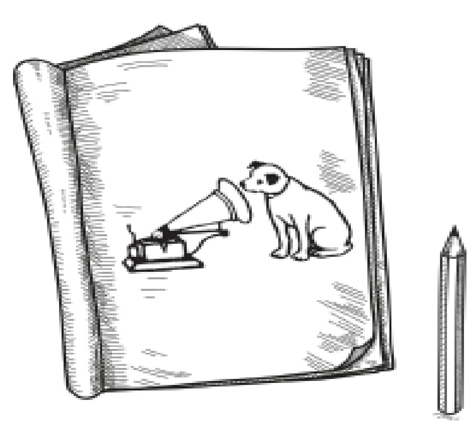
Monthly Briefings for State Leaders: Sovereign State Banks with Prof. Richard A. Werner

February 21, 2025

Transcript



Catherine Austin Fitts: In my opinion, Richard is the leading expert in the world, an academic expert on central banking and banking, and has the best formula as to how to move forward. We'll go through his bio in just a moment, but let me just say a few words of prayer:

Gracious heavenly Father, thank you for the ability to have this time with Richard Werner to talk about how we can help our people and society move forward in the best and most productive way. We thank you for your support, help, and divine intervention. We know where two or more gathered in your name, there are you, and through you, anything is possible. We certainly hope that whatever we do in terms of the financial system and banking is in alignment and in keeping with your purpose. In Jesus' name, we pray, amen.

Richard Werner: *Amen.*

Fitts: I want to first introduce the *Solari* team. We have Tim Caban, who is helping me as a co-host on these briefings. He will lead the briefing for gold and silver for the precious metals model legislation next month. He is with us today and always has great questions. Our general counsel, Carolyn Betts, is here.

Elizabeth Murphy, who leads our State effort. If you want to arrange a briefing for you and your staff or to be part of one of these briefings, just let Elizabeth know. We're not going to call on her too much because she apparently has just gotten laryngitis. There's too much talking at the State House this week.

Then finally, Ricardo Oskam is managing the slides. When we get to Q&A, Ricardo will repeat all the questions. He'll be following the questions. You can add your questions or comments to the chat. You can also ask to come in and speak if that's what you prefer. So Ricardo will be managing the slides and managing the chat and the questions.

Richard is German by background. He studied in the UK at Oxford. He is the author of, I think, one of the very best books on central banking, *The Princess of Vienna*. I strongly recommend it. He has tremendous experience both in academia and in the investment community as well. You can see this in his resume. It will be on the slides—next slide.

We have a wealth of information at *The Solari Report* of interviews with Richard; great interviews. I don't know anybody better to explain how policymakers can organize state or local finances to build wealth and build economic

development. He's very strong, and we have a series of interviews on that. One of our favorite pieces is a piece he wrote for Tennessee called, *Why a Sovereign State Bank Is Good for Tennessee*, which is highly pertinent, in fact, to many different jurisdictions.

We are excited. He's about to publish a new one on why it's good for Florida. We're looking forward to that. We will make sure the participants get a link to that one. Richard will publish it, and we will have it up on *Solari*. Today we will discuss organizing a sovereign state bank, why you would want to do it, and the structuring questions. Then we will have plenty of time for Q&A. Richard, I will turn this over to you. Take it away, and just let Ricardo know when you want the slide to be changed.

Werner: Thank you for your kind words. It's always a pleasure to work with you on this particular project, which I hope and pray will be fruitful, and all of you will help us, and we can all work together in actually realizing this. I hope by the end of it, at least, you will agree that it's an extremely good proposition with no downside but so many positives, so many upsides, and so much potential.

We are only going to talk about some key positive aspects because there are many other positive reverberations if one follows this line of policy of strengthening small local banks and creating a sovereign state bank, which itself is backing and supporting small local banks.

We will start out talking about sovereignty and money creation, and liquidity. On the topic of money creation and liquidity, particularly if you're talking to other stakeholders and you're introducing them to these concepts, keep in mind that some people who have not thought about this are just taken aback when they hear about the truth of money creation.

You want to bring up that argument later at the very end of this, or you can even leave it out because of the long list of advantages of having a state bank and having strong local banks within the state; the list is so long, and they're already extremely convincing, in my view, on their own. Obviously, once you realize about money creation, it's just such a no-brainer. It just must be done, but it's a bit of a hurdle.

I found some people who haven't thought about this, but I think this audience, at least, will be reasonably well acquainted with the importance of the monetary

system and the money creation process. I will talk about it, and, of course, we will discuss how it's linked to all the other points. There are the benefits of the state bank and the state bank structure, which has some key principles. Of course, there are several important functions which make it so attractive to have a state-level bank.

Let's start with a few charts and some data. The reality that we are currently experiencing, and there are a few more charts on this, is that in the last three to four decades, some negative trends have happened and continue now, if we don't step in, it clearly will continue.

Namely, the number of banks has declined and will continue to decline. There are various reasons for that, but clearly, the regulators have played a key role. We're talking about the central regulators, federal regulators, the Federal Reserve Monetary Policy, various bank regulation agencies, FDIC, the Federal Deposit Insurance Corporation, which have been involved. It's a reality. This has implications. We are already noticing the results of that.

America has the blessing of having the largest number of banks globally. Sadly, of course, the number has shrunk a lot, and now it's only a fraction of what it used to be. Still, it remains the largest number of banks. When you look at the different types of banks, you notice that it's really the small banks and the smallest banks that lend to small firms.

Here, you see on the right of the chart banks that virtually all of their corporate lending goes to small firms, of course, the small banks. Large banks don't lend to small firms. There are many reasons for that. The most important one is the reality of the banking activity. The job at hand sometimes involves some resources, some costs, and people looking at loan applications.

Let's say you're a banker and you have a loan application from a small firm, and at the same time, you have a loan application from a very large firm. The amount of time it takes to examine these properly and do your job properly is actually similar, and in many ways, it could be larger, it could be more time and more effort for the small firms for various reasons.

When you have a choice, banks clearly are in a competitive market. They must do what makes the most commercial sense. This has a corollary. Basically, this is the reality that large banks lend to large firms and for large deals. We find that

small firms only really get good bank funding when you have an economy with many small banks. That's where we have a problem because the number of banks has gone down, and it's not the big banks that have disappeared; it's the small banks that have been declining in numbers. There are now fewer small banks, and those that used to be small are getting bigger due to mergers, and as a result, lending to small firms has actually gone down.

In many countries, the banking systems have been getting more concentrated. There are some common international factors, but they do involve the role of central banks and their coordinated policies, which are somewhat similar on certain points across the globe. In most countries, we've experienced a decline in the number of banks and small banks, so small firms and medium-sized enterprises have been finding it harder to get funding.

There's this clear econometric evidence that as banking systems get more concentrated, which is what's happening in the US and on the state level as well, the share of bank lending to small firms goes down. The only exception if you go back a little in history has been China, and I'll come back to China for comparison. It's quite a good comparison because they came from the opposite extreme.

