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COMER

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Report of an Appeal of an August 2013 Interim Order in the Lawsuit Respecting the Bank of Canada

Comments by Connie Fogal aided by Ann Emmett, the Statement of Claim, and Rocco Galati's August 2013 report

The Court

On December 10, 2013, Bill Krehm, Ann Emmett and COMER were in court again defending the right of Canadians to the use of our Bank of Canada in the interest of Canada and Canadians, not private banks and bankers.

The December 10, 2013, court appearance involved argument by their lawyer Rocco Galati appealing against the order August 9, 2013, of Prothonotary Aalto (a Justice of the Federal Court) who struck COMER's claim against the Bank of Canada and Minister of Finance.

Using our own tax dollars against us the Government of Canada had brought forward the motion to strike the case, i.e., knock it out of court, dismiss the case. Prothonotary Aalto did so because he said it was not "justiciable."

On December 10, 2013, Rocco Galati presented the defence of our right to continue the case including the points he set out in his August 2013 report. He pointed out the legal errors in the August order that struck our case:

- that justiciability is a doctrine that is normally and properly invoked where the Court essentially does not have the expertise, or is incapable, at the end of the day, to come to a judicial determination of the issue because it is beyond the scope of what a Court does;
- that in this case invoking the doctrine of justiciability lacks logic, is devoid of cogency, and is reverse circular reasoning. To do so is contrary to the avalanche of jurisprudence;
- that Prothonotary Aalto's decision that the claim was not justiciable because the case deals with "policy-ridden" socio-economic issues *ignores* the fact that this case would not be the first time the Courts, including the Supreme Court of Canada, dealt with policy-ridden socio-economic issue(s) which contravene statute and the Constitution;
- that on a motion to strike, the Court is not allowed, according to the Supreme Court of Canada, to come to any (final) conclusions with respect to the *merits* of the case, including interpreting any statutory provisions in issue;
- that Prothonotary Aalto's decision *ignores* the clear Supreme Court of Canada's jurisprudence that statutory interpretation, particularly in the face of a constitutional challenge, should be determined by the trial judge, after evidence in a trial, *not* by a motions judge on a motion to strike, just based on the pleadings;
- that the Court's decision rests on a flawed statutory interpretation of the word "may" in section 18 of the *Bank of Canada Act* which interpretation is one of the crux

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Appeal *from page 1*

issues in dispute and which interpretation jurisprudence does not allow him to make;

• that the Federal Court decision is devoid of any logic, but for its absurd reverse circular reasoning, because, by deciding these substantive issue(s), which the Court did not have the jurisdiction to do on a motion to strike, proved that the issue(s) *are* justiciable. But the Court, in essence, ruled that the issue(s) are not justiciable because if he were the trial judge, he would decide them against the plaintiffs…which is not his function on a motion to strike.

The government lawyer argued in defence of Prothonotary Aalto's decision.

The judge at the December 10, 2013, appeal reserved his decision. It is likely that whoever loses this round will appeal again to the next court level on this issue of whether we have a right to proceed.

The Citizens

The court was once again overflowing with ordinary citizens, including members of COMER, university students, and members of the Occupy Movement. The room was too small to hold everyone. At first the court staff refused to arrange for a change of rooms between judges to better accommodate the crowd. The staff administration was demanding on threat of security action that those without seats in this too small room leave. There was verbal resistance. A few went out, but returned once one small woman stood up adamantly urging all present to stay put until a proper room was provided. We did, and it worked. Lo and behold, it was possible after all to move the judges to accommodate us in the larger room.

Ann Emmett called it invigorating drama bringing us together in an extraordinary way creating a sense of community amongst this gathering of citizens. Even so, there was still insufficient room for all of us. Those still without seats remained in the foyer even though they could not hear the proceedings. In this way they were still with us, a part of the proceedings.

Ann opined that the day ended on a high note of conviviality with picture taking and lunch together.

We were a varied group from 100-year-old Bill Krehm and 90-year-old Paul Hellyer, (among other long term monetary reformers), through those of middle age, down to youths including a 19-year-old student, Patrick Cryon. We came from all across Canada.

Ann has been working hard teaching, holding discussions, communicating, including with young people and the Occupy Movement. She said, "The rapport and respect between the many young people and the older generations at this hearing was impressive. The youth expressed their admiration, gratitude and appreciation that their elders were still fighting a good fight setting a great example. A sense of hope pervaded the atmosphere. They were aware the case might fail, but that the cause was just, and this had to be done. Success would come in some way. There was real hope for the future in the air."

She continued, "For their part, the long term monetary reformers were encouraged by the commitment and articulateness of the youth who are working hard to inform themselves and understand the issue. It was encouraging to see that the young are so willing and able to take up the struggle. It is happening!!!!!"

Ann felt that, "Whatever the outcome of this December 10, 2013, hearing, there was a feeling among the audience that we came away winners, stronger together and more committed than ever, inspired and determined to carry on."

Relevant Quotations

"If you will not fight what is right when you can easily win without bloodshed; if you will not fight when your victory will be sure and not too costly; you may come to the moment when you will have to fight with all the odds against you and only a precarious chance of survival. There may even be a worse case. You may have to fight when there is no hope of victory, because it is better to perish than live as slaves." – Sir Winston Churchill, *The Gathering Storm*

"Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough money to buy it back again. However, take that power away from them and all the great fortunes like mine will disappear, and they ought to disappear, for this would be a happier and better world to live in. But if you wish to remain the slaves of Bankers, and pay the cost of your own slavery, let them continue to create money." – Sir Josiah Stamp, a director of the Bank of England, 1920s

"When a government is dependent upon bankers for money, they and not the leaders of the government control the situation, since the hand that gives is above the hand that takes.… Money has no motherland; financiers are

without patriotism and without decency; their sole object is gain." – Napoleon Bonaparte, Emperor of France, 1815

"Once a nation parts with control of its currency and credit, it matters not who makes that nation's laws. Usury, once in control, will wreck any nation. Until the control of currency and credit is restored to government and recognized as its most conspicuous and sacred responsibility, all talk of the sovereignty of Parliament and of democracy is idle and futile." – Mackenzie King, Canada's 10th Prime Minister, 1938

"Give me control of the nation's money and I care not who makes the laws." – Mayer Amshel Bauer Rothschild

"The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalistic fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent meetings and conferences. The apex of the systems was to be the Bank for International Settlements in Basel, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank…sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity of the country, and to influence cooperative politicians by subsequent economic rewards in the business world." – Carroll Quigley, Historian, *Tragedy and Hope*, p. 324

"The very idea of a government that can create money for itself allowing private banks to create money that the government then borrows and pays interest on is so preposterous that it staggers the imagination." – William F. Hixson, *It's Your Money*

The Betrayal of Canadians

Our governments have given over their powers to private banks. The citizen's lawsuit challenges this transfer of use and power. No Canadian political party sitting in our government acknowledges the legitimacy of this lawsuit let alone joins us in it, choosing instead complicity in this treason. Some say they are just ignorant. On the other hand, Rosemary Brown said, "Silence can be golden. But sometimes, it's just plain yellow." (Rosemary Brown was the first black woman member of a provincial legislature, in BC.)

This lawsuit is one kind of step for citizens to gain back our power. Our government is taking every possible step it can using our own tax dollar to fight us every inch of the way. They are acting to keep us "slaves of the bankers," and making us "pay the cost of our (own) slavery."

In 1938, the Bank of Canada was nationalized. It is empowered to regulate credit and currency in the best interest of the economic life of Canada. Until 1974 it did that as government obtained from the Bank of Canada some of the money it needed (25 to 50%) to run the country at low or no interest rates rather than borrowing all from private banks at much higher rates of interest.

The government used the Bank of Canada to help finance WW2, build the Trans-Canada Highway and the St. Lawrence Seaway, finance social programs like the Canada Pension plan, Medicare – all without undue debt or inflation.

The Bank of Canada is the only "public" central bank created by statute and accountable to the legislative and executive branches to be found in any of the G-8 nations. All other central banks are "private" banks and are not directly created nor governed by legislation nor directly accountable nor reportable to the legislative or executive branches of the governments of the nations in which they operate.

In the 70s, Canada joined the Basel Committee of G-10 countries at the Bank for International Settlements, ceased its use of the Bank of Canada for Canadians except for about 5% of its needs, and instead now borrows from private banks at compound interest. Instead of today being able to operate at an estimated surplus of $C13 billion, Canadians have paid over one trillion Canadian dollars in interest on the national debt to private bankers which debt is used to justify the demolition of services to citizens.

Post 1974 our government added s. 18(m) to the *Bank of Canada Act*. That action is a core challenge in the lawsuit. *That s. 18 (m) is the facilitating mechanism that hands over our Bank of Canada to the Bank of International Settlements providing for the use and operation of our Bank of Canada for the benefit of foreign financial institutions rather than our citizens.* That section reads:

(m) "open accounts in a central bank in any other country or in the Bank for International Settlements, accept deposits from central banks in other countries, the Bank for International Settlements, the International Monetary Fund,

Petition from a "Friend of the Court"

Your Honour(s):

We are Canadian citizens familiar with the positive history of our publicly-owned bank – the Bank of Canada – from 1940 to 1970. We wish to ensure that you also understand this history.

With interest-free money created by our own bank during that 30-year period, we paid for the war effort, the St. Lawrence Seaway, development of the educational and transportation systems, benefits to returning veterans, family allowances to our children, pensions to our elderly, and health care to all. Inflation was not serious and our debts were quite manageable. Private financial institutions were monitored and regulated with due respect for the "public interest."

However, beginning in the 1970s and continuing to the present, these private financial institutions have managed to amalgamate and form a "self-regulated" cartel with no concern beyond their monopolistic profitability. Government officials have made no serious effort to resist. Indeed, they have cow-towed, accommodated, and released these institutions from any rigorous regulations or taxation. Instead of using money created by the Bank of Canada to fund our national expenses, they began borrowing from monies created by private financial institutions. No federal minister of finance has utilized his authority to fund government deficits by borrowing from the Bank of Canada.

Thus we have paid to private financial institutions *unnecessary interest* exceeding a total of one trillion dollars. The annual charges on this monstrous debt are now a major national expense, providing an excuse for draconian actions ensuring under-employment of our workforce, deferred development of our resources, and acute underfunding for the health, education and welfare of our citizens. The billions of under-taxed bank profits stand in sharp contrast to the unemployment lines, the extreme consumer debts, the homeless, and the proliferation of food banks that our society faces today. This situation need not have occurred. And it need not continue. It will not continue if we reinstate the use of our national bank.

Respectfully submitted,

Dr. Gerald (Jerry) Ackerman, Financial Analyst

Originally attached: Names and postal codes of relatives, friends, and associates who support this petition. Two of those listed warrant special attention: (a) Paul Hellyer, who has written a dozen books on this very subject and formed a political party to gather support for using our bank; and (b) Victoria Grant (age 13), whose simple six-minute speech explaining what is wrong with Canadian banking and what to do about it has been viewed on YouTube by over 3 million Canadians.

the International Bank for reconstruction and Development and any other official international financial organization, act as agent or mandatory, or depository or correspondent for any of those banks or organizations, and pay interest on any of those deposits;

That section throws us to the lions of the international finance world who are currently destabilizing nations everywhere with crippling austerity demands. We are on their "hit" list and our governments and Parliament are complicit in that betrayal. One can explain it in the Quigley terms of their being "cooperative politicians (expecting) subsequent economic rewards in the business world."

