where they can go to the treasurer's office or the state bank and buy state bonds or even bank bonds directly and not have to put the money in a Wall Street brokerage firm. That's real custodian diversification. I want to put a plug in for a state-direct bonding capacity. If a treasurer's office is not doing this, it's something that the state bank could do as an independent agency.

The second thing is that you introduced me to the idea of selling bonds to local banks, which I had never thought of. Could you explain that?

Werner: Yes, of course. What has happened, of course, is the opposite. That is the centralization of everything, and then you have Wall Street and the underwriters involved in fundraising. You can completely change the economic and macroeconomic impact of fiscal policy and government spending by changing the funding in a very small way by moving from the standard bond issuance to getting the treasury to borrow.

Ideally, the best is if you also change the formal construct from a bond, which is tradable to a non-tradable loan contract because then you have the advantage that the banks don't have market-to-market. Loans don't have to be market-to-market. You can't get, for example, speculative attacks if the Wall Street speculators decide to attack state bonds. If they're tradable, they can short-sell them. They can do all these things to manipulate the price and create a crisis situation.

It has happened many times in Europe, including in the 2010-11 sovereign debt crisis. This is where I went from Spain to Greece, explaining to the treasuries, the finance ministries, and debt management officers to stop issuing these bonds. You're putting yourself into the hands of these speculators attacking you. The interest rates were 'crazy'. There were double-digit percentages. For Portugal and Ireland, they were already more than 20%. For Greece, they were already, I don't know, 30%, 40%, 50% shooting up in this crisis.

It doesn't make sense to borrow in the bond market. You don't have to because the interest rate, the prime rate for prime customers to borrow from banks, stayed at 4% during that crisis. Also, in Greece and Portugal, it never really went above 4%. The treasury, the government, and the debt management office should borrow from their own banks, and the same is true in the United States on a state level.

Fitts: The banks can create the money out of thin air.

Werner: They're creating the money, exactly. Now, of course, that's the magic key, where this is not just sensible because you're not giving your opponents the powder to shoot at you by having these tradable bonds, which is advantaged by having a loan contract, but it's also new money creation. Then, you're monetizing fiscal spending as long as your government expenditure is used for useful things. Paying salaries, supporting education, and building roads and bridges are all productive things. This is not inflationary. It's contributing to the functioning of the economy. You've got more purchasing power, but you're contributing to the function of the economy. Therefore, you will have contributed to the creation of goods and services, so there's no inflationary pressure from that. You are getting non-inflationary real growth from this and job creation.

Fitts: You're providing a stable income to your local banks.

Werner: That as well. Exactly. That also was my argument when Spain and Greece were in a sovereign debt crisis; the banks were in trouble, and the states were in trouble because they were doing it the wrong way. If, instead, the government borrows from local banks, the banks will have the best business with the best customer, the state. They can grow out of their problems by having revenues. They're creating money; the economy will expand, transactions will increase, turnover will increase, and tax revenues will increase. Therefore, the debt to GDP and the deficit GDP ratios improve because the deficit and the debt are not rising anymore; they're going down, and the GDP is going up. You're helping everyone. You're solving all the problems, and that's the way out.

It’s a phenomenon that we've seen in the last 30 years, namely that government spending, that's true on national and state level and everywhere, the effectiveness of government spending and a positive effect on the economy, so measured by GDP effect, for example, has gone down significantly in the last 30 years, down and down and down.

We used to be taught in introductory economics that the fiscal multiplier, Keynesian, is a very simple idea, but an interesting one that where the government spends, there are multiplier effects, we're told. There used to be such a multiplier, around two or two point something, then it went down to one point something, but in the last 20 years, in most countries in the world, it's now less than one. Economists still talk about a fiscal multiplier, but there isn't one; there's a fiscal compressor, and there's a fiscal reducer, not a multiplier.

Why has fiscal policy become so ineffective? Economists never understood the banking system. Fiscal policy effectiveness is a function of the degree to which the banking system funds it through credit creation. You can only grow if there's bank credit creation. That's the system we have. In the past, when we had more banks, smaller banks, local banks, and all types of activities, there was higher coverage through credit creation, and that's gone down.

Fitts: It isn't part of that because the banks are underwriting for productive functions, whereas government money is like a financial method for destroying culture.

Werner: Yes, exactly. There are all sorts of bad things happening, such as fraud and money disappearing. That's also happening. Of course, that's another reason there's policy ineffectiveness. Just the banking factor, the coverage from banks is sufficient to explain a big part of this drop in the fiscal multiplier and the effectiveness of fiscal policy. We can immediately increase fiscal policy effectiveness. The stimulus you get out of this is the positive GDP effect you get from government spending by funding it through borrowing from banks through long-term debt.

Fitts: We're contemplating the legislation's ability to allow the bank to serve in syndication or underwriting capacity for the state.

Werner: Exactly.

Fitts: That we want to be able to do that.