Only four decades ago, China had the most concentrated banking system in the world. Why? They only had one bank. It used to be a Soviet-style central planning system, and you have only one bank. The Soviet Union had Gosbank. China, under Mao, had the same system: only one bank. It's an interesting story of how they realized that, but they realized that's a problem. Under a new leader in 1978, Deng Xiaoping, the goal became to perform and deliver high economic growth. They examined what's necessary, and they correctly found out what we're discussing, namely: the more banks, the better; you need many, many small banks.

They switched from a concentrated system to one where they had more and more and more banks. Economic growth just went up, and so they became a system where you had more and more small banks lending to more and more small firms. The number of benefits is extraordinary. One important point I should make is I've been talking about small firms. Why are these small firms so important? Politicians, for example, will get approached by all sorts of firms, and it's also understandable, just like bankers, particularly when large firms contact them, their ears prick up, and what do these very large firms say?

Of course, small firms tend to be overlooked a lot. We mustn't forget that the total employment, the percentage of total employment, small firms are the largest. Small firms are very large when it comes to employment in the US, like in most countries. Certainly, in most of Europe and key Asian economies, small firms and small and medium-sized enterprises account for between 70% and 80% of employment.

You have a very direct chain of causation from bank credit, which inevitably would be bank credit from small banks, local banks, small firms, and the small firms providing employment. When they get bank credit, small firms respond by employing more people who grow and have a much bigger investment multiplier. Giving a certain amount, let's say, $300,000, to a small firm will have an impact on employment and investment. Giving it to a large firm with the same amount has no impact on employment. That's a very important mechanism that feeds into the macroeconomy.

In this chart, you see a correlation between the number of banks and small firm success. We don't have time to go into the details. I'd be happy to talk more about this if you're interested. There's a concept called hidden champions, which are small firms using the international definition of SME: small and medium-sized enterprises by size. These small and medium-sized firms, at the same time, despite being small, are globally leading in their market niche.

The idea is to look at the top positions: gold, silver, bronze, number one, two, or three. Small firms hold the top market share in the world; if you succeed in that, then you are a hidden champion. A champion like the Olympics, gold, silver, bronze. Why "hidden"? Because it's a small firm. These firms are not really known. They're not household names in their market niche. If you're very specialized in that niche, you will know them. Otherwise, they're usually unknown, so they're called hidden champions.

When you look at the world, it's clear that some countries have a very large number of hidden champions. Germany has the largest. Runners-up are countries with similar features, namely Switzerland. Austria is not in this chart, but it's right between Germany and Switzerland. Luxembourg is perhaps another similar one, where you have many hidden champions in absolute terms or per capita. The reason for that is that the banking sector is very decentralized in these places. Many small local banks specialize in lending to small firms. You can't be a hidden champion if you don't get funding, so there's a direct link here.

The reality is, as I mentioned, the number of banks has been declining. It's also true in Europe and across the globe, and it's also true in the US. First, the total number of banks has, in a way, 'fallen off a cliff' from the mid-'80s onwards. What's also happening now is that the total number of branches is declining, coming off very much larger numbers. In some other countries, this is even more dramatic. Next slide, please.

We should mention some of the factors behind this. I mentioned the central bank, monetary policy, interest rate policy, and regulatory policy, which has been very much favoring large banks and placing such a big regulatory cost and burden on small banks that they often see no other way out than to merge. There's even more dramatic government intervention because the previous data from the FDIC reminded me of a study by Federal Reserve Bank economist Ashcraft, which you can read in the *American Economic Review*, a top economics journal, 2005.

This Federal Reserve economist asked this question that only an economist can come up with: what happens when you close local healthy banks? Will this have a negative impact on the economy or a neutral impact? Only an economist can even ask that question because, you see, economic theory, the mainstream theory that central banks are using, says it doesn't matter. The number of banks is not important. Banks are usually not included in the economic models. They use economic models without banks. If there are fewer banks, it doesn't matter; there's no difference. There are many alternatives to banks. There are non-banks, various other financial markets, and direct capital market funding.

The theory says banks don't matter, and you close small firms down. It shouldn't matter at all. He asked that question, and he did this empirical study. Hang on: Where did he get the data? Do we have empirical data on what happens when you close down healthy banks? Who on earth would close down healthy banks? Sadly, there is a big data set from the FDIC because it's been in the business of closing down healthy banks. That's a fact: read on it. He got that data. The argument is that if a bank is in trouble, it creates various causal chains of causations. We're not interested in that in this case. We want a healthy bank; we're controlling for the bank's health. Astonishingly, there is such data because the reality is that bank regulators have been far too eager to close down the number of banks.

As a result, bank concentration has clearly increased, and there are several

measures for that. This is now indicators of bank concentration where you see that the top 5, top 10, or whichever top group of banks you throw together, their percentage share of the banking market has been increasing. The next slide is essentially, by definition, true when you have the number of banks going down. Therefore, it's not surprising to find what we see here in this chart: the community banks, the small local banks' share of the loan market, have also been declining.

Of course, when you look at absolute loan numbers, the green line, you see the business cycle. 2008 initially, there was a bit of a rise, but since then, a secular decline as bank mergers have increased and the bigger banks and alternatives and the whole fintech business, which again was created by regulators entirely top-down, started in Europe. If we have time, we can talk about that. It has meant that small banks have found it harder to maintain their market share. Next slide, please.

When the number of banks goes down, small firms are being squeezed out because they're the only ones that are really championing small firms. The reality is, in economic theory, the theory says, "Oh, it doesn't matter. You can get money from anywhere. Go to the financial markets; go to any investor." The reality is that small firms, and it's well-documented, are essentially dependent mainly on bank funding for external funding, and it's only the small banks that will lend to them.

Capital markets are not interested in them because they're too small. You have very high minimum costs. In investment banking, the minimum fee for any deal is a certain amount; it's not a very small number. If you have a small firm, it's just impossible. You can never generate the minimum fee needed to get all the lawyers and investment bankers going and get them out of bed in the morning. It's not going to happen. That's well-documented.

We see here that as the number of banks goes down, small firms get squeezed out of the economy. That's also true, and this is very painful in terms of employment. They are the biggest employer, and they're being squeezed out, creating a very different labor market. This is, of course, what we've seen in recent decades when you analyze the labor market data and you realize, "Oh, wow, okay." Let's say there are some good labor numbers, and it turns out these are all McDonald's burger-flipping jobs. It's really in the small firms where you had a volume of more skilled jobs, and that's being squeezed out; the good jobs

are being squeezed out.

One piece of evidence that this downward trend in the number of banks is a regulatory decision is on this chart. We find clear evidence that the number of new licenses for newly established banks had completely collapsed, particularly since 2008, when the bank regulators in most countries in the Western world adopted very pro-big bank and anti-small bank rules, even though this 2008 crisis, which is usually used as the justification, was caused by big banks and central banks, so they're the biggest players.