Declarations Sought

This current lawsuit respecting the Bank of Canada seeks many declarations including that:

• the Minister of Finance, and the government of Canada are required to request, and the Bank of Canada is statutorily required, when necessary, to make interest free loans, on the terms set out under s. 18 (i) and (j) of the *Bank of Canada Act, RSC, 1985, c B-2* for the purposes of "human capital" expenditures and/or municipal/provincial/federal "human capital" and/or infrastructures expenditures (i.e., support of education and health, utilities, roads, bridges);

• the "Government of Canada," the Minister of Finance, and Her Majesty the Queen in Right of Canada, with the Bank of Canada:

(A) have abdicated their statutory and constitutional duties with respect to s. 18 (i) and (j) of the *Bank of Canada Act* to make loans or advances to the Government of Canada or the government of a province in readily marketable securities issued or guaranteed by Canada or any province, and further,

(B) the refusal to request and make (interest free) loans under s. 18 (i) and (j) of the *Bank of Canada Act* has resulted in negative and destructive impact on Canadians by the disintegration of Canada's economy, its financial institutions, increase in public debt, decrease in social services, as well as widening the gap between rich and poor with a continuing disappearance of the middle class.

• the Parliament of Canada has unconstitutionally abdicated its duty and function as mandated under the *Constitution Act,* 1867, and the *Constitution Act,* 1982. in: allowing the Governor of the Bank of Canada to hold secret the nature and content of his meetings with other central bankers, in not exercising the authority and duty contained in 18 (i) and (j) of the Act, and in enacting s 18 (m) of the *Bank of Canada Act*.

• that s. 18 (m) of the *Bank of Canada Act* and its administration and operation is unconstitutional and of no force and effect as Parliament and the government have abdicated their constitutional duties and handed them over to international private entities, whose interests and directives are placed above the interests of Canadians, and the primacy of the Constitution of Canada and constitutional imperatives.

• that the defendants'(officials) are wittingly and/or unwittingly, in varying degrees, knowledge, and intent, engaged in a conspiracy, along with the Bank for International Settlements, the Financial Stability Board, and International Monetary Fund to render impotent the *Bank of Canada Act*, as well as Canadian sovereignty over financial, monetary, and socio-economic policy, and in fact by pass the sovereign rule of Canada, through its Parliament, by means of banking and financial systems…causing injury to Canadians.…

Other Facts to be Established as Findings of Facts in the Lawsuit

• The current *Bank of Canada Act* continues to reflect a public statutory duty and responsibility, as borne out by the preamble to the Act.

• Now, policies such as interest rates and others set by the Bank of Canada are made in consultation with but mostly at the direction of the Financial Stability Board which is an international body of central bankers that monitors and makes recommendations about the global financial system. The Board includes all major G-20 major economies, financial Stability forum members (FSB), and the European Commission. The FSB is based in Basel, Switzerland.

• The current FSB consists of the major national financial authorities such as Finance Ministers, central bankers, and international financial bodies.

• The BIS formulates policies and dic-

The Bank of Canada Belongs to Canadians

• In 1938, it was nationalized. It is empowered "to regulate credit and currency *in the best interests of the economic life of the nation.*"

• Until 1974, the government was able to borrow at little or no interest, because the Bank of Canada created up to one half of all new money.

• The system served us well. It helped finance World War II and enabled us to afford post-war infrastructure projects like the Trans-Canada Highway and the St. Lawrence Seaway, social programs like the Canada Pension Plan and Medicare. It nurtured a growing Middle Class and an increasingly egalitarian society – all without undue debt or price inflation.

• In the 1970s, Canada joined the Basel Committee of G-10 countries at the Bank of International Settlements. From then on, the Government borrowed instead, from private banks at compound interest. Banks get the profits; we get the debt.

• Since then, Canadians have paid over one trillion Canadian dollars in interest on the national debt alone.

• The debt has been used to justify the demolition of much of the social progress made during the post war "Golden Age."

• If the Canadian government had continued to fund itself as it had before the mid-1970s, estimates are that Canada would now be operating with a surplus of C $ 13 billion (Ellen H. Brown, *The Public Bank Solution*).

• In 2011, the Committee on Monetary and Economic Reform (COMER), brought suit in Canadian federal court "to restore the use of the Bank of Canada to it's original purpose."

• The government responded by filing a motion to Strike, to prevent the COMER suit from getting to court.

• In December, 2012, a federal court judge supported the government's Motion to Strike.

• That decision is being appealed at the federal court.

"The very idea of a government that can create money for itself allowing private banks to create money that the government then borrows and pays interest on is so preposterous that it staggers the imagination." – William F. Hixson, *Its Your Money.*

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tates to central banks, including the Bank of Canada.

• Canada, through its Bank of Canada, became a member of an expanded BIS in 1974.

• Between 1934 to 1974 the Bank of Canada and Canada were completely independent from international private interests with respect to statutory duties under the *Bank of Canada Act*, as well as monetary and financial policies reflected in the preamble to the Act, and as it flowed through its economic and social policies.

• Since 1974 there has been a gradual but sure slide into the reality that the Bank of Canada and Canada's monetary and financial policy are dictated by private foreign bank and financial interests, contrary to the Act.

• The BIS is not accountable to any government. It holds secret annual meetings the deliberations and discussions of which are not available to Parliament, the executive nor the Canadian public, notwithstanding that the Bank of Canada policies now directly emanate from and are directed by these meetings.

• On or about 1974, *after Canada's entry into the expanded BIS, an agreement or directive was reached that the central banks* (including our Bank of Canada despite its being the only publicly created and accountable to Parliament central bank) *would not be used to create or lend interest free money* (contrary to s. 18 (i) and (j) of the Act and the original purpose for its creation) *but that governments must obtain borrowed money from and through the BIS* (FSF, FSB and IMF).

• Over the years since 1974 Canadian Ministers of Finance have had requests to make interest free loans from the Bank of Canada to the Provinces and to municipalities to fund infrastructure and other social needs which the Ministers have consistently refused to do citing unjustified excuses about inflation and deficits and debt, but never the truth about the deal with the BIS.

• It has long been established that investment in human capital such as education and health is the most productive investment and expenditure a government can make.

• The BIS, FSF, FSB and IMF were all created with the cognizant intent of keeping poorer nations "in their place," which has now expanded to all nations in that these financial institutions succeed in overriding governments and constitutional orders in countries such as Canada over which they assert financial control.

Iceland. The citizens of Iceland have defied the power of the global bankers, refused to be caught in the impoverishing demands of the global elite for austerity measures, have jailed bankers guilty of theft of the commons, removed the politicians who would have betrayed them, and are creating a way to govern themselves and control their own money.

Canadians. The Canadians participating in this lawsuit are carrying the torch for Canada. You can too. Your presence at the next court appearance will help, as can your dollars. Send a donation, payable to "COMER lawsuit," to 83 Oakwood Avenue, Toronto ON, Canada, M6H 2V9.

This is "the only game in our town." See you in Court!■

A Comment

Hi, folks,

…For the record, I thought Rocco Galati was simply brilliant yesterday. He is so articulate and has such an incredible grasp of the law and history. We couldn't have a better person representing us.

Sincerely,

Rick Tufts, Toronto

Bank Act Changes — 1968

From Ed Goertzen, "Response to a Moral Reckoning." See Bookmarks – Banks.

When a borrower pays off their loan, the Bank Credit Money is cancelled out of existence thereby reducing the Volume of Money available to facilitate the market. That restricts the operation of the market and the restriction translates into a recession.

It should be obvious to most that, since only Bank Credit is borrowed and both Bank Credit Money and Interest has to be repaid, the Money Supply will be in a continuing state of reduction so long a more Money is repaid than is borrowed.

That was the problem that was solved by "Socialist" Maynard Keynes when he proposed Deficit Financing. It is also the problem that has not found a solution in the writings of the "Libertarian" Frederick Hayek, in spite of the efforts of the Chicago and Calgary Schools of Economics.

In Canada, the sea change from Keynes to Hayek occurred with the *Bank Act* changes of 1968, supported by all political parties in the House of Commons at the time. There were three important changes the consequences of which few MPs who voted for them at the time had any comprehension.

First, was the removal of the restriction on Chartered Banks to own property other than the facility from which they transacted business. The consequence were that when a borrower defaulted on a loan, the Chartered Bank no longer was obliged to put the collateral into the market for sale, thus validating its market-value. By allowing the banks to own property, the Statute changes in effect allowed the Chartered Banks to lend money to themselves.

Secondly, the Chartered Banks were allowed to lend Bank Credit Money for longer than the previously mandated four years. Since the Bank credit money was leveraged and thus an expansion of the money supply, the four-year limit was there to prevent the expanded bank credit money from remaining in circulation to affect the volume of money and cause inflation. It was felt that any trade or transaction could be expedited within the four-year period. That spelled the end of Trust Companies, which were in the realty mortgage business and needed the longer lending time.

Thirdly, the maximum 6% interest rate Chartered Banks could levy on loans was removed.

The result was that when the Government tried to supplement the money supply to alleviate the deficit caused by an inadequate money supply, the Chartered Banks increased the interest on government Bonds to an extortionate level.

Since that time two other regulatory restrictions on Chartered Banks have taken place.

The Statutory Reserves which were in place to prevent unregulated leverage have been removed. To explain Statutory Reserves; the Chartered Banks, in return for the privilege of leveraging were required to keep funds on deposit with the Bank of Canada and only allowed to lend multiples of those funds.

(Note: Leveraging is increasing the Money Supply relative to the amount of Government Collateral on deposit with the publicly owned Bank of Canada.)

The removal of the Statutory Reserves allowed the Chartered Banks to lend as much Bank Credit as it could attract Collateral, with the bank itself to determine and define the value of the collateral.■

Rising Public Financial Debt

By Wallace Klinck, Snippets from "On Target" – Vol. 49, No. 40

Public debt must, under present flawed financial rules, continue to increase because the price-system itself is increasingly unbalanced; that is, it produces financial costs and prices at a rate which increasingly exceeds that of the incomes it generates. Because this imbalance is primarily due to the growing component of charges in respect of capital, it grows with the exponential increase of allocated capital charges in price relative to income generating costs, i.e., wages, salaries and dividends.

(Anyone who has watched the film version of Elizabeth Gaskell's 1850s novel *North and South* can see the "problem" being acted out. It was referred to in this edition of *The New Times Survey*, "Financial Crisis: Catastrophe or Opportunity?")

Ironically, the more we modernize our economy to replace labour with technology the larger the deficiency of income becomes. The government is forced to compensate for this deficiency by the creation of new money which it spends into the economy for public works and services, including war, etc., in order to maintain sufficient demand to keep the wheels of industry moving and to employ those who have become redundant due to the growing, and entirely rational and desirable, use of more efficient non-labour factors of production.

Consumers also are compelled to rely increasingly on bank loans as their earned incomes become ever less able to equate with the total financial prices of goods and services. Banks, whether central or private, are the source of virtually all money, which, according to existing practice is issued only as repayable debt.

An attempt to repay all outstanding debt would quickly extinguish all money in existence. Thus, we see that the price-system is fundamentally non-self-liquidating and increasingly incapable of generating sufficient financial income by which to cancel or liquidate the financial costs of production. They can only be liquidated by an expanding draft upon future incomes and this draft is in the form of growing financial debt to the banking institutions. The above argument obtains because of a fundamental error in cost-accountancy prior to, and without any reference to interest whatsoever.

The whole absurd talk of balanced budgets is pure nonsense which attempts to postulate a mathematical impossibility. (Assuming that society does not have a collective desire to commit suicide.)

These people seem to be quite impervious and oblivious to the argument adduced above and miss altogether the central issue involved. That issue is the ownership of credit. Does it properly reside with the banks in issuing it against the wealth of society or does it belong to society, i.e., the community, in general? C.H. Douglas made clear that it belongs not to the banks as mere bookkeepers monetizing the nation's wealth but to the community at large.

The Major Issue Is Not Who Issues Credit but Rather to Whom Does It Belong

The claim of ownership of the communal credit must be wrested from the banking institutions and restored to the community. The appropriate method, advocated by Social Credit, of doing this is not to centralize the tremendous power of credit in the hands of the Omnipotent State, but to decentralize its ownership by conferring upon all citizens a beneficial share in it – by means of a debt-free issue of consumer credit to replace and nullify the current accelerating accumulation of un-repayable financial debt.

