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COMER

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CONTENTS

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Understanding Money

By John H. Hotson

PCD Forum Article 15, release date: June 1, 1996

An understanding of the true nature of money is essential for those seeking economic reforms towards the creation of sustainable societies. People today have more erroneous ideas about money than Victorians had about sex, so, please read the following with care.

Let's begin with the distinction between "legal tender" money, which only the government or its agency, the Bank of Canada, in the case of Canada, can create, and the "money" created by private banks – and increasingly – by "near banks." If you happen to have a Bank of Canada note, on it you will read the words, "This note is legal tender."

These notes, and checks drawn on the Bank of Canada, are the only legal money in Canada. What that means is that if you owe someone $20 and you give him a $20 bill, he is paid. If he refuses payment in this form you are absolved of the debt. By contrast, he does not have to accept your check drawn on a private bank, or even a certified check of a private bank. Money issued by the Bank of Canada is sometimes called "Right of Purchase" money to distinguish it from "Promise to Pay" money created by private banks.

While private banks are, in effect, creating money out of nothing, they are providing an important service as their "promise to pay money" is, for many purposes, safer and more convenient to use and store than actual cash. Furthermore, it costs the bank billions of dollars to maintain the payments system that clears your check back to your account and to keep the necessary records. All those nice, or not so nice, people who work in those banks, deciding who gets a loan and what happens if they can't pay, have to be paid their salaries. Banks also have to pay phone bills, electricity, heat and so on. What they create is intangible, but at the same time very real. Essentially, *the bank is substituting its promise to pay – which is accepted as money – for your promise to pay, which is not.*

Today only about 4 percent of the money in circulation in Canada is Bank of Canada legal tender. In other words, 96 percent of our money is created by private banks. In 1945 the Bank of Canada accounted for 27 percent of our money. At that time the bank rate of interest was only 1.5 percent and the Canadian economy boomed.

Some 96 percent of the "money" we are now using is not Bank of Canada "legal tender," but rather the promise of private banks to pay the bearer Bank of Canada legal tender on demand. This promise is what a private bank provides for you when you take out a loan with the promise to repay it with interest. The bank knows that mostly you

Continued on page 2

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Money *from page 1*

don't want legal tender. What you want is a checking account or a bank-issued check for the amount borrowed so that you can send the bank's promise-to-pay to folks you owe money to – folks who also don't want legal tender, but who do want to deposit your check in their own bank account.

The money supply of Canada increases at the moment a bank issues you a loan. As you repay your loan the money supply shrinks. So, money is being created and destroyed every day.

Banking came into existence as a fraud. The fraud was legalized and we've been living with the consequences, both good and bad, ever since. Even so, it is also a great invention – right up there with fire, the wheel, and the steam engine.

In the 16th century, as the gold and silver the Spanish had stolen from the American Indians poured into Europe, coins grew larger, more plentiful and heavy. Merchants needed a safe place to keep them when they weren't needed. The goldsmiths had large safes and fierce dogs and it became customary to leave coins on "safe deposit" with them. Next, people saw that a "gold certificate" or warehouse receipt signed by the goldsmith was more convenient to circulate than those heavy coins made of soft metals that quickly wore out if they passed hand to hand. So the smiths printed up receipts in convenient denominations promising payment in gold to whomever presented the receipt. Some people took to writing notes to the smith ordering him to transfer the ownership of some of their coins to someone else. Thus the personal check was born!

Then, one day, one of the smiths had a brilliant, and wholly dishonest, idea. He noticed that people so much preferred his paper money to its "gold backing" that the gold in his vault hardly circulated – some of it hadn't moved in years. So he thought, "I could print up some extra gold certificates and lend them out to gain the interest." The idea was irresistible, and thus banking was born!

Just 300 years ago, in 1694, William Patterson talked King William III into chartering a private bank with the official sounding title of "The Bank of England." The King had another war to fight with France's King Louis XIV and not much money to pay for it. Being a Dutchman, he was unpopular with the British Parliament and it balked at voting the needed taxes. The royal credit was zilch because of his predecessors' extravagance. What to do?

He jumped at Patterson's promise to lend him lots of "Bank of England Notes" – which had little or no gold "backing" – at a reasonable sounding 3 percent interest. *Thus national debt was born.*

King William seems never to have asked His Royal Self the obvious question, "Why the hell should I pay William Patterson interest to print money for me? Why don't I get a printing press and print some money myself?" Nor did he notice that his humble subjects in the Massachusetts Bay Colony, in what would one day become the United States, had already come to just this solution to solve a similar problem.

In 1690, the Massachusetts Bay Colony decided to do its bit in King William's War by invading Canada. The soldiers were told, "We can't pay you, but the French have lots of silver. So beat them out of it and we will pay you with the spoils." But the French won and the soldiers came back to Boston sore, mean and unpaid. Necessity being the mother of invention, a bright Yankee named Benjamin Franklin thought of printing up government "promissory notes," declaring them "legal tender" and using them to pay the soldiers. That worked so well that the other colonies copied the idea. From that day until the American Revolution (1775-1782), there were no banks in the 13 British North American colonies.

By the time of the Revolution, Pennsylvania was the richest place on earth. Franklin liked to boast that part of the credit was due to the government money he printed. As he pointed out, the government could spend the money into circulation for a new bridge or school, then tax the cost back over the useful life of the project. It could also lend the money to businessmen at 5 percent interest instead of the 10 percent the British banks charged. Or it could transfer the money into circulation to take care of widows, orphans and other unfortunates. Pennsylvania made so much money out of creating money – and selling off lands stolen from the Indians – that it had to levy hardly any taxes.