Werner: Absolutely. That makes perfect sense. Then, it'd be very easy to structure it so that the community and local banks chartered in the state take up as much as they want. Essentially, to them, it'll be a very attractive option, and they will be interested in doing that, and it will be part of the portfolio.

Fitts: It's been very interesting for me because when you talk to the North Dakota Banking Association: We had a wonderful conversation with a person who runs the North Dakota Banking; you see such a warm relationship between the banks and the Bank of North Dakota. Whereas in Tennessee, when we've brought up the idea of a sovereign state bank, the banker's 'hair goes up', and they're like, "Ugh," and there's a real fear of government competing with the banks, whereas if you look at North Dakota, it's the opposite. They're there to protect the banks, to support the banks, and to not compete with them.

For many years, I've been very negative about the idea of local public banks. Ellen Brown, who I consider a colleague and a friend, I'm like, "No, no, no," because the idea of government credit coming in and competing with a local community bank or credit union is the death of the economy, but a wholesale bank at the state level that's supporting all the local banks, a wholesale public bank dedicated to a thriving local bank community is a very different 'kettle of fish'.

Werner: Because it's in line with the key principle here: decentralization. The principle of decentralization is a very important one, but it is still completely underestimated, and many people do not recognize its importance. Any human organization or any human activity where people must work together benefits from having a decentralized structure as opposed to a centralized structure. That's my experience and a result of my research on this problem that we have to keep in mind.

Fitts: Risk issues: Any other risk issues we should bring up about people in the governor's or the treasurer's or the controller's office who are writing legislation or people on the finance committee or other committees at the legislature writing legislation.

Anything else you would advise them on how to organize this? I think we're saying we want a fair amount of flexibility between the state and the bank board to craft the details of what they do and how they do it and when they do it, and evolve it over time. Is that fair to say?

Werner: Yes, I think so. It should be flexible; therefore, you don't want to prescribe every detail. Keep it simple, keep it short, and have leeway for all the institutions to grow together, as long as the fundamental principles and the principle, in particular, of supporting local banks, should be spelled out, and then people should live that. As long as that is in place with a few key principles in place, then I think it can be very general in other clauses. I think it should stay general.

Fitts: We haven't talked much about credit unions, and I'm assuming they support both the banks and credit unions in North Dakota. In some states, there's a lot of tension between the credit unions and the banks because credit unions are coming in and buying up banks. If those tensions are in your state, it's one of the things you'll have to think through, but it's very much state-by-state jurisdiction.

Werner: It's a fundamental question. What actually is the difference between a bank and a credit union? It does depend on the country. I'm not sure whether there is much difference in the US. I know that in the UK, credit unions are very different from banks.

They've been kept by legislation, and the City of London's influence has been from banking, particularly banking, to businesses. They're essentially not allowed to lend to firms. They're only allowed to lend to individuals.

That's kept them extremely small, but I think that's different in other countries. I would've thought they were like a local community bank in the US. It would be interesting to compare and see if there is any difference left because then it's just a name and maybe some tradition, but credit unions, I would've thought in America, have this tradition of looking at the community and having a bit of a community focus.

Fitts: They're much more of a bank for individuals as opposed to a bank for business.

Werner: If that angle is there, we have to be careful because it's very important for local and community banks to lend to businesses. That, in fact, should be the core function. If credit unions still want to do that or are not allowed to do that, it's a problem because if you're just involved in consumer credit, that's not even productive. Of course, some consumer loans are used by people for business investment, whether that is the official intention or not.

That's a good thing because the money creation function should be linked to productive activities, a contribution to society, and to the economy, and therefore, business lending is the best form of lending. It's also the least risky form of lending. There have been problems when there's too much consumer lending, and there have been many problems and banking crises when banks lend to purchase ownership rights.

Assets, whether real estate property or anything, financial assets, don't matter; that creates asset inflation. Consumer credit creates consumer price inflation, but business lending for business investment creates growth without inflation, without problems, and without crises. There's never been a banking crisis due to too much lending to small firms for business investment.

Fitts: That's an excellent point. In 2024, I read two excellent books on private equity. One is *Plunder* by Brendan Ballou, and the other is by Gretchen Morgenson and Joshua Rosner. It also uses *Plunder* in the title, but they are two excellent books. One of the things it helps you do is step back and look at a state, both a state government and state pension fund and reserves. You realize state pension funds finance them. So much of the alternative investment to private equity comes from state and governmental pension funds. You realize they are paying and investing in a group of firms destroying their tax base.

Werner: I know. This happens a lot, sadly.

Fitts: You're paying pirates to destroy your economy. Why are you doing that?

Werner: Exactly. That's the other thing. Returning to the earlier point, one should fund the capital to create a state bank off-budget from other sources such as capital expenditure or reserve management. Of course, then there is also the state-level pension fund. They should also be invited to invest because it's in their interest in the long run, and they would use the state-level money for something good for the state and all the people who will get a pension there.