This new effective consumer purchasing-power should be issued in the form of direct National (Consumer) Dividends and payments to retailers on condition that they lower their prices, i.e., to establish increasingly Compensated Prices. Primarily, the build-up of public debt merely represents the deficiency of purchasing-power created by collection of non-income-generating allocated charges in respect of real capital through consumer prices and their premature cancellation by repayment of bank loans or placement to capital reserve, etc.

No provision is currently made to credit the consumer with the financial equivalent of capital appreciation as against the charges made for capital depreciation. We have an absurd financial representation that suggests we are consuming our real capital, i.e., plant and tools, etc. at the rate we are producing it.

There Is No Debt in Nature — Which We are Told Abhors a Vacuum

All existing public debt claims belong to society at large and should be converted from a liability to an asset from which payment of the required new consumer credits can be made. This involves an appropriately constructed National Credit Account – a task properly assigned to qualified actuaries.

We do not need to place the enormous power of credit-issue in the hands of the State. There is no need to burn down the piggery to get roast pork. The best way to slay the "Usury" dragon is to render it irrelevant and the concepts of the Unearned Increment of Association and Cultural Inheritance are pivotal to this process.

Note: My Conversation With a Banker

Wally: When you issue these loans to borrowers you create the money out of nothing, don't you?

Banker: (with slight hesitation) Yes, that is true.

Wally: And you say that you own the credit you issue – correct?

Banker: Yes that is correct.

Wally: You must because you want it paid back.

Banker: Yes.

Wally: And you want interest paid on the outstanding principal--another claim of ownership. Right?

Banker: Yes, that is correct.

Wally: And furthermore, if we should…

Banker: (anticipating my next words) Yes, if you default on your loan we will foreclose on your assets.

Wally: Did you create those assets?

Banker: (perceptively at unease) No, we did not.

Wally: Do you return these foreclosed assets to the Community?

Banker: Dead silence with a look of apprehension tantamount to impending doom. Well, almost.

❧ ❧ ❧

Our Comment. The look of impending gloom, the borrowing, the foreclosed assets. It hardly requires our christening and laying on of hands. That could create unforeseen belly-ache in heaven. *W.K.*

THANK YOU FOR YOUR SUPPORT!

Is Homeland Security a Terrorist Threat?

By Ellen Brown, www.EllenBrown.com, October 2, 2013

The recent military buildup by the DHS suggests that it is preparing for widespread civil unrest. Why? New revelations concerning the 2008 banking collapse may pose an answer.

Concerns are mounting that we are heading toward a police state, with reports of a massive, covert military buildup by the Department of Homeland Security (DHS). Among other reports, an article in the Associated Press in February confirmed that an open purchase order by DHS for 1.6 billion rounds of ammunition. A *Forbes* op-ed observed:

"[S]ome of this purchase order was for hollow-point rounds, forbidden by international law for use in war, along with a frightening amount specialized for snipers…. [A]t the height of the Iraq War the Army was expending less than 6 million rounds a month. Therefore 1.6 billion rounds would be enough to sustain a hot war for 20+ years. *In America.*

"Add to this perplexing outré purchase of ammo, DHS now is showing off its acquisition of heavily armored personnel carriers, repatriated from the Iraqi and Afghani theaters of operation.

"According to 'Paramilblogger' Ken Jorgustin:

"[T]he Department of Homeland Security is apparently taking delivery (apparently through the Marine Corps Systems Command, Quantico VA, via the manufacturer – Navistar Defense LLC) of an undetermined number of the recently retrofitted 2,717 'Mine Resistant Protected' MaxxPro MRAP vehicles for service on the streets of the United States.

"These MRAP's are being seen on US streets all across America by verified observers with photos, videos, and descriptions….

"[W]hy would they need such over-the-top vehicles on US streets to withstand IEDs, mine blasts, and 50 caliber hits to bullet-proof glass? In a war zone… yes, definitely. Let's protect our men and women. On the streets of America…?"

Why indeed? The DHS is supposed to be about domestic security and quelling domestic terror. It has the looks instead of an occupying army aimed menacingly at the American people. Evidently the powers-that-be at the DHS are anticipating a civil war. But why?

Recently revealed statements by former UK Prime Minister Gordon Brown at the height of the banking crisis in October 2008 could give some insights into that puzzle. An article on *BBC News* on September 21, 2013, draws from an explosive autobiography by Brown's spin doctor Damian McBride, who said the prime minister was worried that law and order could collapse during the financial crisis. He quoted Brown as saying:

"If the banks are shutting their doors, and the cash points aren't working, and people go to Tesco and their cards aren't being accepted, the whole thing will just explode.

"If you can't buy food or petrol or medicine for your kids, people will just start breaking the windows and helping themselves.

"And as soon as people see that on TV, that's the end, because everyone will think that's OK now, that's just what we all have to do. It'll be anarchy. That's what could happen tomorrow."

How to deal with that threat? Brown said, "We'd have to think: do we have curfews, do we put the Army on the streets, how do we get order back?"

McBride wrote in his book *Power Trip*, "It was extraordinary to see Gordon so totally gripped by the danger of what he was about to do, but equally convinced that decisive action had to be taken immediately." He rated Brown's actions as "up with those of President Kennedy and his advisers during the Cuban Missile Crisis."

Panic Echoed in the US

However real the threat was, the fear of it was palpable. It was echoed by US Treasury Secretary Hank Paulson, who reportedly warned that the US government might have to resort to martial law if Wall Street were not bailed out from the credit collapse.

Martial law was averted in the US when the banks were bailed out, and in the UK when they were partially nationalized. The *Dodd-Frank Act* was also passed in the US, precluding future taxpayer bailouts.

But *Dodd-Frank* did not address the deeper cause of the crisis, and many pundits are saying that another collapse is imminent. The run that triggered the 2008 crisis was not in the conventional, regulated banking system but in the "shadow" banking system. The shadow banking system is a collection of non-bank financial intermediaries that provide services similar to traditional commercial banks but are unregulated. They include hedge funds, money market funds, credit investment funds, exchange-traded funds, private equity funds, securities broker dealers, securitization and finance companies. Investment banks and commercial banks may also conduct much of their business in the "shadows" of this unregulated system.

The shadow financial casino has only grown larger since 2008; and in the next Lehman-style collapse, the government is not going to be there to bail it out. According to President Obama in his remarks on the *Dodd-Frank Act* on July 15, 2010, "Because of this reform…, there will be no more taxpayer funded bailouts – period."

Governments in Europe are also shying away from further bailouts. The Financial Stability Board (FSB) in Switzerland has therefore required the systemically risky banks to devise "living wills" setting forth what they would do in the event of insolvency. The template established by the FSB requires them to "bail in" their creditors; and depositors, it turns out, are the largest class of bank creditors.

It is when depositors cannot access their bank accounts that they are liable to start breaking store windows and helping themselves. Worse, they might plot to overthrow the banker-controlled government. Witness Greece, where increasing disillusionment with the ability of the government to rescue the citizens from the worst depression since 1929 has precipitated riots and threats of violent overthrow.

Fear of that result could explain the massive, government-authorized spying on American citizens, the domestic use of drones, and the elimination of due process and of "posse comitatus" (the federal law prohibiting the military from enforcing "law and order" on non-federal property). Constitutional protections have been thrown out the window in favor of protecting the elite class in power.

What Can We Do?

What can we do to protect ourselves, either from another banking collapse or from living in a police state? The plan for imposing martial law appears to be well under way. Rifles are not going to put up much resistance against US Marine Corps tanks. That may explain why the tanks have been seen roaming the streets – to prevent citizens armed with guns from getting ideas.

If a police state is to be avoided, we will probably need to do it Gandhi-style by peaceful means. We need to redouble our efforts to regain democratic control, restore our rights, and demand transparency and accountability from all government agencies. Democracy is far from dead in America. Many commentators have noted a sea change from when the banks were bailed out in September 2008 over the objection of the great mass of the American people. The expected September 11 vote to invade Syria was averted in 2013, when the voices of the people were actually heard.

If we can buy enough time to do it, we need to set up an alternative system that provides safety for depositors and serves the local needs of trade, and move quickly and quietly into it. Much progress has already been made on that front in the peer-to-peer economy. In a September 27 article titled "Peer-to-Peer Economy Thrives as Activists Vacate the System," Eric Blair reports that the Occupy Movement is engaged in a peaceful revolution in which people are abandoning the established system in favor of a "sharing economy." Trading occurs between individuals, without taxes, regulations, licenses and, in some cases, without government-issued currency. Peer-to-peer trading happens largely on the Internet, where customer reviews rather than regulation keep sellers honest. It started with eBay and Craigslist and has grown exponentially since.

Bitcoin is a private currency used outside the prying eyes of regulators, and software is being devised that circumvents NSA spying. Bank loans are being shunned in favor of crowdfunding. Local food co-ops are another form of opting out of the corporate-government system.

Peer-to-peer trading works for local exchange, but we also need a way to protect our dollars, both public and private. We need dollars to pay at least some of our bills, and businesses need them to acquire raw materials. We also need a way to protect our public revenues, which are currently deposited on Wall Street and invested there.

To meet those needs, we can set up publicly-owned banks on the model of the Bank of North Dakota, currently our only state-owned depository bank. The BND is mandated by law to receive all the state's deposits and to serve the public interest. Ideally, every state would have one of these "mini-Feds." Counties and cities could have them as well. For more information, see http://PublicBankingInstitute.org.

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Our Comment. We are unlikely to beat the police state by challenging it head-on. But we may be able to sidestep it, by moving into a saner, more sustainable system that renders the need for military force obsolete.

The availability of real money currency for recoining money added in recent months by such authorization was made to adjust real purchasing power.

William Krehm

Fed Snapshot Shows Growth

By Sarah Portlock and Eric Morath, The Wall Street Journal, December 5, 2013

The US economy expanded at a "modest to moderate" pace in recent months, the Federal Reserve said Wednesday in a report that showed mixed economic conditions across the nation just weeks before a key policy decision by the central bank.

The central bank's beige book, which assesses the economic environment in the Fed's 12 districts, cited strength in the US manufacturing sector and consumer spending. Seven districts reported steady growth rates, while four indicated a less robust expansion than the others. One region simply said economic activity continued to expand.

The snapshot, based on data gathered from early October through November 22, comes two weeks before the Fed's December 17-18 policy meeting whether to start pulling back its $85 billion-a-month bond-buying program, which is aimed at lowering borrowing costs to spur stronger spending, hiring and growth.

Uncertainty about the Fed's next steps remains a key risk hanging over investors and employers. Fed officials expect to start scaling back the program "in coming months," if the overall economy and labor market continue to improve, according to minutes from its last policy meeting in October.

A separate survey released Wednesday by the Business Roundtable, a group of corporate executives, found CEOs the most bullish they've been about the economy in almost two years. The survey's economic-outlook index for the fourth quarter rose to its highest point since early 2012. Executives said clearer signals from Washington could help the economy accelerate.

"We have an economy that is on the cusp of growing at more than the 2-to-3% we've seen," said Boeing Co. CEO Jim McNerney, chairman of the group. "Washington sorting themselves out would give businesses a more predictable environment to invest the cash on their balance sheets and hire people."

Fed Chairman Ben Bernanke will meet the CEOs at the Business Roundtable's quarterly meeting Thursday in Washington. The event is closed to the public, and the roster of CEOs who plan to attend hasn't been released. The group has about 200 member CEOs from large companies, whose planning decisions could be influenced by the direction of interest rates and whose plans could influence the Fed's policy decisions.

Mr. McNerney said the Fed would need to pull back on the pace of its bond purchases at some point "for the well-being of our financial system."

"They've chosen to keep interest rates very low, to keep the economy in a very highly liquid state," he said. "I think we're all mindful of the fact that tapering does need to happen somewhere along the line or we're going to have a very difficult inflationary environment here."