When word of this reached Great Britain, the Bank of England decided to destroy the competition of the colonial money. It got Parliament to forbid the colonies to produce any more of the stuff and the fat was on the fire. The Continental Congress met and defied Parliament and the King by issuing its own currency – the Continental. As Franklin saw it, the attempt of Britain to restrict the colonies from issuing paper money was one of the main causes of the Revolution.

The Continentals paid for most of the

cost of the revolution. Since they had to be over-issued, prices rose greatly. Much of the inflation, however, was caused by massive British counterfeiting of the Continentals. "You revolting Yankees like paper money? Here! Have lots of it!" So Americans still have a saying, "Not worth a Continental." After the war banking came to America.

Some historians have much criticized this method of financing the American Revolution and held up British practice as a model of "sound finance." However, as William Hixson shows in his book, *Triumph of the Bankers*, those historians have it backwards. According to Hixson, the total cost of the war to the Americans was about $250 million and much of this was financed by the "Continentals" and other paper monies. An additional war debt of $56.7 million accumulated some $70 million in interest before it was all paid off in 1836.

The direct war costs to the British government came to about $500 million. However, the British financed their side of the war almost entirely with borrowed money. Since they have never since reduced their national debt below $500 million, they still owe this money! Assuming a modest average interest rate of 4 percent, the British taxpayer has by this time paid the British bondholder over $4 billion in interest on the initial $500 million loan-and is still paying! Sound finance?

What a pity that King William did not have a Benjamin Franklin to advise him! What a pity that the wisdom of Franklin was lost and Alexander Hamilton was able subsequently to charter the Bank of the United States modeled directly on the Bank of England! What a pity that many historians, like many non-historians, so badly misunderstand money and banking!

The financial system the world has evolved on the Bank of England model is not sustainable. It creates nearly all money as debt. Such money only exists as long as someone is willing and able to pay interest on it. It disappears, wholly or partially, in recurring financial crises. Such a system requires that new debt must be created faster than principal and interest payments fall due on old debt.

A sustainable financial system would enable the real economy to be maintained decade after decade and century after century at its full-employment potential without recurring inflation and recession. By this standard, a financial system that creates money only through the creation of debt is inherently unsustainable.

About Our Commenters

Élan is a pseudonym representing two of the original members of COMER, one of whom is now deceased. The surviving member could never do the work she is now engaged in were it not for their work together over many years. This signature is a way of acknowledging that indebtedness.

Rocco Galati is a Canadian constitutional lawyer. He is representing COMER in a case now before the Federal Court of Canada.

When a bank makes a loan, the principal amount of the loan is added to the borrower's bank balance. The borrower, however, has promised to repay the loan plus interest even though the loan has created only the amount of money required to repay the principal – but not the amount of the interest. Therefore, unless indebtedness continually grows it is impossible for all loans to be repaid as they come due. Furthermore, during the life of a loan some of the money will be saved and re-lent by individual bond purchasers, by savings banks, insurance companies, etc. *These loans do not create new money, but they do create debt.* While we use only one mechanism – bank loans – to create money, we use several mechanisms to create debt, thus making it inevitable that debt will grow faster than the money with which to pay it. Recurring cycles of inflation, recession, and depression are a nearly inevitable consequence.

If, in the attempt to arrest the price inflation resulting from an excessive rate of debt formation, the monetary authorities raise the rate of interest, the result is likely to be a financial panic. This in turn may result in a sharp cutback of borrowing. Monetary authorities respond to bail out the system by increasing bank reserves. Governments may also respond by increasing the public debt – risking both inflation and growing government deficits.

Governments got into this mess by violating four common-sense rules regarding their fiscal and monetary policies. These rules are:

1. No sovereign government should ever, under any circumstances, give over democratic control of its money supply to bankers.

2. No sovereign government should ever, under any circumstances, borrow any money from any private bank.

3. No national, provincial, or local government should borrow foreign money to increase purchases abroad when there is excessive domestic unemployment.

4. Governments, like businesses, should distinguish between "capital" and "current" expenditures, and when it is prudent to do so, finance capital improvements with money the government has created for itself.

A few words about the first three of these rules, as the fourth rule has been discussed extensively elsewhere.

1. There is persistent pressure from central banks and academic economists to free central banks from the obligation to consider the effects of their actions upon employment and output levels so that they can concentrate on price stability. This is a very bad idea indeed. Dominated by bankers and economists, central banks are entirely too prone to give exclusive attention to creditor interests, to the exclusion of worker interests. Amending central bank charters to give them independence from democratic oversight, or to set up "price stability" as their only goal would complete their subjection to banker interests. Canada's own Mackenzie King said it all, "Without Government creation of money, talk of sovereignty and democracy is idle and futile."

2. Anyone who understands that banks create the money they lend can see that it makes no sense for a sovereign government, which can create money at near zero cost, to borrow money at high cost from a private bank. The fact that most governments do borrow from private banks is one of the greatest errors of our times. If a government needs money created to pay for public spending it should create the money itself through its own bank, or spend the money debt-and-interest free as the United States did during the Revolution and again during the Civil War. If a government does not wish to "monetize" its deficits during periods of usual need such as wartime, it should either make up the deficit with higher taxes or borrow only from the non-bank public – which cannot create the money it lends to the government.