In many ways, this is the trouble in our current setup. The central planners and their favorites, the very big boys, big banks, don't matter what happens. Even when there's a crisis, that crisis will be used to further their goals, to concentrate the system further, even though every analyst would agree that, "Oh, it was the big banks, and yes, we need to, therefore, make sure that banks aren't too big to fail." How come all the regulatory innovation after that resulted in more too-big-to-fail banks and fewer small banks? It's mind-blowing.

When you have a banking system consisting of a larger number of small banks, it's much more resilient to crises. That's another important point. Of course, it connects to when we talk about the small banks in a state, and then how to make sure they're strong when there's pressure, when there's a crisis, whether designed or by chance. It's clear that a system consisting of many small banks is much more resilient to any shock. Sadly, we must prepare for some big shocks ahead, which is why all this is quite urgent.

I think this is a very damning chart. I've spent years trying to get a banking license in the UK. We came up against what was essentially unwillingness to award a license, all sorts of games being played, the goalposts being changed all the time, and the hurdles being raised. Whenever we met the next challenge, they created new challenges. Unbelievable. They're not keen to increase the number of banks is a fact. We need to cherish the ones that we have. We need to work on this and confront this problem. I think, as part of the policy initiatives that we're working on, we should be able to make this public and debate it. We should even turn around that policy and ensure it becomes something the public demands. We want small banks; we want more banks.

My research on the US banking sector also showed that there are more charts than this. These are just a few charts included here. I did a time series study with

one of my doctoral students. This is the usual result, which hadn't been properly established that the small banks lend to small firms and the large banks don't lend to small firms; they lend to large ones. Fine.

Also, we found that over time, this is a longitudinal study of 25 years; as these small and smallest banks get larger, they will even reduce their lending to the smallest firms. It's almost an unavoidable process. It's just the reality of a profit-oriented business. You must be efficient. They always try to lend to the biggest type of customers because that makes sense. As the small banks, over time, naturally get larger, just with economic growth, nominal growth, monetary expansion, inflation, all the nominal variables being scaled up, this happens. From this, we learn that we need to create new small banks because the existing ones will get bigger, and they will stop lending to the smallest small firms. The solution is always to create new banks.

That used to be the policy, it seems. We used to have hundreds of new bank creations in the US per annum. Sadly, that's history, and so we must change it. I think you already get the point about the economics. When you have many small banks, economic performance will be much better. There will be more employment, more stable employment of the right type of skilled, long-term employment. When banks create credit, small firms are the borrowers. Because it's a decentralized banking system with many small banks, you also get more non-inflationary economic growth. You get high growth without inflation and without banking crises, which is the ideal scenario that everyone wants. The way to get this is to make sure we have many small banks, and we also create new small banks and ensure they stay strong. That's one very important reason it makes sense to have a state bank.

The picture here shows the Bank of North Dakota headquarters in North Dakota. It has this unique position that it's currently the United States state with a state-owned bank that fulfills this very important function. The Bank of North Dakota is owned and controlled by the state of North Dakota. Its role is not really to act directly as a retail banker. They have all the facilities, they could do it, and that's important to have all the licenses and facilities, but really, it's mainly acting as the banker to the state. That's a very important function and has many benefits for the state, particularly when there's more concentration and various federal policies are being implemented that are not good for the state. It's important to have your own state bank, but in reality, the main function in

practice on a day-to-day basis has been to be the backup and, in some ways, the central bank of all the state-chartered state-level local banks.

That's why North Dakota is one of the strongest community banks, small banks, and local bank sectors where the small banks have done better compared to other states because there's always been a backup. The Bank of North Dakota has always taken that as one of their core missions, which worked very well. Banking is a network industry because some people say, "Well, hang on, isn't that competition? Wouldn't a state bank compete with banks?" That's a complete misunderstanding.

If you've been in banking, you know that banking is a network industry, and networks thrive when there are more players and more members of the network. Obviously, the organization of the network is also important. Here, the wise organizational principle, the structure was chosen that you have a state-level bank with a public mission for the benefit of the people of the state that includes making sure there will be a thriving local bank, community bank sector. That way, you have obviously the market forces and the markets playing out.

We're not talking about central banking or any socialist ideas—quite the opposite. In fact, if you go back to China, that was the radical break that Deng Xiaoping introduced. Before, it was a communist central planning system. He was a radical, and he was clever about it. His first point is to forget about this ideology. We've had too much ideology. Of course, he was saying that communism is not working, to be diplomatic about this. Let's do what delivers performance, which is a radical break. That's the scientific methodology where you do what works and what is empirically proven to work.

He went to Japan with all his experts, and the Japanese told him that they had achieved a 15% growth for decades. That's what Deng Xiaoping wanted; he wanted to do that in China. The Japanese asked him how many banks he had. One. You need thousands of banks for China, as many banks as possible. That's what he did. He came back from Japan, and he created thousands of local banks, community banks, village banks, savings banks, credit unions, and provincial, and agricultural banks of all sorts. Almost the same number of banks as in the US now, close to 5,000. China then delivered 40 years of double-digit economic growth based on these small banks.

Of course, one mechanism I haven't mentioned, and I commented earlier, is

that one doesn't need to add this in the argument. Still, if you're interested and understand this, and if you've thought a bit about the money creation process, then it's a no-brainer. Where does the money supply come from? Most people think it's the central bank or the government. Governments don't create money any more. The last US president who did that was JFK in 1963. It didn't work out too well for him, and no other president has dared to do this.

The Federal Reserve only creates 3% or 4% of the money supply, and roughly 97% of the money supply is normally created by banks. The banks are money creators. They're not financial intermediaries as the fake economics theories proclaim, which is just a distraction to cover up what's really happening in these economic theories. Empirical reality empirically proven in my published peer-reviewed journal articles is that when a bank gives a loan, the money for the loan does not come from deposits or from existing resources. It's not transferred from somewhere else inside or outside the bank. Effectively, banks have a license to create money. When a bank gives a loan, the money is newly created and added to the money supply.

To realize this is important because when you create money, it's obvious to everyone that this will have an impact. If you're just shifting resources from A to B, this could also have an impact, but it will be small because it's just, yes, you have more here now, but you have less there plus minus zero. When banks lend, it's not just a transfer but a causal factor in many things. There will be a lot of economic responses to money creation.

The most obvious is that if it's money creation or bank credit for consumption, you get inflation or consumer price inflation. If it's bank credit for asset purchase, you get asset inflation. If it's bank credit for productive business investment, that's what we want; you get growth without inflation. That's what Japan, Korea, and Taiwan did, and then Deng Xiaoping wanted for mainland China, and they implemented it. When you have many small banks, they essentially have a higher percentage of their lending that goes to small firms for productive business investments. You get high growth without inflation, without crises. Of course, that's what we want.