The overall economy is starting to see stabilization in key areas after a turbulent summer. Sales on new homes picked up in October and inventory fell, according to a Commerce Department repost released Wednesday, a sign the housing market may be stabilizing. New-home sales rose 25% in October to an annual rate of 444,000.

A separate report Wednesday by payroll-processing firm Automatic Data Processing Inc., and Moody's Analytics found US businesses added more jobs in November than in any month this year. Private-sector jobs rose by 215,000 last month, while the October increase was revised to 184,000 from 130,000.

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Our Comment. Our private-sector jobs, rising from 130,000 to 184,000 feasting on an increase that provides plenty of space to engage in next-to-meaningless games. *W.K.*

Thoughts about Keith Wilde from the Kingston Chapter of COMER

Below are condolences from several members of the Kingston Chapter of COMER plus a long letter I wrote to Keith Wilde in October, 2012, after we learned from Nicole that Keith was in palliative care.

Richard Priestman

A peaceful passing means a great deal to family and friends.

I did not know Keith very well, but I recall his presence and his contributions to COMER interests and concerns were always interesting and helpful in our discussions.

Helen Channen

Keith was one of the most insightful People I have ever met. His manner of dealing with people was gentle and kind. I was very sad to see him brought down with a terrible illness, and even more sad not to have been able to visit him more often.

Kevin Connolly

I am so sorry to hear this. My deepest condolences. I never met Keith, but his willingness to help, his dedication and his courage render him, in my eyes, a Great Canadian Hero. His Presence will be sadly missed, but remembered with fondness.

John Riddell

Dr. Keith Wilde was always a strong supporter of using our own Bank of Canada for all Canadians. He always came to our Kingston COMER meetings. His knowledge was deep and gave us all a better understanding of economic history. He was always cheerful as his health declined. We will miss him.

Hugh and Claire Jenney

My encounter with Keith was many years ago, but the lasting impression I gathered was of a solid human being who was dedicated to a better world. I am saddened by the news of his passing. Best wishes for those who were close to him.

Mike Nickerson

Richard Priestman writes to Keith on October 15, 2012, to reminisce about his involvement with COMER.

Dear Keith:

Nicole's letter telling us that you were in palliative care was sad news, but I am glad to hear you are getting good care. You have contributed a lot in the short time you have been associated with our group so I thought it fitting to do a little reminiscing.

Looking back at old minutes and letters I see it has been over 8 years since you first attended a meeting of Kingston COMER on May 9, 2004. Our purpose was to plan how we might promote use of the Bank of Canada for financing public debt. To this end I wrote to the *Whig* on August 16, 2004. The letter was ridiculed by Paul Roddick who called the proposal "funny money." You quickly jumped into the fray and I remember feeling great relief at seeing your reply to Paul. Your letter was cutting, supportive of what I had said and laid Paul's arguments to rest.

I thought, "here is somebody who knows what he is talking about."

The following May 2005 you wrote "Political Philosophy for the Twentieth Century," a brilliant statement to get the group thinking about the logic behind the conviction that "the financial system should be reformed if individual self-development is to be fostered by society."

In October 2006, when we were preparing for our interview with Andrew Ball, host of Queens student radio, your advice was most helpful in ensuring that we stayed focused on "funding for municipal infrastructure and other public investments through Bank of Canada" and were *prepared* to discuss "the virtually universal reaction of business and economic policy commentators" that this would be inflationary. The interview took place on November 19, was very satisfactory and Andrew's condensation of it was broadcast on Wednesday, the 22nd.

After the recession started in 2008 you wrote a three page essay on, "Further reflections on being taken seriously." I had written to the CLC (Canadian Labour Congress) regarding use of the BoC to finance investment in public infrastructure which would thereby provide many jobs and stimulate the economy. None of my letters were acknowledged. One of our members, Sandra Willard, who was also a union member, asked Andrew Jackson, CLC Senior Economist, "his opinion about the aim of the COMER group." Your analysis of Jackson's response was biting and raised several serious questions about the motivation for the CLC's opposition to an expansion of public works. You concluded with,

"CLC needs to fire its economic advisors and recruit some better thinkers. Why is it a shill for bankers?"

In January 2009 you wrote "Government accounting for expenditures that are actually investments with an extensive life." You said, "we need to cooperate in the development of a brief but effective tutorial. It involves principles of accounting on one hand, and some particular computer skills on the other…. We need at least one cooperating reader to comb through past issues of *ER* and look for instances of Krehm's expositions on accrual accounting and of his citations where it has been supported by experts or policy initiatives….

We need the services of someone with skills and credentials in accounting and financial mathematics, as well as in the design of interactive spread sheets and their application at an Internet site. For persons with the relevant skills, it should not be a daunting task….

The task for another cooperator, therefore, instead of writing more letters to unresponsive officials, is to go looking for a business professor or graduate student who is willing to develop the interactive spreadsheet tutorial and get it established at an Internet site. It could be done as an initiative by the scholar under his or her own name, for which he would get credit as part of his academic duties and even be peer-reviewed."

In this essay you challenged us to develop a tutorial on the principles of accounting and some particular computer skills, and provided ideas for doing it. As yet we have not found the resources to do this, but *we should not forget it.*

Shortly after (again in January 2009) you wrote, "The COMER Proposals: Just What Are They?", challenging the group to make a list of what and why COMER is proposing as a first and essential step toward being taken seriously. You said, "The current collapse of the financial system is a critical moment of opportunity for policy action. The current vehicles for getting the message across have not been working well."

You also reported on your contact with a university student "to explain the project described just above, which would have been the first stage in designing a project for himself as a senior's paper."

He seemed enthusiastic. Furthermore, you took some pains to attach credibility to the project by interviewing him in the company of accredited and senior practitioners of economics. But you never heard back from him. "The project might have required that he get at least the agreement of the supervising professor to undertake such a project."

In 2010 you continued to press the group to organize tutorials. For example, at the October 10 meeting you suggested we organize tutorials on specific topics for our meetings. The end result could be advertising that a specific idea is to be discussed drawing more members to the meeting. You also participated (with me) in the Queens' Poverty Conference.

The rewording of COMER's CCPA research proposal was the first topic for consideration in January 2011. You felt that the proposal needed to ask other questions and widen the focus: What is the relationship of the Bank of Canada to other financial institutions, especially international ones? What do we want the BoC to do? Why? Many of these questions economists would not touch for political reasons.

Then you said that the proposal be declared as an independent initiative of Kingston COMER, but that it be shared with our affiliates, and circulated for wider support.

Finally, you volunteered to pursue a request to see how Kingston COMER could help in organizing data on the Guaranteed Annual Income.

All in all, January was a busy month.

February 2011 was organized along the lines of a tutorial as previously suggested. Jerry Ackerman was the presenter on SDRs, reserve currencies, etc. The problems of Greece, Ireland and Iceland were discussed. Unfortunately you were not present. I am sure you would have had much to contribute to the discussion.

In May 2011 much of the meeting centred on John Riddell's sudden dismissal by Bill Krehm as web master for the COMER web site (www.comer.org). I stated that (i) as an organization we must treat people who are working for the organization in a fair manner; (ii) there needs to be more structure in the organization called "COMER" such as a board of directors which could set policies. A notice of motion to be discussed at the June meeting was then put forward by Lars and you that the Kingston Chapter of COMER should pursue the concept of a board structure with a mast head of prominent Canadians that would include the legacy of Bill Krehm.

At the June 2011 meeting the new John Riddell website, "Canadian Monetary & Economic Reform News" was discussed. You said John had done a good job and wants it to be inclusive, adding that it has several useful links including the Kingston Chapter of COMER.

The meeting of November 2011 was a big event with guest speakers and special guest Bill Krehm. Because of the nature of the meeting we had two sets of recorders, Kevin Connolly and Darko Matovic with camcorders for the general discussion. You recorded Krehm's presentation as well as introducing him. Your excellent notes are still available for anyone wanting to read them.

There appeared to be a consensus at the December 2011 meeting that effective political action on the issues closest to our own concern will require an alliance with groups that have other issues as their primary focus. As recorder for the meeting you took advantage of "Reporter's post-meeting privilege" to suggest a strategy for outreach and the building of an audience for our proposed public meeting. Leaders among such groups could be invited, one by one, to bring their subject as the focus of one of our meetings, giving us the opportunity to explain in turn how our analysis and proposed actions complement their own, thereby suggesting the value of an alliance. This is yet to be acted on.

The March 2012 meeting began with your presentation regarding MMT (Modern Monetary Theory). We very much appreciated your presence because you had been sick for about two weeks prior to the meeting and even at the time of the meeting you were not completely well.

Referring to a video about a meeting in Italy it showed there was a great thirst for more information about the financial system. Over 2,100 people paid to bring four economists from the US, put them up in a fine hotel and rent a stadium so they could hear what the economists would say. The economists (professors at the University of Missouri at Kansas City) were Michael Hudson, Stephanie Kelton (incoming UMKC Economics Dept. chair and editor

In Honour of Bill Krehm Turning 100

Hello, Bill,

My most humble and sincere apologies for missing the call for submitting a message on the occasion of you reaching 100 years of age. What an impressive milestone!

Equally, perhaps even more, impressive is your undying commitment to the cause of monetary reform, through your significant financial support of COMER and the *ER* journal, the endless hours of writing millions of words you have put to paper in the past decades, and the substantial time and energy you so willingly contribute to meetings and presentations here and abroad. Your selfless and tireless efforts to communicate the critical importance of this issue is an enduring legacy.

I have very fond memories of working closely with you on *ER* in the nineties.

Among many other achievements, we collectively are so fortunate to have *ER* as a permanent and public record of William Krehm's "true patriot love."

I thank you, and salute you, Bill, and wish you all the best for Century #2!

Kind regards,

Larry Farquharson

Dear COMER,

J.G.S., my mentor will be fondly remembered by William Krehm. They visited each other in Canada and Scotland.

Both these men were money reformers of great respect beyond the shores of Canada and the UK.

I am editing a manuscript of Ronnie Morrison (Glasgow) about what Alex Salmond has to do about our money if Scotland gets a yes vote for independence in September 2014.

Could be interesting to COMER, so remind me later to send a copy. Memories of both Ronnies not so good now although 18 and 20 years younger than W.K.

Sincerely,

Ron Rankin, Scotland

of its economic blog, New Economic Perspectives), criminologist and law professor Bill Black and investment banker Marshall Auerback (along with a French economist, Alain Parquez).

You said the concepts in MMT are not modern or new; they're at least 100 years old, or up to 5,000 years old if you consider what Michael Hudson says about the origin of money. It was a way of *discharging debt*. Money has no value in itself; it originated in long distant trading. It is a debtor/creditor relationship; it is a claim on values, not based on something like gold. Money is by *nature* a function of government. *Fiat* money (government created money) is what the government *declares* is money. Like "local" money, it depends on acceptance. Government can *always* print enough money for employment, public infrastructure, etc. It is acceptable because it can be used to pay taxes. Governments don't have to borrow, they can just print it.

According to Hudson the US government *used to be* a major factor in the American economy, but not so today. The economy was thriving when the government provided money to build the interstate highway system, contributed to the seaway or other major public works. More production reduces inflation. What Harper is trying to do (like Nixon) is reduce government.

At the end of your remarks you mentioned that you were planning to organize a primer on MMT – a course of study to be held at St. Lawrence College.

September, 2012: You were not able to attend the meeting because of poor health.

Dolores and I are thinking of you.

Richard

Postscript, December 1, 2013

From September, 2012, to the present Nicole kept us informed of your condition. It was apparent that the cancer was taking its toll, but she assured us that you were getting good care and were not in pain. For awhile you were able to communicate with us via email and from time to time some of our group visited with you, but now you are gone.