3. One of the most mistaken ideas, with which Canadians especially are cursed, is the idea that a country should maintain its interest rates higher than those of its main trading partners "to attract foreign investment." To begin with, high interest rates inhibit real investment spending on new buildings, machinery and equipment by diverting funds to finance government deficits. Furthermore, the foreign funds attracted to Canada by high interest rates cannot be spent on Canadian employees and products. They are only useful for importing foreign goods and making payments on

foreign debts. Moreover, these funds bid up the value of the Canadian dollar in foreign exchange markets, giving foreign goods a domestic price advantage over similar goods produced in Canada, while making it harder for Canada to export. Thus the inflow of foreign funds actually contributes to a "current account deficit" and depresses the Canadian economy. Those who argue that Canada must borrow on "capital account" because she has a "current account deficit" have cause and effect totally reversed. Canada has a current account deficit *because* she is borrowing on capital account. What she needs to do is to *stop* borrowing, *lower* interest rates until she stops attracting foreign funds, and let the Canadian dollar find its own level in the foreign currency markets.

When the Bank of Canada encourages the Canadian government, provinces, and municipalities to borrow in New York and Tokyo it is a betrayal of Canada. Where should they borrow when new money is needed for government spending? They should borrow at the government-owned Bank of Canada, paying near zero interest rates – just sufficient to cover the Bank's running expenses.

John H. Hotson was professor emeritus of economics, University of Waterloo, and executive director of the Committee on Monetary and Economic Reform (COMER), a Canadian-based network of economists working for economic and monetary reform. He gave the PCD Forum permission to use this material only five days before his untimely death on January 21, 1996, following heart surgery.

Our Comment

All I remember about Alexander Hamilton is from my high school American history course. I was mightily impressed by his statement: "Your people, Sir, is a great beast!"

The goal of full employment is a topic for further consideration in a future edition of Economic Reform. We shall also follow up on John's reference to his 4th rule.

An example of borrowing from the non-bank public occurred during WWII. The government sold "Victory Bonds" to the public. This both helped fund the war, and also served as a check on inflation.

Our thanks to John for so clear an overview, and for his extensive legacy of knowledge and wisdom. His concerns about monetary and economic policies and his insightful analyses are, today, more relevant than ever!

Élan

Stephen Leacock's Lessons on Skewering Inequality

By Carol Goar, Toronto Star, February 19, 2014

He could have marshaled reams of statistics to show the widening gap between Canada's rich and poor. He was one of the most accomplished economists of his day. But he didn't use a single number.

He could have written a trenchant political analysis, he headed McGill University's political science department for 28 years. But he had little use for polemics.

He could have delivered earnest speeches, churned out newspaper articles or stirred up like-minded intellectuals. But he didn't.

Stephen Leacock knew none of those tactics would jolt Canadians out of their complacency. Nor would they get under the skin of the self-righteous plutocrats who had commandeered a vastly disproportionate share of the nation's wealth. So he penned a caustic – but very funny – satire: *Arcadian Adventures with the Idle Rich.*

What prompted me to reread the book was an essay in the current edition of the Literary Review of Canada It is written in the form of a book review pegged to the 100th anniversary of Leacock's comic masterpiece, but it is meant to juxtapose the top-heavy society of the early 20th century against the Canada of today.

The article's author, Don Nerbas of Cape Breton University, concludes with a provocative observation. "The critique of plutocracy offered up these days by public figures who purport to represent popular causes rarely comes close to matching the imagination and force – and fun – of *Arcadian Adventures.*"

This dearth of wit, Nerbas suggests, "should cause us to reflect upon the Canadian intellectual tradition and its unexpected resources for thinking about our society today."

It pains me, as one of the people who has tried to draw attention to deepening inequities in Canada, to admit that Nerbas is right. The pundits, altruists, academics, anti-poverty activists, faith leaders and citizens who care deeply about this issue are, by and large, a humourless lot. We are seldom irreverent, virtually never subversive.

What can we learn from the master of parody, mischief, social commentary and fine storytelling? (Leacock was the best-known humorist in the English-speaking world from 1915 to 1925.)

Lesson one: Look beyond *Sunshine Sketches of a Little Town*, the author's best-known book, a gently affectionate portrayal of the foibles of life in his hometown of Orillia, Leacock could use humour to expose and sting, lampoon self-important magnates and shred the values they propagated.

Lesson two: The plutocrats who populate the pages of *Arcadian Adventures* have a lot to say to 21st-century readers. Their habits and preoccupations may be quaint, but their attitudes – that wealth is synonymous with personal merit; that affluence entitles an individual to shape society's rules; and that all public institutions should produce healthy surpluses – are familiar.

Lesson three: The world in which the economically privileged live – Leacock calls his enclave Plutoria Avenue – is so insular that its inhabitants are disconnected from the city around them, the country in which they live and the very idea of the common good. They assume – to the extent that they think about it at all – that their values are universal and their superiority is recognized. Their obliviousness to the needs of others is captured in one offhand sentence at the end of an anecdote about an all-night celebration at the exclusive Mausoleum Club. "The people of the city – the best of them – drove home to their well-earned sleep and the others – in the lower parts of the city – rose to their daily toil."

The denizens of Plutoria Avenue – widely believed to be in Montreal's "Golden Square Mile" when the city reigned as Canada's commercial powerhouse – are caricatures, their adventures slightly absurd. But there is enough verisimilitude in their behaviour that everybody knows or knows of people like them. By making these tycoons and their wives laughable, Leacock strips them of the esteem they have conferred on themselves and severs the link between wealth and wisdom.

It would take enormous skill to skewer today's moneyed elite as deftly as Leacock did. But 21st-century Canada – Toronto in particular – is ripe for a sequel to *Arcadian Adventures*. It could be set on the Bridle Path, Rosedale Road, Yorkville Avenue or the Kingsway. It could be a book, a film or a TV series. It could be farcical or scathing.