I talked about abundance in another presentation that Catherine encouraged me to give a few years back. Economists must talk about scarcity, and they say: Oh, economics is about scarcity. The reality is we can have abundance and prosperity for all. It's actually a lie to say that: Oh, it's all about austerity and

scarcity. It's not true. If we had time, we could talk more about this.

There's plenty of empirical evidence, but let me just say that we can, and China's demonstrated in a very short period, lifting more people out of poverty than anywhere in history in these 40 years of double-digit growth. We can have high growth, high economic performance, and prosperity for everyone, but you must have the right banking system. To suppress this, we had all this fake economics to express the knowledge and the policy conclusions.

It's clear that if you have a sovereign state bank with these double functions, one is to be the banker for the state, and that's quite interesting what you can do there. There are several things, important functions. The second function is to be the banker of all the local banks in the state on the state level. Then, you are essentially creating the institutional framework for prosperity and abundance. Also, you're making it much more resilient from the attacks that we know and have historically happened repeatedly from central banking policies. The central planners have a track record of creating banking crises for their purposes.

Sadly, the fact is that a central bank has a lot of power over banks, and they usually succeed in creating crises and then use that to concentrate the banking system and reduce the number of banks. One of the few ways we can hold against that, short of abolishing the Fed, which is something we should also consider. Anyway, short of changing the current federal system is something we can do is to establish a state bank that backs and sponsors local banks and works with them.

Of course, ownership should be at the state level, and governance should be a part of the governance of the state, including democratic local accountability and auditing. The Fed hasn't been audited. Hopefully, perhaps exciting news: we may get an audit of the Fed for the first time ever, but don't hold your breath. Catherine has investigated trying to audit money flows in various government agencies. What we see now says a lot and confirms, of course, what Catherine had been finding already years ago: all sorts of shenanigans happen.

Basically, it's a principle in a human organization. When organizations get too large, they become unaccountable. Also, they become corrupted by using this word in a very general sense. It doesn't have to be mean and the worst type of corruption. It's just systemically corrupted as if it is distorted from the original aims. It's almost inevitable when you have too much concentration of power,

and there's no more ability to have proper transparency and proper checks because there's so much concentration, that is, the organization is too big. Then, even when there's some willingness to check and have some accountability, it's just not happening because the structure has become too unwieldy.

You know this also from the inside from a British political thinker, Lord Acton. Centuries ago, he put this very succinctly. He said, "Power corrupts." By this, he meant when you're in a position of power and decision-making, you have a lot of temptations. Most people can't handle that; they will succumb to these temptations. That's what we call corruption. Power corrupts. Then he said, "Absolute power corrupts absolutely." He was—surprise, surprise—very much aware of the banking concentration. It was clearly one of the things he had in mind when he said that.

By having a more decentralized system, we can introduce proper ongoing regular accountability because this is more possible on the local level. The more decentralized, the better. Just briefly, there are other functions that a state bank can perform. A bullion depository function has many advantages. One theme behind all these things and the bullion role is another concrete step to achieve some of these goals, which is to create a sound system that is resilient to shock, and attempts to undermine it by centralized powers, whether it be the central bank or some global financial event that may happen.

By having a link to gold, a bullion reserve, and a deposit-taking system, you can go back to the roots of banking. That's how banking started. People deposited gold, they got deposit receipts, and deposit receipts started to be used as money. You can reintroduce this. It allows every state to have what de facto would be an alternative currency without calling it that. You don't have to give it a different name. You can still use dollars. It's not so obvious, which may be helpful to the powers that be. They don't necessarily see that you are establishing what de facto is, which is a local currency.

In many ways, this is another important point, particularly when discussing the pending initiative to have Central Bank Digital Currency. The name CBDC, Central Bank Digital Currency, is a misnomer meant to mislead people. The idea or the suggestion here is that the new thing is digital. Central banks also need to offer this digital stuff. We have cryptocurrencies and Bitcoin, and central banks need to join the game, right? We need something properly organized, regulated, and supervised by the central banks, so Central Bank Digital Currency is

needed.

The reality is we've had BDC, Bank Digital Currency, for many decades. Essentially, as soon as digital systems were introduced, banks were the first to utilize them. The first digital money was bank digital money. It works well. We currently have it. Everyone uses it daily in various ways. Bank Digital Currency is nothing new. What is new? The centralization aspect; the C in CBDC. The central banks now want to get onto the turf of the other banks.

Of course, the result is likely to be further concentration of the banking system, driving banks out of business. Even the threat that all banks will disappear and only the central bank will survive because the CBDCs empower central banks to shut down everyone else, including the federal government and the ability of politicians to decide about fiscal policy and budgets. After all, if you have programmable CBDC, that is de facto your political and economic government from the moment this system starts operating.

I've mentioned that because as we look at what a state bank can do by having the ability to operate alternative systems and maintain the strength of your local economy, and maintain your local small bank-based monetary system, you already have your local currency. Then there's a whole string of policies. Depending on how the central planners go about pushing CBDC, you can then respond quite flexibly with measures that will maintain sovereignty on the state level.

In fact, on this content page, the topic of sovereignty is mentioned first. I've slightly changed the order. Let me just say a few words on the sovereignty issue:

Sovereignty is the ability to decide important things yourself, or for yourself, or your community. Of course, here we're talking about the state level, for states to make important decisions that affect livelihoods and the future of the people in that state. Money is a very powerful tool, and it has been used historically and continues to be used to undermine local sovereignty and state-level sovereignty.

A sovereign state bank is a very powerful response to enable states and give them the institutional framework within the current setup. You do not have to create a new financial system; you’re just creating a suitable institution, which we have already witnessed in North Dakota successfully for a century, that enables the sovereignty that people want for the state level to continue to exist in the

future and to strengthen it.

Yes, what states can do is the 10th Amendment; if something is not prohibited, the state, of course, has the right to do it. Powers not delegated to the United States by the Constitution nor prohibited are reserved to the states. Do we have more?

Fitts: No. Richard, what I wanted to mention on that slide was we've published a complete collection of all the things the state can do, with the sovereign state bank being the lead recommendation, but many other things the states can do to protect financial freedom and in combination with the sovereign state bank would be useful. That's available in PDF at that link. We also have hard copies, which we will send to any government legislator, staff, or executive branch officials. That is available.

I wanted to remind them that the next slide would be available in edited form. If you go to where you can register, you can get it as soon as it's available, but we have posted it, and you can get the link in the chat: the slides from this presentation. We will post an audited version of this, and you can access it from that link.

Those are the slides we had for your presentation, Richard. Some states constitutionally cannot start and own a sovereign state bank, but it would be possible for them to start a bank that was owned privately and just focused on serving the state in this way.

Werner: Exactly.

Fitts: It's possible the local banking community could come together and do the equivalent of a New York Fed for a state if there's a constitutional block, which would not be as attractive as the state owning it, but that's constitutionally not possible. That's one of the things Tennessee has looked at.