Fair well, old friend. We will think of you often.■

Transit-funding Panel Eyes Gas Tax

By Adrian Morrow, Adam Radwanski, Oliver Moore, The Globe and Mail, December 7, 2013

Liberal government believed to be cool to the idea and fears HST increase would be too unpopular

Ontario's Liberal government is leaning away from hiking the harmonized sales tax as a method of paying for transit expansion, *The Globe and Mail* has learned, reasoning that such a move would be too unpopular.

Meanwhile, a panel tasked with figuring out how to fund the construction of new subways, light rail lines and commuter trains in the Greater Toronto and Hamilton Area is scheduled to report to the province next Thursday. Sources familiar with the panel's work said that, so far, the group likes the idea of raising the gas tax, but that the government is believed to be cool to this idea.

The panel is still considering different groupings of revenue tools and its recommendations have not been finalized, the sources said.

The panel's work is the second major government report in less than a year on the topic. Last spring, provincial transit agency Metrolinx recommended several options for raising $2 billion a year. Chief among them was a 1-percent hike to the HST.

But by the summer, sources said, the province was skeptical about raising the sales tax – before it appointed the panel in September.

When Premier Kathleen Wynne unveiled the panel, she suggested its work was necessary because there were "concerns" about what Metrolinx had recommended. She also signaled the panel's job was to find revenue options acceptable to the public,

Panel chair Anne Golden, former head of the Toronto chapter of the United Way and ex-CEO of the Conference Board of Canada, confirmed that the gas tax is something the group is "looking at," but declined to say which revenue options are likely to be included in the report.

She revealed, however, that her recommendations will go beyond a list of revenue tools. They will also address such things as the process for planning new transit lines and a trust fund that would hold the money raised and ensure it pays for transit instead of going into general revenues.

"It's going to be new. It's not an off-the-shelf solution. We put a lot of work into this," she said.

Unlike Metrolinx, the sources said, the panel's recommendations might add up to less than $2 billion a year at the start, but escalate to that level over time. It appears the panel is also able to look at debt financing, something Metrolinx could not.

Metrolinx championed an HST hike because it would raise a large sum of money – $1.3 billion annually, roughly two-thirds of what the agency needs.

The government doesn't disagree with Metrolinx's reasoning on the HST, but believes it would be an impossible sell, sources said. Not only are both the Progressive Conservatives and New Democrats against it but, with an election expected in the spring, the Liberals do not want to risk it becoming a ballot question.

In Manitoba, for instance, NDP Premier Grey Selinger raised the sales tax by 1 percent earlier this year to pay for infrastructure, and has had to spend months defending the move. An HST hike was also partly blamed for the ousting of Nova Scotia NDP premier Darrell Dexter in an election two months ago.

The government is expected to make a final decision on transit-funding measure by the spring.

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Our Comment. Note that with that the government is expected to stick to plans into a slave of time that will not confront it with awkward questions and answers. Better – it must be reasoned – leave these to Father Time, whose long beard lends itself much better to convenient plucking. *W.K.*

Fantopian Update

This is the sixth part of an excerpt from Fantopian Update *by James Gibb Stuart, Ossian Publishers Ltd., www.ossianbooks.co.uk.*

Substantially Increased Taxation

New banker and the Antiquarian would have one more informal meeting before final submissions were entered by the Panel. This took place on a summer's day at the elderly academic's villa in the West Country – with some attention to security. Deck chairs and sunshades were parked in the centre of the lawn, with a fifteen yard stretch of freshly cut grass between the awnings and the shrubbery. The banker's car lay some distance down the lane. It had been self-driven, and there were no ostentatious markings.

"I wonder whether your people can possibly maintain the holy righteous of the Monopoly of Credit after the findings of this enquiry have been published," prompted the Antiquarian as they cautiously maneuvered tea cups across the shaky garden table. "You know, of course, that our Journalist colleague has now got a full appreciation of what it means jointly in taxation and expenditure cuts to finance the current debt levels, and when he's marshalled his media experts to do a costing, there could be ructions in Government and at the Treasury."

"Oh I don't know," replied the other with a shrug. "We've contained many such situations in the past. The Fantopian public can so easily be deflected from such serious matters by an overdose of sport, scandal or sex. Skillfully handled, even a World Cup contest for pea-pushers could snatch the headlines – and the sponsorships."

"Who am I to say otherwise?" conceded the Antiquarian. "I suppose it depends upon how the case is presented. But our researchers are already beginning to quantify the resource funding taken from the nation by the loss of *seigniorage*, and can point to a publicly created cash injection of about 32 billion Fantopian crowns annually from its revival. That's big money, even at today's values, and the hard fact for any chancellor is that – whatever way it comes – it's got to be found somehow. So if it can't be raised by *seigniorage,* it will have to come from taxation – substantially increased taxation of one kind or another. We all know how the Fantopian public will react to that – even if it's dressed up as motorway tolls or petrol duty. Apart from our clown of an economist, is there anyone else who would gladly pay through the nose – and the pocket – to sustain the bankers' monopoly of Credit?"

"Where there's a change of government, we can usually blame it on the profligate financial policies of the previous administration," replied New Banker calmly. "That's always worked perfectly well in the past. What you have to realize is that, as a venerated institution we've been at it for a very long time. Picked up a few financial and political tricks! Suborned or deposed a few crowned heads and imperial dynasties! Learned to ride with the hare and the hounds, and sometimes both at the same time! Bought up in due course, and at critical junctures, all the famed and fashionable publishing houses, so that no prestige Establishment publication would ever be seen to prevail against us! People like to be seen doing what's orthodox and socially acceptable. So if you need money, you just borrow where you can, and pay the interest – or debit the ubiquitous credit card."

"I'm not so immediately concerned about the private citizen," said the Antiquarian. "It's when the Sovereign State, repository of a nation's wealth, power and energies, falls prey to a financial sophistry, well – what was it your patron saint said so many years ago? '*Let me issue and control a nation's money*'"

"Something like that," agreed New Banker, "and of course, he proved it. But things which seems obvious enough to us in this peaceful garden may not take on the same appearance in the wider world."

"Meaning, of course, that you don't consider we've established the case for a revival of publicly created money?"

"It's really not for me to say, but if you study Treasury replies to the various proposals, you'll see that it's a principle which is being defended – the principle that only the Bank can be the money creator."

"But isn't that in itself an outrageous proposition, that a financial institution should be set up with sovereign rights over an elected government?"

"Must say, I hadn't really thought about it. To my knowledge it has never been debated."

"And never will be, so long as your banking oligarchs maintain their monopoly. Even so, you must regard it as such a total absurdity that it would not survive the first half-hour of any intelligent debate. Do you remember our visit to the industrial estate and the swingometer, and my efforts to colour in all the segments of the ripe orange?"

"You said you had not been able to dispose of the grey area, that whatever you did, you could not find an answer to the problems of want and poverty in our global society. In that respect your experience is shared with the rest of us."

"But I *have* found it," announced the Antiquarian, a subdued note of triumph in his voice. "I found it subsequent to our meeting. Every one of the models responded, in their grey areas, to the injection of one crucial ingredient – *publicly created, debt-free money*. According to the swingometer, we can solve so many of our social problems and banish the need for so many charitable enterprises by a judicious use of People's money."

"Ah yes, People's money!" echoed New Banker. "It sounds so simple, but of course it never makes progress because no one can decide how much of this type of money should be created."

"I'll tell you how much should be created," the Antiquarian instantly retorted. "Publicly created debt-free money should come into existence to meet a clearly recognized humane or national need. It says in *The Money Reformer's Credo that what is socially desirable and physically possible should also be made financially possible.* Where the public credit is invoked within these parameters, there is never any danger of inflation. Quite the opposite, in fact, since the amount of public debt is correspondingly reduced. And it's debt that causes inflation, not the proper utilization of public funds. Do you have any problems with that?

"Not really, I suppose."

"Then you would support it? You would support our case for a restoration of *seigniorage*? You would agree that with the right will and purpose, amending legislation could readily be forthcoming?"

"Within the confines of this peaceful garden, I'd consider it."

"And if I – hand on heart – testify to having heard you say so?"

"I should deny it. I should use my considerable influence to have you certified as mad and dangerous to the common weal. In the extreme, I suppose, I could ask to have you silenced, but each case is decided on its merits."

They both laughed at such a draconian concept. "I understand," replied the Antiquarian evenly. "People do have fatal accidents in the most unexpected places. Still, I usually take care to see that for friend or foe alike, I'm safer alive then dead. A protective measure, you might say, against *being hung out to dry*."

The True Costs of Privatisation

New banker left shortly afterwards, and with the Panel again going into recess, it was almost the last the Antiquarian would see of the man. Though he had occasionally been incensed by their wordy tussles, it was with some regret that he ended an association which had not been without its touches of courtesy and good humour.

But he had to recognize that in the main *the bankers were slippery characters who in times past had simply taken back their monopoly powers whenever the public mood relaxed. Her as elsewhere, the preservation of economic freedoms required eternal vigilance….*

That was what he had written into his own confidential record when the first advisory Panel completed its findings, and along with concerns for his personal safety, it was the impression which had remained in the forefront of his mind with every passing day. He knew that many of his colleagues thought the same, even though they felt they could not speak out.

He had no doubts about the Journalist and the Politician, knew that they were stout fellows who would stick by their judgements and stood up to the pressures, now that they had become convinced of the rightness of his contentions. Within their own particular spheres, they could be relied on to keep the matter alive, and follow his promptings whenever there was an opportunity to make progress or snatch publicity.

On one of his visits to the City, he dropped in at the Commons House for a chat with the Politician about the prospects of keeping their proposals in the public arena. "After the work we've put in," he observed, "it would be a shame just to walk away and pretend it had never happened."

"I don't think that's likely, replied the other, "especially since our latest dispatch from *through the wall*."

"Through the wall?" repeated the Antiquarian curiously. "Is there something I should know?"

His companion looked round quickly to ensure they were alone. "Bit of an in-House superstition, I suppose," he murmured. "All part of the Fantopian concept that there's always *Someone* out there watching over us! So the story goes, that if this House is ever set on a disaster course, it will get a word of warning *through the wall*."

"And has there been something coming *through the wall?*"

"Only last week!" replied the Politician. "I managed to snatch a copy. And you'll be interested to know that it touches upon this *seigniorage* issue which we discussed so extensively in the Panel. Highlights the fact that about fifty years ago, despite having just emerged from a destructive war, Fantopia was enjoying some of the best public services we had ever known. This was because the banknotes and coin, which amounted to nearly fifty percent of the annual money supply, were being created and spent into circulation by the Government. Then, as you yourself have indicated, by the increasing use of band credit cards and other non-cash devices, this was whittled down to a mere 3%, and suddenly there was no more money for public purposes. Sound familiar?"

"It does. Any mention of PFI?" asked the Antiquarian.

"What else? Actually this fellow from *through the wall* – they just call him the Researcher – talks instead about a *public finance initiative*, and makes good sense of it too. He goes vitriolic about the erosion of seigniorage on the national currency regardless of cost to the Exchequer and the state infrastructure, and in case anyone should fail to appreciate what that cost might ultimately be, he spells it out in numbers. He claims that the Government over there has already given acceptances on more than 500 new projects under PFI, with an initial contract value of about 36 billion, but a commitment to pay the banking system *a totally of 110 billion over 25 years*. The funding has to go initially on hospitals and schools, with 500% mark-ups for running costs and long-term financing, and that seems to be the lot for the immediate future, except that – shades of the road bridge to Tumbledee, which we managed to finance with offerings form the Artistic Engraver – they've apparently bridged the stretch of water to one of their offshore islands at something like *a thousand* percent mark-up over 14 years. Moneylending, says the Researcher, has always been a profitable business, but now it's bonanza time."

"Yet in the years after that war," mused the Antiquarian, "seigniorage on the banknote and coin issues was still providing half the nation's money supply: and had this same ration prevailed today, at 30 billion per annum would more than cover the entire investment in public assets without any resort to borrowing."