Humour, as Leacock understood, gets into the crevices of an unequal society.

Leacock's house was purchased by the Town of Orillia in 1957 as a memorial to the famous humourist. It is now designated as a National and Provincial Historic Site and is maintained by the City of Orillia through the Leacock Home Board.

Our Comment

This article is highly pertinent to the realities facing activists today, and addresses the all-important need to seek effective ways of sharing new information and ideas, that will lessen the shock, and temper the fear and skepticism that blocks any threat to unexamined assumptions and comfortable world views.

How can we enhance people's capacity to pay attention, to part with "safe" convictions, to overcome the narcotic effects of marketed "information," ideas and habits responsible for the lamentable fact (pointed out by John McMurtry, in *The Cancer Stage of Capitalism*), that, "Most people '*think*' what they've been '*taught*'"?

Humour has always been an indispensable asset in such an endeavor; so too, of course, have the arts! Leacock, economist, humorist, was as well a master of that unique vehicle of communication, *storytelling*.

More and more, activists are turning to creative uses of the arts to clarify, and to ease the "cognitive dissonance" that impedes understanding and can preclude life-saving choices.

Increasingly, therefore, activists – especially young activists – are developing creative and hands-on approaches to communication – song, dance, storytelling…

One such approach was the subject of a workshop at a recent Toronto Storytelling conference, whose theme was, "Storytelling to Change the World." The workshop involved both a presentation and an experiential example of "playback theatre," a process being used by one of the presenters in her work with troubled youth in inner New York City. People work in small groups. (There were four in ours.) Each member tells of a real life experience to which the others respond, in mime or speech.

The exercise encouraged the storyteller to share, in a "safe place" a concern that might otherwise have festered undisclosed and unresolved. I saw, in this model, great potential for nurturing a much needed habit of political discourse.

An example was given of one such story. A young woman of colour told of sitting on her verandah, eating a piece of watermelon. When a white person dropped by, the young woman hastily hid the watermelon behind her back, out of shame that she felt as a result of a demeaning stereotype.

We have been dragged skillfully away from Descartes's "Age of Reason" into today's "Age of Deception" – from his sage observation, "I think, therefore I am," to "I am (a consumer, a Conservative, an expert…), therefore, I think."

We'll need all the creativity and real truth we come by to escape our new Dark Age!

Élan

"Imagination is more important than knowledge." – Einstein

Capitalism has Failed: Five Bold Ways to Build a New World

By Sara Robinson, ERA Review, vol. 6, no. 2, March/April 2014

Some new ideas and big questions are defining our economic future.

The problem, in a nutshell, is this: The old economic model has utterly failed us. It has destroyed our communities, our democracy, our economic security, and the planet we live on. The old industrial-age systems – free-market capitalism, state communism, fascism – have all let us down hard, and growing numbers of us understand that going back there isn't an option.

But we also know that transitioning to some kind of a new economy – and, probably, a new governing model to match – will be a civilization-wrenching process. We're having to reverse deep and ancient assumptions about how we allocate goods, labour, money, and power on a rapidly shrinking, endangered, complex, and ever more populated planet. We are boldly taking the global economy – and all 7 billion souls who depend on it – where no economy has ever gone before.

Right now, all we have to guide us forward are an emerging set of new values and imperatives. The new system can't incentivize economic growth for its own sake, or allow monopolies to form and flourish. It should be as democratic as possible, but with strong mechanisms in place that protect the common wealth and the common good. It needs to put true costs to things, and hold people accountable for their actions. Above all, it needs to be rooted in the deep satisfactions – community, nature, family, health, creativity – that have been the source of real human happiness for most of our species' history.

As we peer out into this future, we can catch glimmers and shadows – the first dim outlines of things that might become part of the emerging picture over the next few decades. Within this far-ranging conversation, a few dominant themes crop up over and over again. We will discuss five robust visions that are forming the conceptual bridge on which our next steps toward the future are being taken.

Small Is Beautiful

Many people imagining our next economy are swept up in the romance of a return to a localized or regionalized economy, where wealth is built by local people creatively deploying local resources to meet local needs.

Re-localization is a way to restore the autonomy, security and control that have been lost, now that almost every aspect of our lives has been co-opted by big, centralized, corporate-controlled systems. Bringing everything back to a more human scale, this story argues, will enable people to connect with their own creativity, their communities and each other. Alienation and isolation will dissipate. We'll have more time for family and friends, really free enterprise and more satisfying work. Our money will be our own, accumulated by us and re-invested in things we value. And it'll be a serious corrective to delusional ideas about what constitutes real wealth, too.

This vision is deeply beloved. It's front and centre in both the resilience and Transition Towns movement. You hear it from foodies who extol the virtues of local food, Slow Money investors who back local banks and businesses instead of Wall Street, community gardeners, and 10 million Makers. David Korten argues that capitalism is actually the enemy of truly free markets – the kind where anybody with ideas and initiative can make a tidy living working for herself, doing something she loves. And that kind of freedom is, very naturally, small in scale.

This vision is also seductive. It holds out the promise that if people dare to let go of what they have and reach out to the future, there's a better life waiting within their grasp – a core piece of any effective change story. However, this model also has a few problems that haven't yet been engaged by most of its proponents, but which compromise its ability to serve as a global framework.