Tim Caban, welcome.

Tim Caban: Thank you, Richard, for this wonderful presentation. I have a couple of questions, and I'll let other people ask and come back, but my first question is concerning sovereignty. For example, I know you mentioned this a bit, but maybe you could explain it here. If a local bank, or a bank in a community is creating money by lending it by creating loans. For example, I'm

holding a $20 bill in my hand that says Federal Reserve note. Another example is if I go to my local bank and ask for, say, 30 100$ bills, they might not have it that day, and then they have to order it; my understanding is from the Fed. What does that say about sovereignty if you are lending in a currency that you don't control?

Werner: Right. Thank you for this excellent question, which raises a point that many people are wondering, or versions of that people are wondering about. In response, let me first point out that in the old days, when there was no Federal Reserve, and globally, it used to be true before the rise of the central banks. Let's put it this way: All the banks would issue paper money. In the US, of course, that was so widespread that many people still remember or they've seen the old notes issued by various banks. Now, of course, maybe they have no more value, but a lot is going around, because there were many banks.

At one stage, it was completely unregulated. You just set up a bank just like that. I mean, these were the good old days. This is because when a bank gives a loan, it creates money. It was more obvious in those days because the bank would print the notes with its bank name on them. You are the borrower; here's the money; you're borrowing it. Here it is; it's our paper money that we're lending to you at interest. Now, legally, each of those pieces of paper money are promissory notes. They're securities, IOUs of a particular type. In the English tradition, English law and England remains the unchanged system, so it goes back to the Bill of Exchange Act of 1884.

The paper money issued by central banks is also just a promissory note because the central bank is also a bank. It does the same as banks used to do, except that now there's a new regulation that says the banks are not allowed to do it anymore, only central banks do it, but it's still the same thing. When a central bank issues paper money, Federal Reserve Notes, they are promissory notes, which is a type of bill of exchange, which is a credit instrument, a security of the type called bearer promissory note, because whoever is in possession is the owner and you don't need to prove ownership because you're holding it. The only privileged position is that in many countries, legal tender laws were introduced, which gave a special legal status to these particularly central bank-issued bank notes, but that's why we call the bank notes because it's what all banks used to do.

If you go to Scotland or Northern Ireland, where the revised English legislation

was never applied, Bank of England notes are not privileged there at all. They don't have a monopoly. The normal commercial banks and privately-owned banks in Scotland and Northern Ireland still issue bank notes. There, you can see the history basically live while it's happening.

Now that's the background. With this in mind, when you say, "Okay, I go to the bank, and I want money," well, you've been told you should ask for Federal Reserve Notes, but it's a convention. Even if they're legal tender, it's not clear that anyone can force you to accept them. If people decide we don't want to use Federal Reserve Notes, even their legal tender, it's hard to implement it.

If there's legislation that prevents banks from issuing such bearer promissory mystery notes, then of course they can't. Then what must be investigate this is if you wanted the local banks or a state bank to issue such promissory notes, it may not be impossible to change the relevant legislation to allow it, because the fact is central bank money is just that; it is a Federal Reserve promissory note, a credit note, a credit instrument, but of course, in many ways nowadays, we don't need it anymore. This is what happened with the Bank of England Act of another year in the 1800s. Also, in the 1880s, maybe when the Bank of England outlawed the private banks in England and Wales from issuing their own bank notes, it should all be Bank of England notes except for Scotland and Northern Ireland.

Some people thought, "Oh, the banks are not creating money anymore." Of course, they are; they still are, but it just doesn't take the form of a bearer of a promissory note, of a piece of paper; it takes the form of your bank deposit account from which you can write checks, which is very similar. In many ways, you don't need a state bank to issue its own paper money because there are alternative instruments that fulfill the same function.

Keep that also in mind, but now I come to a very straightforward response to your question. Let's say you do want Federal Reserve Notes and nothing else, and you won't be happy with any alternative local bank entry money, in the account of a local bank or the state bank. Although that may be sufficient for most people, then yes, the banks will have to go to the Federal Reserve and obtain those Federal Reserve Notes. Then, it just becomes a question of logistics. How long does it take to get them trucked over, and so on?

Keep in mind, except for this somewhat slightly dubious legal tender status,

Federal Reserve Notes are just promissory notes. We issue promissory notes when we take out a loan. The loan itself is a promissory note. It's just not a bearer promissory note, so we'll have the names of the borrower and the lender on it, which has the advantage that if you lose it, nobody can do anything with your mortgage contract. It makes it safer for being not a bearer instrument, but otherwise it is a credit note.

Of course, banks can issue credit, and state banks can do so. In many ways, the workarounds. Now, with a gold depository function, we are introducing another angle here and the ability to issue deposit receipts. This is also the line of thinking that JFK followed when he created treasury money, dollar bills, promissory notes issued only by the treasury, not Federal Reserve only, because they were silver deposit receipts. There's a long history, and they still exist. It's just not newly issued, but certainly, a state bank could issue confirmation, perhaps not in paper, but in digital form or a physical record entry form of credit and therefore, also enable credit creation. That's the history of how this money creation came about deposit receipts. Then, when you borrow, essentially fictitious deposit receipts are issued because it's just a record of what the bank owes to the borrower. All deposits are records of what the bank owes. Then when a bank gives out a loan, it creates new debt on itself. That's why banks can create money; it's a limitation if you insist on these Federal Reserve notes, and there may be delays until the bank gets enough.

Of course, there is the lender of last resort function, which is that the central banks are supposed to provide almost any amount if in demand. That's at least, the rationale. They justify setting up the Federal Reserve. On the other hand, if people insist on the Federal notes, you give a lot of power to the Federal Reserve. They can use that to create liquidity crises for banks. Why did Silicon Valley Bank receive no liquidity line from the Fed until it went bust? Suddenly, after the FDIC took over, then they had the liquidity line from the Fed. It's in the hands of the Fed if you insist on a Fed tool because you give more power to the Fed. Does that answer your question?

Caban: It does, Richard. My thought, as you gave me this tremendous answer, is that we need an elevator speech because communicating this concept requires marketing and convincing people. To take what you just said and put it in an elevator speech or, in today's parlance, maybe a meme to be posted, that would be helpful, I would think, to people that work in legislatures that have to

communicate to people that aren't already true believers, for lack of a better word.

Werner: Yes.

Fitts: Richard, we have a question in the chat. Ricardo, would you ask the question about the Fed that's in the chat?

Oskam: There were a couple of questions regarding the state bank and its role within the Federal Reserve system or central bank system worldwide, for that matter, just any central bank system, and how to retain sovereignty within that system if it continues to operate within that. Catherine has answered part of that. You, Richard, in your explanation just now, already touched on that and building alternative systems, for example, using gold or the JFK system, those kinds of systems you've already talked to as well.

For the benefit of the audio recording, why don't I just read Catherine's elaboration here first and then jump to that final question, which is about abolishing, correct?

