March 2nd, 2021

Testimony supporting Proposed Bill No. 150

by Justin Good, Ph. D., *Public Bank Connecticut*

Dear Banking Committee,

On behalf of *Public Bank Connecticut,* I am writing to express my strong support for **Proposed Bill No. 150 Establishing a Connecticut Infrastructure Authority.** As a founding member of the volunteer-run group *Public Bank Connecticut*, I have been working with other concerned citizens, in coordination with the national Public Banking Institute, to educate and advocate for public banking as an opportunity to structurally improve the way the public's wealth is used to invest in her economic health, community well-being, equity and sustainability.

In studying the research of the Public Banking Institute, in seeing states like California,[1] New York[2] and New Jersey move to change their laws to allow for public banks, seeing new Federal legislation recently introduced late last year which would make it much easier for states to set up these new institutions,[3] and then to read in liberal and conservative[4] magazines alike enthusiastic support for public banking, I have come to believe that public banking is just the kind of practical, non-partisan idea we need right now to help us unite around our common purposes, and to do something grand for our state.

Proposed Bill No. 150 calls for general statutes to "be amended to establish a new quasi-public agency, the Connecticut Infrastructure Authority, which shall facilitate and finance the development of public infrastructure projects, etc." I must confess to some uncertainty as to the specific statutes under review here, and therefore uncertainty as to what "finance the development" means; that is, whether that means that this new authority will be a kind of public-private partnership, a revolving investment fund, or whether it will create a real public infrastructure bank. In what follows, I am going to try to explain what I think the relevant financial capacity of the Infrastructure Authority created by amending these statues is, and why it is important, and if I am wrong, then someone can tell me.

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[1] https://ab310.org

[2] https://www.nysenate.gov/legislation/bills/2019/s1778

[3] https://www.vox.com/policy-and-politics/21541113/rashida-tlaib-aoc-public-banking-act?fbclid=IwAR1PlXDN6P58Ysb1Wl3bw5tiUvLOUtbA0n5jbyggM55vyj3glujfO3kXndQ

[4] https://www.forbes.com/sites/nikmilanovic/2020/08/26/the-us-needs-banking-as-a-public-service/?sh=7d78b1ce13a5

A standard approach by states looking to finance infrastructure projects is to create public-private partnerships in which a quasi-public entity uses private capital from investors to fund socially-desirable projects like affordable housing. The CT Green Bank[5] is an example of such as partnership, as is Connecticut Housing Finance Authority (CHFA).[6] Critics of publicly-owned banks often point to these partnerships as the proper tools for states hoping to address problems which have failed to receive adequate investment from private credit markets.[7]

But there are important problems with these partnerships which are seldom mentioned by their supporters. For one, they can serve to enrich private investors at tax payer expense.[8] In piece entitled "How to Cut Infrastructure Costs in Half," *Public Banking Institute* Founder and President Ellen Brown argues that these costs are excessive and unnecessary:

> *Private equity investment now generates an average return of about 11.8% annually[9] on a 10-year basis. For infrastructure investment, those profits are made on tolls and fees paid by the public. Even at simple interest, that puts the cost to the public of financing $1 trillion in infrastructure projects at $1.18 trillion, more than doubling the cost. Cities often make these desperate deals because they are heavily in debt and the arrangement can give them cash up front. But as a 2008 Government Accountability Office report warned, "there is no 'free' money in public-private partnerships." Local residents wind up picking up the tab.[10]*

State officials and public citizens alike tend to assume that such costs of financing are just part of the "free market" and that trying to reduce the cost of investment funds will require the

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[5] https://www.ctgreenbank.com/about-us-2019/

[6] https://www.chfa.org/about-us/

[7] This was one of the two reasons that the Connecticut Bankers Association gave in its Feb. 2019 testimony against Bill No. 5970 proposing a public bank: "There is no need for another state entity to create duplicative products at significant taxpayer's expense." https://cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&which_year=2019&bill_num=5970

[8] For example, http://www.nytimes.com/2016/12/24/business/dealbook/private-equity-water.html?emc=edit_ta_20161224&nlid=48445473&ref=cta&_r=0

[9] https://www.investmentcouncil.org/private-equity-returns-far-exceed-declining-market-returns-on-multiple-time-horizons/

[10] https://ellenbrown.com/2017/01/26/how-to-cut-infrastructure-costs-in-half/

state to subsidize, directly or indirectly, those loans at tax payer expense.[11] But this objection is a nonsequitur, resting as it does on a basic but wide-spread misunderstanding about banks and money creation that effectively short-circuits understanding. As Ellen Brown puts it,