First: the infrastructure that will enable us to re-localize isn't thick on the ground right now. City and regional governments across the country are broke, devastated by the devaluation of their tax bases. Ironically, re-localizing may require significant federal investment – but do we really think that the corporations that control our federal government will actually back a model that will ultimately undercut the economic and political chokehold they have on us? It seems unlikely. Also, localization often involves trade-offs between making things efficiently – which, in the industrial age, has meant making them in large, centralized factories – and resilience. Making stuff locally in small batches increases resilience, and decentralizing the process means that many more people will have jobs. For example: A single factory farmer can manage thousands of acres. An organic farm might have half a dozen workers on just 20 acres.

But the fact remains that our world depends on at least a few large, complex systems (the Internet, for example) that require national or even international coordination to manage properly. Where does that coordination come from when all the power is pushed down to the regional level? Also, many of our biggest problems – climate change, damage to the oceans, loss of species, the threat of epidemics and extreme weather events – also require a larger and more coordinated response than any one city or region can mount. In a re-localized world, who has the authority to manage these problems?

Furthermore, what becomes of our currently high national and global standards on things like civil rights, infrastructure codes and the environment when all the power is devolved to local governments? Some places will no doubt forge ahead and raise the bar even further, but it's not hard to imagine that quite a few others will be all too glad to get back to oppressing their minorities and raping the land.

These are questions that few theorists, so far, have addressed, but it's possible they may be answered in time. A lot of the people doing the best work on re-localization right now are young, and the new enterprises they're building are untried and new. As they grow in skill and experience, and their trust in these structures grows, they may find ways to start scaling up.

Marx 2.0

Another group of theorists are updating Marx for the 21st century, proffering models that put both control and profit of enterprises into the workers' hands. In some of these, workers are also owners, with a full stake in the success or failure of the business. In others (such as the one proposed by philosopher David Schwiekart, which was based on Yugoslavia's industrial policy), the state is the owner and primary investor in the business. The workers lease the means of production, run the business, return some of the proceeds to the government, and distribute the rest of the profit among themselves.

Ironically, most of these schemes share capitalism's biggest flaw, which is its inherent reliance on growth. As a business owner, it's very hard to say, "We're big enough now. Let's stop here." (Though some, like Patagonia founder, Yvon Chouinard, have done just that.) Most businesses have competitors who, if they're allowed to get bigger than you, will swallow you whole. If you don't stay big enough to compete, you don't survive – and since the competitors are facing the same imperative, the race can never really end.

As noted, this kind of constant growth simply isn't sustainable on a finite planet. People will always trade – it's an essential human activity – but going forward, we need small-scale businesses that can stay happy and healthy without being pushed to grow.

Worker ownership doesn't really address this problem, though re-localization, which roots businesses deeply in their own local markets, limiting their reach beyond those boundaries, may provide one natural brake on growth.

For many large and necessary enterprises (utilities; essential centralized manufacturing; big, capital-intensive tech industries; and so on) public ownership may be the only way to ensure that they grow no bigger than they need to be to fulfil their mission. If there are other solutions that will allow us to have complex enterprises minus the growth imperative, they're still lurking out beyond the horizon.

Systems Theory

One of the great breakthroughs in human understanding over the past 40 years has been the realization that all complex systems – economic, political, biological, mechanical, environmental, or social – behave according to a simple set of common principles. The rules that govern the behaviour of one set of systems usually apply to other kinds of systems as well.

For example, much of what we've learned about how ecosystems work is now informing new thinking about the economy. Successful enterprises don't exist in a vacuum. They only thrive in interdependent communities of customers, suppliers, investors, employees, and related businesses. The most economically productive places – for example, Silicon Valley – are as dense in these interrelationships as old-growth forests are. This complex landscape allows for endless combinations of new interactions, which in turn leads to constant, easy, productive innovation. At the same time; these ecosystems are every bit as susceptible to thoughtless disruption when some critical element is disturbed.

This new awareness of the intense interdependence within healthy economies undercuts the "rugged individualist/self-made man" story that undergirds conservative economics. Seeing the world in systems makes it abundantly clear that no individual or enterprise ever succeeds on its own, and that no one business alone can bring about the kind of change we need. Fostering healthy economies is the work of generations, and thanks to systems theory, we understand more about how to build them than we ever did before.

A World Like the Web

A related framework, which is being driven by technologists rather than economists, posits that economic systems like capitalism, fascism and communism all belong to an industrial age that's now passing. In the old era, we saw the world through the metaphor of the machine. Our systems were static piles of unchanging parts that you designed, defined, tinkered with, and deployed toward a desired result.

This framework argues that our transition to the Information Age (which includes not just the Internet revolution, but other technologies like nanotech, biotech, 3D printing, and which will be playing out through the rest of this century, at minimum) will require us to rearrange our economic and political orders to more closely fit the Internet metaphor. Closely related to this are emerging human-centred economic models, like behavioural economics, which jettison the mechanistic "rational actor" assumption for a more nuanced and organic understanding of how human decision-making actually works.

In these models, the economy is seen as a series of simultaneously interrelated and self-sufficient nodes, each embedded in a complex matrix of relationships that are redundant and self-healing. These could easily be strong regional economies based on natural bioregional boundaries, which are then bound together in a tight global network that fosters robust trade in goods and ideas. The foundation of capital is ideas and information – resources that don't deplete the physical wealth of the planet. Membership in the network increases scalability and adds extra layers of resilience.

This model also implies big changes in governance. It demands new constitutions that push control down to the local level, while also integrating these regional governments into the global network. If political power can move like the Internet, we might get the best of both worlds: the small-is-beautiful dream embedded in so many of the current alternative models, plus a genuine global governance structure that's capable of getting its arms around our biggest and most universal problems (like, say, managing the global commons, creating needed accountability, or intervening collectively when one regional node has a crisis of some kind). These new governments would also establish a raft of new rights and privileges, updated for this age.