Parliamentary Motions

More communications were coming *through the wall* as the weeks went by. The Panel's opposite number on the other side

EDM 854 — David Chaytor MP: 2003

That this House, concerned at the rising burden of private debt, public borrowing, student borrowing and public-private finance initiatives, notes that the proportion of publicly created money in circulation has fallen from 20 percent of the money supply in 1964 to 3 percent today;

believes that increasing the proportion of publicly created money in issue could provide a new means of financing public investment;

further notes that the use of publicly created money can significantly reduce the cost of public investment by elimination of the need to pay interest;

accepts that such a policy can be adopted without any impact on inflation if suitable regulatory changes are made;

and therefore calls upon the Government and the Treasury Committee to commission and publish independent review on the procedure for and benefits of increasing the proportion of the publicly created money in the economy.

EDM 323 — Austin Mitchell MP: 2003

That this House notes with concern the contrast between the enormous expansion of private credit and the growing debt burden that this imposes on society;

further notes that public credit, as measured by the proportion of publicly created money in circulation, has fallen from 20 percent of the money supply in 1964 to three per today;

believes that using public credit and increasing the proportion of publicly created money should be used to cut the costs of, and to boost the quality of, public investment and to allow the Chancellor to fulfill his golden rule without further borrowing;

further believes that this can be done with any impact on inflation;

and, therefore, urges the Treasury to commission an independent review of the benefits of using the public credit and increasing the proportion of publicly created money.

The Two Biggest Reasons for Ottawa's Shift? China and China.

By Campbell Clarke Ottawa, The Globe and Mail, November 28, 2013

The Conservatives' new plan to make mercantile interests and deals in emerging markets the driver of Canadian diplomacy is not motivated only by concern about competing in China – it is much more so about competing with China.

Behind Trade Minister Ed fast's Global Markets Action plan were months of thinking in the Conservative government about the competition Canadian firms face – notably the aggressive Chinese push for business in foreign countries that includes bundling aid with deals, bartering infrastructure for oil concessions, and using its diplomatic muscle to help its companies win contracts.

Inside the senior ranks of Prime Minister Stephen Harper's government, one inspiration was a 2012 article in the journal *Foreign Affairs* entitled "How to Succeed in Business, and Why Washington Should Really Try." The piece, by Alexander Benard, an emerging-markets investment banker and foreign-policy writer, decries the failure of the US State Department to help businesses while China's companies gain contracts – even scooping up an oil deal in Afghanistan.

Now, Canada's government has unveiled a policy that echoes some of Mr. Bernard's recommendations: making aid and trade work together, marshalling other government resources to open emerging markets, and above all, making business a diplomat's business.

It is a shift of narrative in Canada's diplomacy. Pearsonian foreign policy was based on the notion that a rising tide lifts all boats: Multilateralism and building international order and development would help global growth, and Canada's economy, too. The Harper foreign policy is now explicitly based on lifting Canadian boats first and foremost.

But the plan's substance lies in how far it is taken – and whether it is taken literally.

Its undeniable virtue is in recognizing an accelerating shift in where Canada's economic interests lie, and the need for government to change too. That is a broad foreign policy imperative because Canada's political interests, broadly speaking, will travel with its economic interests.

"Does that mean we won't do peace and security any more? What about human rights? What about democratic development?" said New Democrat Hélène Lavandière, a former diplomat. It's shifting down the rest, and it's going to be a very unbalanced foreign policy."

Derek Burney, a former ambassador to the United States and chief of staff to Brian Mulroney, called that a simplistic criticism that reads too much into the plan to reorganize trade promotion. "People are saying, 'Oh, woe is me, the world is coming to an end. We're no longer going to be voting at the UN on a regular basis.' This is nonsense," he said.

That's perhaps too much understatement: Mr. Harper clearly sees part of his legacy in shifting foreign policy and the emphasis of the foreign-service corps.

The travels of Foreign Affairs John Baird have established business as a priority, and that foreign policy often follows trade. He recently signed an agreement in Kazakhstan important to the uranium business of Saskatchewan's Cameco; he is pursuing diplomatic, defence, and other political relations with southeast Asia's ASEAN bloc because of its trade potential.

Ms. Lavandière noted that the plan puts in black and white that Canada will align foreign aid to trade interests, although by law, poverty reduction is the goal of aid. In places like China, the diplomat raising human right concerns will have to view business deals as a priority, too, she said. "And the message it sends to other countries is, we're interested in you insofar as we can sell our stuff."

That message is important, according to Mr. Benard's 2012 article. He argued that the United States should not use full-blown "dollar diplomacy" because single-mindedness is already backfiring for China.

Mr. Harper has clearly accepted another one of Mr. Benard's conclusions: that given the competition, it is no time to be timid.

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Our Comment. Translated into the markets game reining in the leading lands, this is tantamount to declaring the selling successes in whatever rules the show as the ultimate ultimate that sinks or swims. Others must bundle up to make things "comfy" for those in the saddle. *W.K.*

Update *from page 13*

were keeping in close touch with proceedings, and showing an obvious reluctance to surrender the ground that had been gained. A noble lord who claimed that his family's bankruptcy in a previous century had been brought about by the machinations of the banking monopoly now raised the issue again in his own chamber, and ensured that there would be a committee room and a hearing for whatever new developments emerged.

Meanwhile *Morris* and *Mentor,* two experience parliamentarians who had long been championing the cause of public finance for public purposes, kept the issue constantly in front of their colleagues by raising a relevant series of motions for display upon the notice board. *Through the wall* these were known as Early Day Motions or EDMs, and were numbered for reference. Broadly, they petitioned the House "to recognize that the huge expansion in bank lending, and the decline of the note issue as a proportion of available money, have meant that the seigniorage return to Government, and the proportion of debt-free money, have both fallen heavily as proportions of GDP…and they further urge the Government to redress the balance back to the people by instructing the Bank to create credit, exclusively to finance public investment…."

Keeping a weather eye on these developments, the Antiquarian had to remain pessimistically aware that the loss of seigniorage, and its implication for the future of publicly created money with the community, were very much a minority interest, with signatories to the various EDMs representing only a small percentage of the elected Members in the Commons House.

With regard to that largely disinterested majority, he could only decide that they chose *not to become involved* in matters which they did not fully understand. It was all a matter of *watching one's back,* or *keeping one's nose clean*, and avoiding any unwelcome attention from the whips, who – on grounds of disloyalty – could so readily bar the associate with pressure groups, it might possibly be because of some urgent problem

"Why shouldn't a socially aware and economically responsible government create credit where it is appropriate…in order to ensure investment is made and at the same time strike a great blow for the democratic control of the economy?"
– Brian Gould, former Deputy Leader of the Labour Party (UK). February 19, 1993, in *The New Statesman*

which in their own minds loomed larger than the fate of the Nation's economy.

With others it was an imperative to carve themselves a career, or concentrate upon the needs of home and family. It could be a matter of lifestyle, an obsession with social standards, or just keeping in with the right people. Under the stresses of modern living, there were a hundred and one different fears, worries and considerations which could make the individual Member wary of exposing his (or her) back, and stepping out of line. That they were coincidentally failing in their professional duty to register a considered opinion upon the most critical financial issue of the century would apparently bother them not at all.

To be continued.

INSIDE THE RACE TO RESCUE A HEALTH CARE SITE, AND OBAMA

Slow to Grasp Insurance Portal's Problems, White House Had to Play Catch-Up

By Sheryl Gay Stolberg and Michael D. Shear, The New York Times, December 1, 2013

Washington – As a small coterie of grim-faced advisers shuffled into the Oval Office on the evening of October 15, President Obama's chief domestic accomplishment was falling apart 24 miles away, at a bustling high-tech data center in suburban Virginia.

HealthCare.gov, the $630 million online insurance marketplace, was a disaster after it went live on October 1, with a roster of engineering repairs that would eventually swell to more than 600 items. The private contractors who built it were pointing fingers at one another. And inside the White House, after initially saying too much traffic was to blame, Mr. Obama's closest confidants had few good answers.

The political dangers were clear to everyone in the room: Vice President Joseph R. Biden Jr.; Kathleen Sebelius, the health secretary; Marilyn Tavenner, the Medicare chief; Denis McDonough, the chief of staff; Todd Park, the chief technology officer; and others. For 90 excruciating minutes, a furious and frustrated president peppered his team with questions, drilling into the arcane minutiae of web design as he struggled to understand the scope of a crisis that suddenly threatened his presidency.

"We created this problem we didn't need to create," Mr. Obama said, according to one adviser who, like several interviewed, insisted on anonymity to share details of the private session. "And it's of our own doing, and it's our most important initiative."

Out of that tense Oval Office meeting grew a frantic effort aimed at rescuing not only the insurance portal and Mr. Obama's credibility, but also the Democratic philosophy that an activist government can solve big, complex social problems. Today, that rescue effort is far from complete.

The website, which the administration promised would "function smoothly" for most people by November 30, remains a work in progress. It is more stable, with many more people able to use it simultaneously than just two weeks ago. But it still suffers sporadic crashes, and large parts of the vital "back end" that processes enrollment data and transactions with insurers remain unbuilt. The president, who polls showed was now viewed by a majority of Americans as not trustworthy, has conceded that he needs to "win back" his credibility.

Another round of hardware upgrades and software fixes was planned for Saturday night. Administration officials say they will give a public update about the site's performance on Sunday morning.

The story of how the administration confronted one of the most perilous moments in Mr. Obama's presidency – drawn from documents and from interviews with dozens of administration officials, lawmakers, insurance executives and tech experts working inside the HealthCare.gov "war room" – reveals an insular White House that did not initially appreciate the magnitude of its self-inflicted wounds, and sought help from trusted insiders as it scrambled to protect Mr. Obama's image.

After a month of bad publicity and intensifying Republican attacks, the sense of crisis and damage control inside the White House peaked on October 30, as the president's top aides began to fully grasp the breadth of the political challenges they faced. As Ms. Sebelius was grilled by Congressional Republicans that day, Mr. Obama flew to Boston to defend the health law and confront a new accusation: that he had lied about whether people could keep their insurance. Meanwhile, Mr. McDonough huddled at the Democratic National Committee headquarters with a small group of freshman House members whose anxiety was soaring.

The day was a brutal reminder for top White House advisers that fixing the botched health care rollout would be critical to restoring their boss's agenda and legacy. To do that, they would have to take charge of a project that, they would come to discover, had never been fully tested and was flailing in part because of the Medicare agency's decision not to hire a "systems integrator" that could coordinate its complex parts. The White House would also have to hold together a fragile alliance of Democratic lawmakers and insurance executives.

"If we don't do that," one senior White House adviser recalled, "it's a very serious threat to the success of the legislation and a very serious threat to him. We get that."

The urgent race to fix the website – now playing out behind the locked glass doors of the closely guarded war room in Columbia, MD – has exposed a deeply dysfunctional relationship between the Department of Health and Human Services and its technology contractors, and tensions between the White House chief of staff and senior health department officials. It strained relations between the Obama administration and the insurance industry, helped revive a Republican Party battered after the two-week government shutdown and frustrated, even infuriated, Congressional Democrats.

But as the president's team gathered on October 15 – with a budget deal finally in sight on Capitol Hill – his difficulties were only just becoming clear to the White House. As aides left the Oval Office that evening, clutching notes filled with what Mr. McDonough called "do-outs," or assignments, political pressure was mounting.

The moment the government reopened, Mr. Obama and his image-makers knew, the news media would turn its attention to the website fiasco; at the October 15 meeting, the president directed aides to make plans for him to tell the public that "yes, the website is screwed up," one said. Within days, Republicans would have front-page evidence that the "Obamacare train wreck" they had long predicted had become a reality.

"We knew," said Jennifer Palmieri, the White House director of communications, "that we were a little bit on borrowed time."

The Rollout

The early reports were encouraging as HealthCare.gov opened for business on the morning of Tuesday, October 1.