Fitts: Some of the Scandinavian countries have done this, but if I were the governor of a state, I would also set up a commission to look at the entire state economy and say where are we putting our resources, whether it's our equity investment or our debt investment or using our credit, and what is the relationship between where our money's going and what's happening in the economy.

You'll discover that through this process of centralization, whether through private equity firms, the federal government, or the central bank, you're basically participating in the destruction of your own economy. That must be reversed.

To a certain extent, yes, I can do a bank, and I can do this, and I can do that, but it needs a complete rethinking of how you deploy capital because, in fact, we're coming into a period of unbelievable change, and there are amazing opportunities to take advantage of new technology, for example, in agriculture.

I'm in North Dakota; I don't know if you've seen the LaserWeeder yet. You have a group of people, I think they're in Seattle, who created a new piece of equipment that can destroy weeds with lasers, with no pesticides. I don't know the environmental impact, but let's assume it turns out to be okay. You're avoiding pesticides and manual labor for weeding. You have a machine that will weed without pesticides. Imagine the opportunity there if you can make it economic. We have this explosion of new technology that creates all these really exciting fundamental business and industry opportunities. Maybe we should deploy our capital in that way instead of on plunder.

Werner: Exactly. Essentially, these are developments in the past where the New York bankers and centralizers managed to get into the states, and more or less, corruption was going on there to distort asset allocation and change their focus. When these things happen, they also wrote strange clauses into the constitution, like in Tennessee, that, "Oh, you're not allowed to own a bank. Why not?

Fitts: I'll tell you what scares me; I will look at a state pension fund. I looked at the California funds because I was doing a story on *Money and Markets.* The drop in liquid investment for alternative investment is frightening. It's particularly frightening because if you get a rough patch in the economy and only you can sell your liquid investments, you have no liquidity for all the private equity investments. You could see the entire pension fund as a prisoner of private equity. It's unbelievable.

I just watched a presentation by one of the heads of the largest private equity firm, and we're going to tear this apart in the next *Equity Overview* on *The Solari Report,* which talks about why private bonds are just as liquid as public bonds. Basically, they're proposing to move in and replace big pension fund portfolios with their private bonding. Now we're talking about even further drops in liquidity.

If I were the governor, I would also have a commission to look at the whole 'shebang' and see if the whole shebang is getting picked over and playing the patsy repeatedly. Tennessee has all its pension funds with one custodian, way outside the state. I would not sleep at night.

Werner: Exactly. That's very risky.

Fitts: I think that the time has come for states to say, "Okay, how do we step back and make sure our capital is being deployed so that the state is as successful as possible in the long run?" Scandinavian countries have done it, and other countries have done it. There's no reason a US state can't do that. Anyway, that's my pitch.

Werner: That's a good one to summarize the whole discussion because there is so much states can do, and they need to look after every responsibility and the people in this state. That means they have the responsibility to do this. They would not be doing their jobs if they were not actually now saying, "Okay, what are the resources in the states on the state level? Are we deploying them properly? What should we be doing?"

I think it includes setting up a state bank that backs all the state-chartered local banks and small banks and, therefore, all the businesses. Most employment is with small firms, and they're dependent on the local banks. That's the reality; that's the responsibility. I think that with recent years, states have taken very different policies. I think more people are thinking about this; one must go back to the basics and ensure that state governance is taking care of the key priorities for the state.

Fitts: Richard, walk us again through how we find your *Substack* website. I know what's going to happen. Many people will listen or read this and say, "How do I find and connect with Richard?" I know you're busy, but walk us through how we connect with you.

Werner: Subscribe to my *Substack*. There's a new one coming out, hopefully soon. That's rwerner.substack.com for Richard Werner. Otherwise, also follow me on Twitter, I've got scientific con, and the second one is Professor Werner. There's a third one, DrRichardWerner accounts, and Telegram. Follow me on Telegram. I have a Telegram account. For academic work, I've got a website called professorwerner.org, which has all the academic journal articles and book references. My book, *Princes of the Yen,* is available on quantumpublishers.com. Amazon discontinued it.

Fitts: It's my number one recommendation in the central banking space. It doesn't surprise me that Amazon threw it out.

Werner: There's also a website called richardwerner.org, where I try to link it all together and have further links and ways to get in touch. I think that's the summary.

Fitts: I know we had you come to Tennessee, and you met with some of the legislators and leaders, and it was very, very productive, so I hope we can get you back.

Werner: It was a great experience; I'd love to do that again.

Fitts: You have shooting practice in Appalachia, right?

Werner: Exactly. On the ranch of a Senator, and it was great. It was good.

Fitts: They're wonderful people.

Werner: I wasn't a bad shot. I think I did very well, and they were impressed.

Fitts: Ladies and gentlemen, thank you for joining us on *The Solari Report*. You have a wonderful day. Richard, again, thank you.

Werner: Thanks so much. Great talking to you. Thank you for having me.