It's implicitly understood that this leap will facilitate global investment in new infrastructure that will, in turn, enable the next advance in the complexity of human systems. Technology has introduced a deep-level paradigm shift that is rapidly destroying the current order, while also providing the ontological map that shows how the distribution of power, money, organization, governance, and control should play out in the next one.

Reform, Revolution, and Evolution

All of the above discussions are also being informed by an evolving understanding of how transformative social change happens.

As long as most people assume that market capitalism is sustainable, they'll focus on reforming it – cleaning it up around the edges, rewriting regulations, making it work

Continued on page 8

Credit Market Debt vs. Gross Domestic Product

A Chart of a Runaway Monetary System

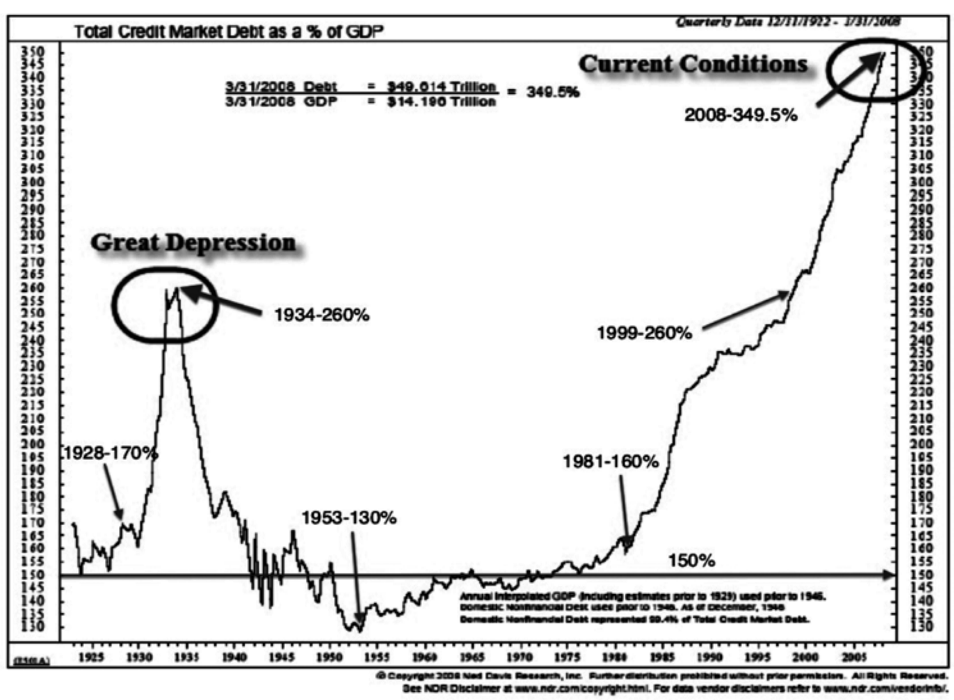
Figure 1 shows a moving ratio. It is the total credit market debt as a percentage of Gross Domestic Product (GDP) from about 1920 to 2008. What is "total credit market debt"? Simply put, it is the total of all debt in the country (the USA in this case; Canada's situation is likely to be very similar), including personal, corporate, and government debt at all levels.

We hear a constant noise about government debt but little about the total privately held debt. This is far more dangerous than the debt held by the central government at any time and in the current situation it is much larger. The government has recourse to its fundamental right and duty to create money when the situation requires it. The only way out of un-payable private debt is bankruptcy. Bankruptcy on a sufficiently large scale spells depression.

So let's look at the progress of this ratio. We can see spikes of debt in 1928 and 1929 and then massive spikes in 1932 and 34. In the first case, debt was driven to a large degree by the speculative frenzy on the stock and commodity markets. In the second case the debt/GDP ratios were driven to astronomical heights by the collapse of the GDP. Those years were the deepest point of the Great Depression. The reduction of the debt burden after that is partly provided by a significant recovery in the economy, but mostly by a massive wave of bankruptcies that cancelled most of the private debt.

After the Second World War and in the post war boom we see a low point in the debt burden of the US economy in 1953 at about 130% of GDP. Over the 30-odd years 1950 to 1981(the reasonably healthy years for the majority economically), the average debt level was around 150%. Then in 1981 it starts to reach for the sky. In less than 30 years debt reaches almost 350% of GDP (it's actually 368% as of September 2009). Something happened during the 70s and the beginning of the 80s to put our monetary system almost into orbit. The simple fact is that an enormous amount of money had to be created to purchase all that extra debt. This was the era of deregulated banking. Some of the banking laws changed over this time, but the biggest factor here was what is called "regulatory capture." The central banks (the Federal Reserve Banks in the US and the Bank of Canada here) which were designed to keep a rein on the banks became their biggest boosters. The banks found more and more ways to package debt

Figure 1



and then create the credit for investors to purchase it. Much of this sea of debt was picked up on our behalf by the mutual and pension fund managers. For instance, the Canada Pension Plan Investment Board is now creating its own debt instruments (bonds or debentures) to do further speculation in the markets. This is debt that the working people of Canada will be liable for if the CPPIB investments go south.

Without monetary and fiscal reform, the long-term outlook is deflation *and depression.*

Now the economy is burdened by a mass of debt – probably over 60% of the total – that has little or no direct connection to the real economy. In other words it's junk. Once the holders of this debt try to realize these values in a more tangible way we will be faced with another meltdown that will make 1929 look like a picnic.