The long-planned federal web portal – envisioned as an online marketplace where consumers could shop for plans, compare coverage and determine whether they qualified for subsidies – was central to Mr. Obama's promise of affordable care. (There are also 14 state-run exchanges.) On the eve of the rollout, Ms. Sebelius, a onetime Kansas governor and former insurance commissioner who had logged countless miles promoting the health law, was ebullient.

"We're about to make some history," she said.

The site went live around midnight, monitored by tech teams from Ms. Tavenner's agency, the Centers for Medicare and Medicaid Services, which supervised its development. In the West Wing, Mr. Park, the technology officer, spent the night in his office keeping tabs on traffic. Later that morning, Mr. McDonough ran into Ms. Palmieri in a White House hallway.

"Did you hear?" he asked. "The traffic is really high."

It was a relief. Mr. McDonough, a 43-year-old former national security aide and one-time high school football defensive back known for his military-speak and sports analogies, had distributed "enrollment countdown calendars" to his staff members and warned them that "no plan survives first contact." Yet his primary concern – that customers would not come – so far appeared unfounded.

But in Herndon, VA, at the offices of CGI Federal, the American subsidiary of a Montreal-based information technology firm that built the bulk of the site, technicians were frantic. They were beginning to realize what the White House did not: that the exchange's problems involved much more than delays caused by high traffic. Errors were popping up everywhere. Software that assigned identities to enrollees and ensured that they saw only their own personal data, known internally as the EIdM, was being quickly overwhelmed. Customers could not log in to create accounts.

Mr. Park was dispatched to help. A Harvard graduate and a son of Korean immigrants who co-founded a health information technology firm when he was 24, Mr. Park had the job of promoting innovation. Now, he and the software engineers who built the system were desperate to figure out what was wrong.

"They kept looking, looking, looking, but there wasn't anybody moving through the system," a person who worked on the project said.

Account creation was the province of Quality Software Services Inc., or QSSI, a company based in Columbia, MD. Its subcontractor, Oracle, flew a high-level team of software engineers to Washington. Experts disagree on what went wrong. But several said that errors in the software code written to stitch the Oracle product into the online system and improperly configured hardware trapped users in endless technological loops. It would take eight days to resolve just that one bottleneck.

Publicly, Mr. Obama had said "interest way exceeded expectations, and that's the good news." But in a meeting in Mr. McDonough's office that first weekend after the start, someone asked the question on everyone's mind: Should we just take the website down altogether for a time so it can be fixed?

No, Mr. Park said, after consulting with the engineers in Herndon – the website needs to be up to see where the problems are. One senior White House official said they briefly considered scrapping the system altogether. They decided it was fixable.

On Capitol Hill, lawmakers were consumed with another problem: the looming threat of a government default. The House Democratic Caucus gathered in the East Room of the White House on October 9; Mr. Obama, participants said, vowed to hold the line with Republicans on the debt fight and assured nervous Democrats that his team would get the health portal working.

That same day, Mr. McDonough met in his office with Jeffrey D. Zients, a multimillionaire management consultant who had developed a reputation as a troubleshooter while running the Office of Management and Budget and is scheduled to become Mr. Obama's top economic adviser in January. For weeks, aides to Ms. Sebelius had expressed frustration with Mr. McDonough, mocking his "countdown calendar," which they viewed as an example of micromanagement.

Now the chief of staff of a White House known for its insularity was again turning inward, looking to an Obama intimate who had no involvement in the creation of the health care website for what Mr. McDonough called "independent eyes."

A Mad Scramble

Chaos and frustration among the engineers was growing as fast in mid-October as the list of problems they were supposed to be fixing. Across the country, insurance executives were alarmed. Almost no one was buying their products.

In Herndon, as engineers tried to come to grips with repeated crashes, a host of problems were becoming apparent: inadequate capacity in its data center and sloppy computer code, partly the result of rushed work amid the rapidly changing specifications issued by the government.

The website had barely been tested before it went live, so a large number of software and hardware defects had not been uncovered. Fixing the account creation software simply exposed other problems; people still could not register to buy insurance. A system intended to handle 50,000 simultaneous users was fundamentally unstable, unable to handle even a tiny fraction of that. As few as 500 users crippled it, according to people involved.

"These are not glitches," one insurance executive said at the time, using a word the White House had adopted. "The extent of the problems is pretty enormous. At the end of our calls, people say, 'It's awful, just awful.'"

On Sunday, October 13, with many top advisers spending as much as 75 percent of their time on the website, Mr. McDonough added a nightly 7 o'clock meeting in his office to demand updates.

Later that week, after the big damage control meeting in the Oval Office, he and Ms. Sebelius went to meet with the exhausted and disheartened staff at the Medicare agency. Republicans were calling for the health secretary's resignation; aides say she never considered it. In the car on the way back to the White House, Mr. McDonough broached the idea of having an outsider take charge.

"Look," he remembered telling Ms. Sebelius, "we've always recognized that as a management technique you'd always want independent eyes if we ran into a problem. What do you think about Jeff Zients?"

Ms. Sebelius hesitated. "Let's think about it," she said, by Mr. McDonough's account.

It did not take much prodding; by the end of the ride, the secretary had agreed. Within 24 hours, Mr. Zients would assume the responsibility for fixing the website, though his name would not surface publicly until the next week. He began by quietly visiting the federal agencies and contractors.

He found a technical and a personnel mess.

Relations between the Centers for Medicare and Medicaid Services and its prime contractor, CGI Federal, had soured over the summer, well before the website opened on October 1. Contractors responsible for different parts of the portal barely talked to one another, hoping to avoid blame. Among the contractors, rumors were swirling: CGI Federal would be fired. IBM, one of the losing bidders, would take over. The system would be scrapped; it had to be rebuilt from scratch.

Mr. Zients decided the site needed a "systems integrator," a single company that would take charge. On October 24, Ms. Tavenner put Quality Software Services in that new role – a move that, people familiar with the project say, began to resolve conflicting and contradictory directions from her agency.

The week QSSI took over, HealthCare.gov – a site Mr. Obama once promised would be as easy to shop on as Amazon.com – went dark for 10 to 12 hours, unheard of in the online business world. But the bigger problem was organizational.

"People looked like they were busy," said Andrew Slavitt, group executive vice president for QSSI and its parent company, Optum, "but it was hard to tell what they were working on and how it fit in."

But while the contractors were grateful to Mr. Zients for helping to create order, they saw the administration's "tech surge" – announced by Mr. Obama in the Rose Garden a few days before QSSI took over – as mostly an exercise in public relations.

The announcement conjured images of an army of software engineers descending on the project. In fact, the surge centered on about a half-dozen people who had taken leave from various technology companies to join the effort. They included Michael Dickerson, a site reliability engineer at Google who had also worked on Mr. Obama's campaign and now draws praise from contractors as someone who is "actually making a difference," one said.

Even so, one person working on the project said, "Surge was probably an overstatement."

By late October, the website's problems had become nightly fodder for television satirists, with *Saturday Night Live* lampooning Ms. Sebelius's disastrous appearance earlier in the month on *The Daily Show With Jon Stewart.* (During a trip to Tennessee by Ms. Sebelius on November 1, a state senator would add insult to injury by presenting her with a copy of *Websites for Dummies.*)

On October 30, during three and a half hours of grueling testimony before the House Energy and Commerce Committee, Ms. Sebelius apologized. In the hearing room, the HealthCare.gov home page was displayed on a large video screen. "Please try again later," it said. The site had crashed again.

That morning, an aide to the secretary woke up and burst into tears. "We are taking arrows every day," she said.

Insurers Grow Anxious

Karen Ignagni was also feeling the crushing weight of the website's problems.

The longtime chief executive of America's Health Insurance Plans, the insurers' trade association, Ms. Ignagni is one of the most powerful lobbyists in Washington. The daughter of a Rhode Island firefighter who got her start as a health policy analyst for the AFL-CIO, she has been alternately tangling with and supporting Mr. Obama on health care since 2009. She risked alienating some of her own members by working toward the law's passage.

With billions of dollars at stake for their industry, insurers voiced apprehensions even before the website's start about the lack of thorough testing, and Ms. Ignagni presented a list of ideas to the Obama administration about what to do if the website malfunctioned. But, an insurance executive briefed on the meeting said, their concerns were waved off.

In the early weeks of October, as the industry's dire predictions came true, the ever-careful Ms. Ignagni held her tongue. But one high-profile insurance executive went public with his concern. "There's so much wrong, you just don't know what's broken until you get a lot more of it fixed," Mark Bertolini, the chief executive of Aetna, said on CNBC.

It was harsh criticism from someone who wanted the health overhaul to work. Mr. Bertolini's working-class background and personal experiences (his son had lymphoma) had also convinced him of the need for reducing the number of uninsured. And his company, which had invested heavily in preparing for the new law, stood to benefit.

Like his counterparts, the Aetna chief executive had invested heavily in preparing for the new law, hiring hundreds of additional workers and spending tens of millions of dollars to ready his company for the new marketplace. And while other major for-profit companies, such as UnitedHealth and

Prize Promotes One-sided Viewpoint

By Darko Matovic. First published in PIC Press.

Is it appropriate to look for fine print on the plaque unveiled in Latimer, South Frontenac, on October 16? In a large photo, the plaque is surrounded by the MP Peter Milliken, the Mundell family and the Mayor Phil Leonard. The plaque reads: "This Monument honours Robert A. Mundell, PhD, 1999 Nobel Laureate in Economics, whose first years of formation began in South Frontenac Township in a one-room school house just east of here…."

No fine print, but I wish there was, perhaps something like "The true name of the prize is the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel," established in 1964. For further details check the www.nobel.se site. The curious reader could then learn that this award is as genuine Nobel as the simulated leather shoes are to genuine leather ones.

Some readers may see this just as nit picking but in today's "image is everything" world this confusion is well exploited by the sponsor bank to promote one-sided economic viewpoint.

It is beyond me why the Swedish Central Bank would be in the business of making awards to economists. I understand that it is a state institution in charge of nation's monetary policy. Should the Ministry of Transportation sponsor the Formula One championship?

True to its banking sponsors the Nobel-like Prize in Economics has been heavily biased in favour of the idols of the monetary clan. Here is the Canadian example: unlike Latimer, where the plaque honours Dr. Mundell, a monetarist, there is no memorial plaque in Iona Station (Elgin County), Ontario, the birthplace of John Kenneth Galbraith. He is one of the strongest voices in economics who argue that money should serve people, not the other way around.

Of course, he has not been awarded the Nobel-like prize in Economics. The bankers were not amused by such a thought.■

Cigna, have mostly shied away from the online marketplace, Aetna is an active participant, offering plans in numerous markets.

Mr. Bertolini and a dozen other insurance executives were quickly invited to a meeting at the White House. They arrived in the Roosevelt Room on October 23 to find Ms. Sebelius, Mr. McDonough and Valerie Jarrett, the White House liaison to business, among others. The mood, participants said, was one of cooperation, not conflict.

"Everyone was trying to say, let's roll up our sleeves," said James Roosevelt Jr., a grandson of President Franklin D. Roosevelt and the chief executive of Tufts Health Plan.

But the good feelings evaporated as insurers started informing hundreds of thousands of existing customers that their plans no longer met basic, minimum standards required by the *Affordable Care Act*. With the website practically unusable, insurers were panicking; their customers could not log onto HealthCare.gov to buy new plans.

Customers "are not able to piece together the complete story right now," one frustrated executive complained at the time.

Mr. Obama, meanwhile, was under assault. After years of telling Americans, "If you like your insurance plan, you can keep it," he was being accused of lying. On the night of October 28, Ms. Jarrett, one of Mr. Obama's closest confidantes and a guardian of his personal credibility, took to Twitter to defend him – and to shift the blame.

"FACT," she wrote. "Nothing in Obamacare forces people out of their health plans. No change is required unless insurance companies change existing plans."

The tweet touched a nerve; it was not the first time the Obama White House had used the insurance industry as a scapegoat. Ms. Ignagni's members were furious. "Here it comes – we knew it would happen," one executive recalled thinking.