> *"Legislators in cash-strapped communities are likely to object, "We can't afford to lend our revenues. We need them for our budget." But here's the key point: banks do not lend their deposits.They create new money in the form of bank credit when they make loans. That means borrowing from its own bank is not just interest-free to the local government but actually creates new money for the local economy."*[12]

That is to say, banks are not financial *intermediaries*, loaning out pre-existing money. Rather, private banks are the creators of money: "deposits do not create loans, loans create deposits." Over 95% of the money supply in the US comes from banks when they make loans; money which disappears when those loans are repaid.[13] This is what monetary theorists call "the money power" and banks have this power not because they are especially wise or moral or because they have a mission to support the common welfare. Banks have the money power because the *law* establishes that power.

This is why the CT Green Bank is in fact not a "bank" strictly speaking but a revolving loan fund, which uses private capital to invest in renewable energy projects. That is, like other public-private partnerships, it is not a true bank which has the power to create new money in the form of loans. As a result of using these partnerships, the funding of infrastructure projects leaves the private investors to benefit from the gains while the public pays the costs and liabilities. Moreover, relying on the largesse of private banks to fund the infrastructure projects ends up leaving many needs unmet, simply because the private investors don't see a large enough return to justify their projected return.

Now consider that the state-owned Bank of North Dakota can fund state infrastructure projects at 2% annually. For example, for a $1 trillion infrastructure plan funded at 2% over 10 years, the interest tab would come to $200 billion, nearly $1 trillion less than the $1.18 trillion expected by private equity investors. Not only does the state save $1 trillion over 10 years, in the form of all those tolls and fees which would go to pay interest to the private investors, but

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11 For example, in their 2019 testimony against Bill No. 5970 establishing a state bank in Connecticut, the Yankee Institute made the argument that "Taxpayers should not be forced to subside below-market lending opportunities."

12 https://ellenbrown.com/2017/01/26/how-to-cut-infrastructure-costs-in-half/

13 Anyone skeptical of such conspiratorial-sounding claims is invited to read this now-famous 2014 admission from the Bank of England: https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy

even the $200 billion paid in interest is returned to the government, because the government owns the bank.[14] This isn't just savings. The state in fact can *profit* from the lending.[15]

How is that possible? All it takes is a change in the general statutes. Changing the statutes, thus allowing public entities like a public infrastructure bank to also create new money via loans for infrastructure projects, is precisely what this bill is about, or ought to be about.

I would like to end with one final point. As the Federal Reserve, the Connecticut Bankers Association, the Yankee Institute and other free market ideologues will argue, government action is justified only when private markets produce suboptimal results, or when there is "market failure." In a much cited 2011 Federal Reserve Report entitled "The Bank of North Dakota: A model for Massachusetts and other states?" the Fed identifies what it calls 'externalities' as an example of market failure. As the Fed describes it, "Externalities exist if bank credit benefits a substantially larger community or segment of the economy than just the borrower. Private banks may not take these additional benefits into account when making lending decisions, and therefore their total lending might fall short of the socially optimal level."[16]

I submit that the dismal state of our infrastructure, the many problems of getting investment funds to small businesses during the pandemic, the desperate need for greater emergency preparedness to support public health and livelihood - these are all market failures representing a deflationary spiral with innumerable external costs for the citizens, the neighborhoods, the communities of our state. This is why, on behalf of Public Bank Connecticut, I support Proposed Bill No. 150, why I am grateful for your careful deliberation on this important topic, and grateful for the opportunity to be here with you today.

Sincerely Yours,
Justin Good

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[14] Ibid.

[15] Critics of public banking tend to focus on how different the case of North Dakota is from the rest of the country, and so its benefits cannot be expected to transfer onto different local economic situations. The Federal Reserve Report from 2011 entitled "The Bank of North Dakota: A model for Massachusetts and other states?" often cited as documenting the Fed's negative assessment of public banking, is in fact, quite supportive of the tool. The report acknowledges what has been widely reported elsewhere, that the BND has a stellar track record, being one of the most profitable and trustworthy banks in the country, has served to strengthen the local community bank and credit union system by serving as a banker's bank, increasing their lending capacity, and has played a key role in stabilizing the state economy for the decades.

[16] "The Bank of North Dakota: A model for Massachusetts and other states?" New England Public Policy Center Research Report, May 2011., p.5