There is, of course, much more to be said about this situation but one factor is worth noting. This chart did not come from any academic institution or government body. You won't find this kind of material in any university course. It was published by a conservative market watch firm in Atlanta, Georgia. When investors have serious money on the line they want the facts, not propaganda. Most of what passes for economics today is just propaganda for the financial system. Notice how so many economists are employed by the banks?

One thing this chart should make clear is that until this debt ratio is drastically reduced there is little hope of genuine economic recovery. It is unlikely that any politicians know any of this. It is also likely that the major central bankers and private bankers do know this. Probably not many of their hireling economists know, but the CEOs and their close circles would need to know.

What's the solution – other than another massive write-down and depression? The bankers and their politicians have only one set of solutions – more taxes, more cutbacks at every level – to try to keep servicing this debt with no relief in sight. The other is for the government to use it's basic powers to create new money without the interest burden and inject it directly into the real economy by spending it on massive infrastructural renewal, education, increased basic pensions, start-up business loans, health care, scientific R&D, and the like, while drastically reducing the banks' ability to create debt along with their interest-burdened money.

Stewart Sinclair

Stewart Sinclair attended UBC before establishing himself as a millwright and, subsequently, as a computer technician. He is now retired. Stewart has been active in grassroots politics for many years with a particular interest in the effects of inflation.

Our Comment

And we can do this!

That is the good news at the core of the COMER message. We've done it before. We can do it again.

The potential of government-created money has been amply demonstrated on many historic occasions.

The island state of Guernsey:

In 1815 on the Island of Guernsey: poverty existed for want of employment. People were moving away. The sea-wall was crumbling. Roads were rutted and narrow. The public market was in need of repair. The government coffers were empty. A Committee was struck to look into the problem. They finally went to the Governor. *"We need a new market, but we have no money to build it."*

The intelligent Governor, Daniel Desisle Brock, solved the problem by asking four simple questions.

1. "With what material are you going to build the market?" Answer: "With stone and wood."

2. "Do you have it in the Island?" Answer: "Yes, certainly, and in plenty."

3. "Do you have workers?" Answer: "Yes

Capitalism *from page 7*

in the public interest, and so on. Many people still hope that this is all it will take – that technology, political reform and market forces, working in some magic combination, will be enough to save us from ourselves.

Others among us are holding out for a full-on revolution that overthrows the whole system in one massive push, clearing the way for something entirely new. Revolutions are tricky, though: historically, a lot of them have gone sideways when the revolutionaries couldn't hang on through the chaotic aftermath of what they'd wrought. They often get swept away by some other force that's better organized, and thus better equipped to step in and take over. Anything can happen in the wake of a revolution, and all too often, it's not the thing you hoped for.

Gar Alperovitz offers "evolutionary reconstruction" as a better alternative to either reform or revolution.

Visionaries from Gandhi to Buckminster Fuller have agreed with him. This model focuses our change energy on building new parallel institutions that will, in time, supplant the old ones. Don't fight the existing system, this strategy argues. Instead, just sidestep it entirely and create a new one. As the old system collapses under its own decay, yours will gradually fill in the gaps until it becomes the new dominant paradigm.

America's right wing has used this model very successfully to take control of US culture over the past 40 years. Starting in the 1970s, they invested in a wide range of parallel education systems, media outlets, professional organizations, government watchdog groups, and so on. These groups groomed a new generation of leaders, while also developing the intellectual, policy and cultural basis for the change they wanted to create. As time passed, they took advantage of opportunities to insert people and ideas from these alternative institutions into the mainstream ones. The result was that 90 percent of the conservative revolution took place almost entirely under the radar of most Americans. One day, we simply looked up to find them in charge of everything that mattered.

We lost the country this way. And we are well on our way to getting it back this way, too. As we steadily, carefully build a new set of enterprises, the new reality will inevitably and naturally take shape around us. There's nothing stopping us from starting co-ops or worker-owned businesses or triple-bottom-line corporations; we can do all of that today, in full faith that these businesses will be far better adapted to the future than the old capitalist forms we're seeking to supplant. In time, these structures will become the new normal, and people will barely remember it was done any other way.

Author Sara Robinson, MS, APF, is a social futurist and the editor of AlterNet's Vision page.

Our Comment

In*, The Phenomenon of Man,* Teillhard de Chardin, a paleontologist and a Jesuit, argued that evolution has a direction and that the direction of evolution is towards consciousness and complexity.

We seem to have reached a degree of consciousness and complexity that demands an evolutionary leap in our thinking and in the way we do things.

Élan

"Left to themselves, economic forces do not work out for the best except perhaps for the powerful." – John Kenneth Galbraith*, Economics and the Public Purpose.*

plenty, but it is the money that is lacking."

4. "Could not your parliament issue the money?"

Wow, a *new idea!*

The Guernsey Island government began to issue "state currency." The works were done. Everyone on the Island was employed. And the people prospered. Guernsey Islanders today, still enjoy a high standard of living as a result of that policy begun in 1817. EU and OECD are pressuring the Island to conform with the current global usurious private banker policies (*Money*, compiled by Bill Abram).

Similarly, in Canada, between 1938 and 1974, the government used usury-free money, created by its own bank, the Bank of Canada, to greatly advance the economic welfare and the social progress of Canada, without generating damaging debt or inflation. The political decision to abandon that policy and, instead, borrow from private banks, has so far cost Canadians over a trillion dollars in interest and that debt has been used to justify choices that further betray both the nation and its citizens in *The Web of Debt* by Ellen Brown.

We *can* afford to free ourselves! This truth was confirmed by Graham Towers, the first governor of the Bank of Canada, when he appeared before Parliament's Banking and Commerce Committee in 1939 (*A Power Unto Itself, The Bank of Canada*, William Krehm).