Fitts: Right.

You want to ask about how the bank is immune to the central bank. I think it's important to understand the role of the Fedwire, the dependency on clearance, and the importance of having independent systems.

Oskam: I want to read, Catherine; what you typed up. You answered this question by saying, "If it uses--" it being the state bank. "If it uses the Fedwire, it will still be subject to Fed control. If it creates independent systems within the state, it can protect the state and the state citizens and businesses from outside influence within the state, including from the Fed, another reason essential not to give up cash and checks."

Werner: Very well put, very succinct, Catherine.

Oskam: We have a follow-up question on that matter where this lady asks, "What if independent systems within the state are mixed up with, for example, CBDCs?" That needs unpacking. That's a bit of a follow-up to that, and then maybe as a third, giving you the ability to answer all of them at once, Richard, as you so eloquently do, the final one to add to the mix is, "If we abolish the

Federal Reserve and the IRS, will we still be using Federal Reserve notes?"

Werner: That one is the easiest to respond. If we abolish the Fed, then, of course, there are no more Federal Reserve notes because the Fed issues them, and they are Federal Reserve credit. Linking to the earlier things I said, the bank money creation is bank credit. That's why the technical term is credit creation, and that's where the money supply comes from, from bank credit creation. Banks create it, but this is not actually legally privileged. It's simply private company credit.

It's only, in reality, a privilege because the banks have a license to take deposits, and therefore, they have the ability through the banking network, and that's why a strong state-level network is important and creates a lot of potential for prosperity. Within this network, you can use this credit creation's advantages because it's fungible. Any company can issue a credit note and say, "I give you credit," or, "I pay this on credit. I owe you. Here's an IOU." Normally, this IOU is not fungible, and it's hard to get others to accept it.

That's what the banking system does; it's a way of creating credit like any company credit that can be created without limit, but it follows certain rules and principles that include risk management and controls and local accountability for the local banks. The money becomes fungible and transferable, and you get all these positive externalities, scale effects, and benefits for everyone. That's, of course, the problem with any alternative system. We see it with the cryptocurrencies. There are a lot of coin launches, initial coin offerings, and various cryptocurrencies.

They're only as good as they're popular and are accepted by many people, which, in reality, is still extremely limited, particularly since they're not used actually for transactions. It's more like an asset. Suddenly, people love oil paintings. You get many stories about rising oil painting prices, and all the auctions are being highlighted in the media. There are phases like that. That's essentially also what all the coin offerings are now. It's a particular asset market. It's not properly an alternative financial system, but it has the potential to be used for that.

Do we need it? We have a much better system, which is already digital currency, namely, bank digital currency in the banking system. Then, we can shape that and ensure that it's always locally accountable and also resilient on the state

level. There are many more possibilities for people on the state level and also for the state-level government to ensure the benefits of the monetary system accrue to the people. That's why doing it through a banking system at the state level is clearly the best solution. You don't hear these innovators talk about that because the agenda behind that is the opposite: all the fintech, cryptocurrencies, and central bank digital currency.

They want to get rid of local banking and state-level banking, and certainly, they don't want states to set up sovereign state banks. Quite the opposite; they want to reduce the number of banks. Banks have been the target of this central planning operation. I think they switched to high gear from 2008 onwards. Although, of course, when you look at the history, it's a much older agenda; it's really moved into high gear since then. That's also why we just need to do the opposite. It's quite clear, they don't want us to do this. That's exactly, therefore, what we need to do.

Caban: I thank you, Richard. This question is about taxation. Currently, gold or silver in the US at the federal level is a capital asset. It's taxed, not like currency, but like stocks and bonds. It's the same situation as currently exists for cryptocurrency, which is also taxed as a capital asset. That presents problems when you try to use it as currency. My question is to think about creating the best solutions and how to confront these challenges.

Even if a state changes gold or silver to currency, but the IRS or the federal government does not, then that could create a challenge that needs to be confronted because of different tax results that could be widely different, and the federal government could use against states who want to use metals as currency.

Fitts: Richard, I wanted to mention that some of the states, when they've made gold legal tender, have also proposed if that doesn't work for purposes of relieving precious metals from the federal tax, that they will offer a credit on the state tax.

Werner: That's one way around it. There may be some other workarounds as well. For instance, often, when a public coin is minted, we would have to check whether a state has the right to do it, but if it's not prohibited, then they, by default, have the right. Then, it becomes a currency, and is treated differently. For example, when gold is in the form of a coin that has the status of currency,

the tax treatment will be very different.

There are all sorts of workarounds, and they will depend on the precise situation in that state. That may be another one. I'm all for minting new gold coins on a state level. That sounds great to me, and it's quite exciting: all the beautiful gold coins you can imagine for each state. We would have to investigate how to make this happen so that they can have the status of currency, which, by the way, doesn't mean that the actual market value will be somehow dictated. No, it's a tax classification by calling it currency, but the value is still dependent on the gold price.

Fitts: Any more questions? Is there anything more in the chat, Ricardo?

Oskam: This is a lengthy one, so I will read it. "If I understand the meaning of fungible money mentioned, is that akin to fiat money and thus fractionated into nothingness? Even gold-backed crypto or dollars are fungible; it does not seem there is a way to have a way to a base value due to the unlimited fractionation. If this is correct, how is any creating of credit, which would seem to be fungible money, a viable solution to sovereignty?"

Werner: There are a few concepts here, so let's try to separate them. First, there's the fractionation concept here. I believe this goes back to the so-called fractional reserve system, a textbook description of the bank money creation process. There are still some textbooks that do mention banks' ability to create money. They will then rely on the fractional reserve explanation.

I've shown in my work that the so-called fractional reserve theory is just plain wrong. It was created as the first attempt, starting in the 1960s. Actually older. It started in the 1920s and continued until the end of the '60s. The fraction reserve theory is quite common. Many people still know this or some textbooks still mention it, but that was just an attempt to confuse matters and cover up the reality that each individual bank can create money.

In the fractional reserve theory, each bank is just a financial intermediary. It doesn't create money, but as the banks interact, there is money creation. You see with step one in the central planners' agenda to cover up the actual reality of banks being able to create money, each individual bank can create money. I empirically showed this and disproved this fraction reserve theory, and so I would recommend just not to use that concept even in this way of talking about

fractionization and fractional because it does go back to this original fraction reserve concept, which is plain wrong.

It was like a psyop: a very complex explanation to confuse matters. The description of what banks do that is correct is the credit creation explanation, which is much simpler and says that each bank creates the money completely out of nothing when it gives out a loan. It's not creating a fraction or anything. 100% of the money is newly created by one bank that gives a loan and 100% of the loan money is newly created. There's no fraction here.

In a way, you could say it's worse than the fraction reserve theory. In the fraction reserve theory, you get the idea that there's only a little fractional money creation and actually by that perspective, the reality is worse because banks create all the money and immediately when they give a loan, 100% of the loan is newly created and added to the money supply. That's the reality. That's my first point on trying to drop the fractional concept because it's just not reality and it confuses, and was actually designed to confuse so we are playing into their hands if we use it.