The administration made amends in a very public way. Chris Jennings, a health policy veteran who closed his consulting firm in January to coordinate health care issues for Mr. Obama, wrote an opinion article in *USA Today* asserting that insurers were not "cutting people loose," but rather offering better, more comprehensive coverage. "They want to keep current enrollees as well as attract millions more who are currently uninsured," he wrote.

Even so, the relationship between the insurers and the White House was once again strained.

"You Can Keep It"

Inside the West Wing, where junior researchers monitor Twitter and other social media, officials knew the political controversy had moved beyond the broken website. Now it was about a broken promise. But for Mr. Obama, the mounting criticism was more than political. It felt personal.

"He was uncomfortable," one senior adviser said. He hated the idea that so many Americans had received cancellation letters from their insurance companies and were angry because "of what the president had said – that this wouldn't have happened."

On October 30, the president flew to Boston to talk about the *Affordable Care Act* at an event in Faneuil Hall, the Colonial-era meeting place where Mitt Romney, then the governor of Massachusetts, signed his own health care overhaul into law in 2006.

In addition to pledging again to fix the website, Mr. Obama for the first time acknowledged that not all people would be able to keep their health insurance. "For the vast majority of people who have health insurance that works, you can keep it," he told the crowd. "So if you're getting one of those letters," he advised, "just shop around in the new marketplace."

Aides hoped the admission would cool down the controversy. But back in Washington, the president's adversaries had other ideas.

As senior Republican lawmakers huddled in strategy sessions to take advantage of the website debacle, their constituents began sending stories about having their health insurance canceled suddenly. Their anger at the president was palpable – and usable.

Bruno Gora, a 61-year-old self-employed promotional products distributor in Henrico, VA, for one, dashed off a note to his congressman, the House Republican leader, Representative Eric Cantor. Mr. Cantor had for years been questioning Mr. Obama's "If you like your plan, you can keep it" promise. Now there was tangible proof that the president had been wrong.

Countless letters like that formed the backbone of the new Republican battle plan. The strategists knew that HealthCare.gov would eventually be fixed; it was time, one said, "to go heavy on the broken promise."

Senator Mary L. Landrieu of Louisiana, a conservative Democrat who faces a tough re-election campaign in 2014, was one of the first to sense the danger. She quickly drafted legislation to allow consumers to keep their existing plans, with a title that was an unmistakable slap at the president: "The Keeping the Affordable Care Act Promise Act."

At the White House, her legislation and a similar bill written by a Republican House member set off alarms among policy aides, who feared that letting consumers keep old plans could further undermine the health care law. Keeping healthier people – those most likely to have already bought coverage – out of the new plans could potentially cause premiums to go up sharply in 2015, they said.

On November 6, Ms. Landrieu and the other "2014ers" marched to the White House, where they spent two hours in the Roosevelt Room upbraiding the president and his advisers. Aides to Mr. Obama say the meeting was called, in part, to give Democrats a chance to publicly criticize the president – a message that Vice President Biden delivered to Representative Steny H. Hoyer of Maryland, the Democratic whip, in a separate meeting with several freshman Democrats.

"Just attack us," Mr. Biden said, according to one person present. "Blame us."

Anxious Democrats increased the pressure. Even former President Bill Clinton casually suggested in an interview on November 12 that Mr. Obama should let people keep their insurance, even if it meant changing the law. And by the next Wednesday, with no change yet announced by Mr. Obama, Democratic lawmakers were in a full-blown panic.

In a closed-door meeting of the House Democratic Caucus, lawmakers excoriated David Simas and Mike Hash, two of Mr. Obama's top health care strategists. "The administration hasn't shown an ability to solve the problem," one lawmaker told them. The two officials promised that the president's team was working on a solution, and that it would come soon.

Despite lingering concerns inside the administration about the long-term impact on the health care law, the president announced his solution the next day: insurers would be allowed to renew old plans for a year. The announcement came just hours before a vote on a Republican bill to let insurers renew old policies and sell similar ones to new customers next year. Insurance executives, who had participated in lengthy conversations with Mr. Jennings and other officials, said they were unprepared for Mr. Obama's about-face.

But the moved satisfied most Democrats. Only 39 voted with Republicans to alter the health law, far fewer than the White House had feared.

The Fix-It Operation

After Mr. Zients arrived, he and Mr. Slavitt moved the technical guts of the rescue operation to QSSI in Columbia, Md. The war room – a command center known internally as the Exchange Operation Center, or XOC – takes up the fourth floor of a nondescript office building that sits next to a shopping mall, close enough for frequent food runs to Chick-fil-A or Five Guys Burgers and Fries. The fix would happen here or not at all.

Guarded by thick glass doors that required coded card keys for entry, the room is occupied around the clock, with a "bridge line" – an open speakerphone – to other technical teams in Herndon and Tysons Corner, VA. At any given moment, about two dozen engineers and programmers cluster around laptops as they tackle one weakness in the system after another.

As the political debate raged on an hour away in Washington last week, the small group of technical experts that Mr. Zients assembled in Maryland focused on a singular task: identifying and fixing the hundreds of software and hardware malfunctions that were bringing down the site and making it inaccessible.

At the outset, the team had made what officials call a very intentional decision to focus their repair effort on making HealthCare.gov work better for consumers. That has meant putting off some "back-end" fixes for insurers, who use the site to receive applications and bill the government for subsidy payments.

Amid so much publicity about having a better website by November 30, the administration is expecting a new crush of visitors to HealthCare.gov, raising fears that the site will once again be overwhelmed. The immediate goal in recent days has been to double HealthCare.gov's capacity, so that 50,000 people will be able to log on simultaneously and 800,000 can visit in a single day. To accommodate overflow, the technicians are building a "waiting room" where consumers can queue up.

There is a secretive air about the war room – it is strictly off-limits to photogra-

It Isn't Only About the Dollars

The Globe and Mail, November 28, 2013

The Department of Foreign Affairs, Trade and Development should not be taken too literally in its Global Markets Action Plan. Ed Fast, the Minister of International Trade, says that the plan will "ensure that all Government of Canada diplomatic assets are harnessed to support the pursuit of commercial success by Canadian companies and investors."

These words are repeated no less than four times in the document. It makes it sound as if the sole job of diplomats will be to carry businessmen's luggage. A closer look, however, suggests a welcome emphasis on encouraging Canadian commerce and investment abroad, but as part of a more comprehensive, nuance strategy.

For example, when John Baird – Minister not only of Foreign Affairs but also of Trade and Development – said he was "deeply skeptical" about the interim agreement on Iran's nuclear program and made it clear that Canada's sanctions against Iran would remain in full force, he was definitely not harnessing himself as a diplomatic asset to support Canadian commerce with the Islamic Republic, If all Canada cared about was "commercial success," we'd have no sanctions at all.

Trade, commerce and investment are more than ever at the core of Canada's foreign policy. Good. But human rights and foreign aid are also core Canadian interests, and their pursuit cannot be simply subsumed under the activities of trade commissioners. The former Canadian International Development Agency has been amalgamated into Foreign Affairs. Mr. Fast may talk about harnessing all diplomatic assets to business objectives. That cannot account for Canada's aid to the Philippines after the devastating Typhoon Haiyan, which was sent to relieve suffering. In fact, the Philippines are nowhere mentioned along the "markets that matter" in the action plan that was released on Wednesday. Does that mean in future Canada would give less? We hope not.

The advancing of Canadian economic interests should be a high priority of foreign policy, and often the highest priority. Mr. Fast and his colleagues are right to articulate a coherent framework for advancing those goals. But other Canadian interests, such as human rights and humanitarianism, will sometimes trump the dollar, and should.■

phers and has been closed to reporters until now. Its unofficial manager is Mr. Dickerson, an easygoing 34-year-old who goes by Mikey and has taken a leave from Google to work temporarily for QSSI.

Mr. Dickerson brought with him the experience of someone used to the intense pressure of keeping a high-profile website operational. At Google, he helped maintain the company's advertising servers; every second they were down, the company lost money.

On a cold, rainy night last week as one of the monitors showed 9,852 users logged onto HealthCare.gov, he likened the complex work to road repairs.

"It's very similar to what traffic engineers do," he said. "You can add lanes to the freeway, but maybe that makes commute times better and maybe it doesn't. If everybody backs up on the on ramp, it doesn't matter."

Throughout late October and November, Mr. Zients had repeated a phrase that became his mantra: HealthCare.gov would "function smoothly for the vast majority of users" by the end of November, though he was always unclear about how that would be measured. His public updates each Friday provided snapshots of their technological roller-coaster ride, with metrics about response times and error rates.

But inside the room, 16 oversize Samsung television screens offered real time data, measured in milliseconds, of problems and delays.

When the problems occur – and they still do – the command center sees them first, in charts that suddenly spike on the television monitors. The data also serves as a reality check in a hypersensitive media environment. Last month, CNN reported that HealthCare.gov had gone down again. A quick look at the screens made it clear that whatever the problem had been, it was fleeting.

Mr. Zients's metrics, meanwhile, are improving. When the repair effort began, response time – how long it takes a page to load – averaged eight seconds; now it is less than one. The error rate – how often users are unable to click through to the next page – was 6 percent; now it is 0.75 percent. When Mr. Dickerson announced that the day had ended with no major crashes and no one who could not log in, the engineers erupted in applause.

"That's the job," he said. "When things break, you have to fix them."

But even as the White House points to its progress, the administration on Wednesday said troubles with HealthCare.gov had forced it to delay, by one year, an online exchange for small business.

Other people working on the project, speaking anonymously because they are not authorized to talk to reporters, say significant challenges remain.

Some of the companies building the system opposed an early decision by the Medicare agency to use database software from a company called MarkLogic, which handles data differently from systems by companies like IBM and Oracle. Some suggest that its unfamiliar nature slowed their work. By mid-November, more than six weeks after the rollout, the MarkLogic database – essentially the website's virtual filing cabinet and index – continued to perform below expectations, according to one person who works in the command center.

In interviews, MarkLogic's executives faulted inadequate computing power and instability at the site's data center, as well as the failure to properly integrate their product, problems repeatedly cited by other website vendors.

But perhaps most important, it remains unclear whether the enrollment data being transmitted to insurers is completely accurate. In a worst-case scenario, insurance executives fear that some people may not actually get enrolled in the plans they think they have chosen, or that some people may receive wrong information about the subsidies for which they are eligible.

In recent days, Mr. Zients has sought to lower expectations, telling reporters that repairs will continue – it is an "iterative process," he likes to say – and that there will be "no magic moment when our work is complete."

In the White House, aides to Mr. Obama know that Republican attacks will keep coming, and that a clearer assessment of the *Affordable Care Act* will not come until at least the end of March, when the initial sign-up period for enrollment closes. The Congressional Budget Office has projected that seven million people will have signed up for coverage by then, but so far enrollment has been slow. During October, the federal government has reported, just 106,000 people picked new health plans, a vast majority of them through state-run exchanges.

Mr. Obama, meanwhile, is trying to turn the page. After a bruising two months in Washington, he spent the early part of last week on the West Coast, talking about other priorities – the economy and an immigration overhaul – raising money for Democrats, and trying at every turn to sound upbeat.

At a closed-door fund-raiser Tuesday night at the Beverly Hills home of the basketball star Magic Johnson, Mr. Obama made only scant reference to the law that he has long hoped will define his presidency. The president, who just two weeks earlier stood before a roomful of reporters in Washington and confessed that he had "fumbled" the rollout of his biggest legislative initiative, now confined his remarks about health care to his long-running battle with Republicans.

"I'm absolutely sure we're going to make sure this country provides affordable health care for every single American," Mr. Obama told the donors. "And if I have to fight for another three years to make sure that happens, I will do so."

He did not mention the website.

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Our Comment. The real problem would appear the inability of the heavy drudgers to define themselves rather than investing in an easy job of defending all others. *William Krehm*