The fungibility of money is important, but really with the fungibility we mean the acceptance of a means of payment, whether it's generally acceptable because then it's fungible. That's like beauty in the eyes of the beholder; what is acceptable. Usually what's acceptable is what's credible and has established itself. The most established in volume terms, clearly by far is bank credit, which is fungible, because banks have the institutional setup to do all these transactions for you: Create money, inject it, do the transfers as you instruct the banks.

You can also have alternative systems. Presently, the bank credit is not privileged, therefore any company can say, "We also issue credit." That's not illegal; they can issue a credit note. The reality is people may not accept it, and then even if one person accepts it, they can't easily pass it on and use it as general money because they don't have the institutional setup of the banks. There is one hurdle that only if you have a banking license, you can surmount, which is the privilege that you can accept what is called deposits.

We don't need to get into those details. The reality is anyone can create credit, so in that sense, anyone can create money, but it's just not accepted by anyone. Then when you have a community bank and a network of community banks, and backed by the state bank, you have the money creation in the hands of the

local people with the backing of the state that aims at supporting the state-level economy and community.

That creates further credibility, acceptance, but also actual financial and economic stability in a time era where we have central planners that want to create and have a record of creating, again, again, instability, and crisis, and chaos in order to 'rearrange the chairs' and do something that we don't actually want, but the central bankers want. That's really what we should focus on. I think Catherine probably has a much more succinct response on what you just wrote. Perhaps you can read it, please.

Fitts: I was just saying that one of the beauties of having community banks create money through the credit creation is they're responding to a fundamentally sound economic project, which warrants the liquidity, which warrants the money creation. That's how you're getting so much growth without inflation. Now, presumably, it's enterprise activity as opposed to speculative activity. That's why when the large banks do the real estate speculative activity or the crypto speculative activity, you get the inflation and the problems.

I do want to mention one of my favorite videos, which I've never been able to find, was a three or four-minute short, which was in French. It tells the story of a hotel owner. A Parisian comes to the hotel. Have you seen this one, Richard?

Werner: There is an English version; a British version of a pub; it's in a pub.

Fitts: As a man comes in from Paris, he says, "I'm exhausted. I want to go get lunch, but I want to rent a room." He leaves his 200 Francs with the hotel owner and goes to eat lunch. The hotel owner apparently owed the chef $200. He goes to pay off his chef. The chef, it turns out, owes a farmer 200 Francs and he goes to pay it off. The farmer apparently owes the local prostitute 200 Francs. He pays the local prostitute who owes the hotel owner 200 Francs for the room she's been using at the hotel. She pays him back.

The Parisian comes back from lunch, goes up to check the room, goes downstairs, and says, "I don't like the room. I'd like my money back." The hotel owner gives him back his 200 Francs, but they've extinguished essentially 800 Francs of debt in the whole community just through the financial liquidity. It's one of those arguments for community currencies. If you ever see that one, send it because I don't want to keep publishing it again and again.

Werner: The British one had a slightly different number of players and perhaps slightly less colorful, I dare say.

Fitts: It was French. We have a question from Earl. I believe you run the Public Banking Institute in Denver, correct?

Earl: "We have a 501(c)3 nonprofit, and we're trying to generate either a state-level bank in Colorado or authorize local public banks at the city, county, local level. We've drafted legislation that we think is suitable. The more we thought about it, the more we thought that the way North Dakota did it is a good model and I'm glad to see that Richard's model, and I was reading your model for Florida, closely follows that model."

"Some of the things that we've learned from experience are important to keep what North Dakota had is, number one, not be a member of the FDIC. The FDIC was designed to prevent a run on the bank primarily. If you have just one major depositor like the Bank of North Dakota or the Bank of Colorado, you're not going to have a run on the bank if it's required to keep its deposits in the bank. Of course, FDIC insurance has a $250,000 limit, so it really would be of little or negligible value, if any."

"Also, not requiring roughly 100% collateral for public deposits that are not insured. That again, not being subject to a run on the bank is another reason for not requiring that. There are several reason for not requiring that."

Werner: That's another reason we don't need FDIC, right?

Earl: "There's a significant conflict of interest between Chase or one of the other major banks holding public deposits and the government whose deposits it holds. With that conflict of interest, the incentive for the private bank is, by law, to maximize its own profit. That results in them often investing in things that don't serve the community; they invest outside the community, make loans outside the community. They may do things that are environmentally damaging."

"You don't have that conflict and therefore, besides not having to run on the bank, you don't have that need to protect the bank from its own government or vice versa. A third one is to have the bank be the depository for its own government's deposits. That's the case in North Dakota. I've noticed some of the legislation outside, in other parts of the country, have not really done that.

They've limited the amount of deposits they put in the public bank, and it seems to me it makes more sense to put all of them in it."

"If you don't have the expertise, you can acquire it so that those deposits are well-handled and well-invested. Two other things that I think are very valuable, but what North Dakota did is to not have the bank regulated by the state banking board but really directly by its own legislation, and its own legislation, in our case, for example, would do what Richard recommends, which is to focus lending on productive lending for new goods and services that are not inflationary, that build GDP, build the economy, and not to inflate existing assets that create bubbles and, of course, lead to crashes"

"Then another common rule locally in state banking boards is to not let a new bank borrow money to get started. That makes sense for a private bank because they need to get depositors; they need to get borrowers to get loans started. A public bank has huge advantages in those areas. One is they can immediately transfer deposits from their current public depository, such as one of the major banks, and they also generally have a backlog of loans."

"The bank could initially refinance or directly finance the government's own projects and have an immediate source of income. They'll make a profit in the very first year and successively. Those are, I think, some of the things that we think appear to be apparent in your model for Florida and that I think would be invaluable for public banks around the country."

Werner: Very well put. I entirely agree not to register with the FDIC because an agency that closes down healthy banks, why would you submit to that and then give them the ability to close you down just because you're doing your job and you're healthy as a bank? You're right, it's not needed, therefore no justification. In fact, as you also put quite well, you can have very simple regulations. The key regulation you need is where's the money going to.

If it's used for productive business investment, then it's de-risking banking. Then you don't need complex risk management, which inevitably fails. All the Basel (international banking regulations aiming to manage credit and risks) regulatory approaches have never prevented banking crisis. They will fail again: Basel III, Basel IV, because they encourage the risky lending through the risk weights where property collateralization is favored and lending for productive business investment is discouraged.

You can put in very simple, succinct legislation that the majority, let's say, or something of the lending, should be for a business investment, then you have de-risked it and you can really disprove the whole Basel approach. Essentially, you only need that one rule and you could scrap all other bank regulations, which are so complicated. The EU, of course, holds the record in lengthy and complex bank regulation with several huge pieces of legislation, 700 pages. It's completely 'crazy'. You could scrap all that, and have a few very simple rules and create a very sound banking system.

Fitts: Richard, I wanted to bring up deglobalization. I've been looking at the economies of several states, and they have big trading relationships with Canada, Mexico, and China. They're importing a lot, exporting a lot, and we are now watching both because of the changes in the cost of transportation and trade, as well as the increased tensions in the tariff wars and changes in federal policies, as well as what appear to be significant federal layoffs coming. We're watching a dramatic change in what's economic to do locally versus globally. You would think that's a moment in time when you need enormous liquidity to help your entrepreneurs get from here to there. If anything, this is a time when you need a wealth of local banks and a state bank.

Werner: Exactly. The timing is actually perfect. It fits very much into the policies that are now coming on *Vogue*. Therefore, it's clear what you need more than ever before are state banks and encouraging the creation of local community banks. We need a whole new push to do that. There is a chance that we can get the right people to back this because I recently saw a quote from President Trump where he said, "I don't want to be a second Hoover."

That is the big risk because Hoover was really the president who was pushed to follow a script. He was made to be the bad guy who started a trade war by having tariffs. He had the popular vote and then took these bad economic policies, daring to intervene in international trade. Essentially, working against the globalization. He was meant to fail badly so that they could afterwards, accelerate really hard in the opposite direction.

There is a risk that this is the scenario now. I was intrigued to see that Trump says, "I don't want to be a second Hoover." He may be aware that he was given that chance because they want him to be another Hoover so he can get the programs to make sure he won't be another Hoover but will actually lead people into this new world of prosperity and abundance, which is possible.

Fitts: Right. We had a question from Carolyn. Ricardo, please read Carolyn's question and then I will put up a link in response.

Oskam: Richard, this is back to the technical side of the money creation narrative, "Since banks have to hold reserves something like 10%, depending upon the credit of the instrument, doesn't that mean that they can newly create only the 90% portion of a new loan?"

Werner: Yes. That is literally an example of the fractional reserve theory of banking. In reality, the reserve requirements are lower. They're more like 1%, not 10%.

Fitts: In 2020, they moved it to zero. I put up the link.

Werner: Exactly. My next point is that in many countries, reserve requirements were abolished. Even before 2008 in the UK and Sweden and I think also Australia, maybe two, three decades ago, abolished reserve requirements entirely. That shows that this fractional reserve theory can't really be the one that explains what's going on because you don't even have required reserves anymore.

In the US, certainly the framework still exists. Also in Europe, the framework exists. I think formally, there may be very low, close to zero, or let's say zero. What if we have a little a reserve? Wouldn't this create still the same type of scenario, maybe numerically, not so prominent? The important thing to understand here is that when central banks impose reserve requirements, they're very concrete rules and they're imposed and measured on a monthly basis.

You have a point in time during the month where you measure whether each bank meets the required reserve balance. Most central banks use the 15th of the month just because there are already all sorts of pressures for the month end. There are other deadlines: company corporate account closings, market closings, whatever recordings, earnings reports, whatever, and they didn't want to add another deadline to that deadline, which could lead to too much pressure and fluctuations.

They choose mostly the middle of the month. When you observe the pattern of building reserves among banks towards the deadline, what has been empirically observed is that there may be a situation, in fact, often it may be the case that there aren't enough reserves in the system because as it happens, banks created

too much credit. Of course, as an individual bank, most banks then assume, "Oh, we can borrow reserves from another bank because other banks may have excess reserves."

Each bank doesn't know the situation of the other banks. They all hope, "Okay, we just borrow reserves from the other banks." Then as you approach the deadline, the 15th of the month or whichever it maybe in which country, you then get a spike of the interest rates in the interbank market as they all scramble for reserve liquidity. They want to borrow from each other. It turns out there aren't enough reserves. What happens? This is, again, an empirical finding. Central banks, of course, are watching this.

Because they set targets for the short-term interest rate in the interbank market, they notice, "Oh, they're spiking up. We have to deliver reserves." They provide reserves, and they inject the reserves. It's well shown in many countries. Then central banks end up always delivering, injecting the reserves needed for banks to meet the reserve requirement. As a result, reserve requirements have just been another bureaucratic rule and mechanism, but it doesn't serve the function that the textbooks claim they serve. Namely, it restricts credit creation in any way. It doesn't.

That's, of course, the very reason so many countries have moved to dropping reserve requirements because they serve no useful function, and so then scrap them entirely like in the UK, or set them at zero.

Fitts: It's always amazing to listen to you, Richard because things are never as we were taught.

Werner: I think, yes. I always tell my students, "As a rule of thumb, you're more likely to be right than wrong if you always do the opposite of what the textbook says."

Fitts: I would say the biggest challenge facing a state legislator who wants to do a sovereign state bank is they are being lobbied heavily by a variety of special interests who want to do something that makes them money. There's no constituency who understands yet that if you look at what can happen to the economy during deglobalization with a successful sovereign bank versus not having it, everybody's going to make plenty more money. There's no constituency who sees it as something that's going to immediately happen.

Werner: There's a theoretical constituency, and we must figure out how to approach them and then mobilize them for us. Namely, the majority of employment is with small firms, and in those small firms, their prosperity depends on the existence of thriving small local banks, which, will be the case if you have a state bank. In this chain of causation, I think it's the many small firms.

If we can organize them and get the local chambers of commerce and small business associations to understand this and back it, they're the ones that will, initially as the first receiver of those loans, benefit. If that's understood that this is the mechanism, then they should be backing this. Of course, they're the main employer, so there is a link to essentially the general voter.

Fitts: I have to say, I think Tim Caban is a genius at figuring out elevator speeches. I can hear his wheels spinning as we're talking.

Werner: Very good. Tim, we look forward to that.

Fitts: Tim, anything you want to add about the importance of elevator pitches?

Caban: I think the whole reason for the speech is everybody understands the importance of them to communicate, especially in today's world where there's such a limited attention span for many people. We'll work on it, for sure.

Fitts: We'll work on it?

Ladies and gentlemen, thank you very much for joining us. The link for the slides is in the chat. If you want a copy of the slides, we will be making an edit of this, and make it available to the public. Tim and I will be back in March to look at model precious metals legislation for states. Make your reservations with Elizabeth. If there's anything we can do for you and your team, you'll let us know. Finally, Richard, I just can't thank you enough. I keep learning more each time I hear talk.

Werner: Thank you.

Fitts: I think for the states who follow up and proceed to do this, your work will make an enormous difference.

Werner: Let's work on mobilizing support for this.

Fitts: Yes, absolutely.

Werner: Thank you to you, Catherine, for all your support and all the things you're doing, and everyone who's joined the call. Spread the word, let's go and do it.

Fitts: You have a wonderful day.

MODIFICATION

Transcripts are not always verbatim. Modifications are sometimes made to improve clarity, usefulness and readability, while staying true to the original intent.

Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.