Q: But there is no question about it that banks do create that medium of exchange?

A: That is right. That is what they are there for.... That is banking business, just in the same way that a steel plant makes steel.

Q: Ninety-five percent of all our volume of business is being done with what we call exchange of bank deposits – that is, simply bookkeeping entries in banks against which people write cheques?

A: I think that is a fair statement.

Q: When the government delivers a $1,000 bond to the bank, what does the bank use to purchase it with? Is it the creation of additional money?

A: It is the creation of additional money.

Q: Would you admit that anything physically possible, and desirable can be made financially possible?

A: Certainly.

Anything physically possible, and desirable can be made financially possible.

"Could anything be more insane than for the human race to die out because we 'couldn't afford' to save ourselves?" – John Hotson

Take a Stand to Save Our Local Hospitals

Ontario Health Coalition for quality public health care for all.

Our local public hospitals are under threat.

Ontario's government has announced plans to bring in new legal regulations to cut services from our community hospitals and outsource them to private clinics. These proposals come on the heels of years of cuts to local hospital services. They are all part of a plan to dismantle community hospitals.

It took more than a hundred years to build our local hospitals and the services they provide to our communities. But now after years of cuts, the government is planning to close local hospital services and move them out to regional clinics owned by private companies.

"It flies in the face of what communities have been building for decades," reports Natalie Mehra, executive director of the Ontario Health Coalition, a public interest group. "It's the opposite of the vision of a local community hospital where patients can, in one place, access quality public medical care."

Under the government's plan, services that patients need, like MRIs, CAT scans, cataracts, colonoscopies, endoscopies and day surgeries would be cut from local hospitals. Local hospitals would have to reduce the range of services they provide to patients to compete for funding with private clinics. Patients would have to travel from clinic to clinic across a larger region to get care. Local hospitals would lose nurses, surgeons and vital staff to private clinics that take the easiest and cheapest patients. Heavier care patients would be left for community hospitals with fewer resources to provide for them.

And patients face more user fees and extra-billing in private clinics.

Cut to the Bone

Since 1990, Ontario has cut 18,500 hospital beds: deeper cuts than anywhere in Canada. Community hospitals have been the focus of Ontario governments' cuts for years. In fact, Ontario has cut more hospital beds than any other province in Canada. We now fund our hospitals at the lowest rate per person of any province in Canada. Hospital funding has been sharply cut as a share of Ontario's health care budget for 30 years.

Patients Charged Thousands of Dollars for Services at Private Clinics

They were told that private clinics would be faster and cheaper, but patients across Canada and England are finding just the opposite. Private clinics maximize their profits from charging higher prices to the government health plan (OHIP) and many charge patients extra user fees as well. In Canada, user fees for medically necessary care are unlawful under the *Canada Health Act*. Often, private clinics are charging fees to patients in violation of the law.

Here is a sampling of real-world costs billed to patients at private clinics:

$700-$1,200 for cataract surgery
$500-$2,200+ for an MRI
$13,000-$22,000 for hip surgery
$350 for a consultation with a specialist
$1,200 for a colonoscopy

47% more: Private clinics charge the taxpayer-funded public health system in England 47% more than public hospitals for hip replacement surgeries.

Sources: interviews with private clinics in BC, Alberta, Quebec and Ontario; the Tyee; British Medical Journal.

Who Benefits?

In Canada, we live next to the largest private for-profit health care system in the world. The United States is home to massive profit-seeking hospital chains and companies that want access to make money from our public subsidies for health care – and they want to bring in US-style charges for patients too. These corporations, and some home-grown ones also, are lobbying the government to cut and outsource our community hospital services so they can move in and sell health services for their own profits.

Moving Care Further from Home

The Ontario government's plan is to force local hospitals to bid in competition against private clinics for funding dollars to provide services. In order to compete, local hospitals would have to specialize in fewer services. One clinic will specialize in hip and knee surgeries, another hospital will do all the cataracts for the region, diagnostics will be moved to another clinic, and so on. Patients, many of them elderly, will be required to travel farther and go to more places to get care.

What does this mean? Ontario's government funding for hospitals is lower than that of every other province in Canada. It means that our community hospitals have been forced to cut more beds and services than anywhere else. Private clinics would make this situation worse – taking more funding away from our community hospitals and causing more cuts to our services. See Table 1.

Want Runaway Health Costs? Encourage Private Clinics

British Columbia has the most private surgery clinics in Canada. Now Ontario's government is proposing to do the same here. Health policy expert and author Colleen Fuller reports on the thousands of dollars – per surgery – in extra costs BC residents are being charged at private clinics.

Excerpted from The Tyee online newspaper from British Columbia.

Across BC there are now 70 surgical clinics, including 23 providing outpatient general surgeries on a for-profit basis. The owners are required by law to protect and promote the interests of their share and equity holder. In plain English, this means each clinic must yield a satisfactory return on investment (profit) to its share/equity holders.

Private Surgery Bleeds Dollars. The international experience with private surgical facilities is that they tend to charge higher prices for surgery than publicly funded hospitals. Much higher.

Table 1: Ontario Public Hospital Funding

Per person 2012 compared to other provinces*	Current $
Newfoundland	$2,519
Alberta	$2,194
New Brunswick	$1,962
Manitoba	$1,843
PEI	$1,831
Saskatchewan	$1,784
Nova Scotia	$1,762
British Columbia	$1,557
Quebec	$1,381
Ontario	$1,372
Average other provinces	$1,870

Difference between Ontario and average of other provinces:
$498 less funding per person x 13,529,000 people = $6.7 billion less

**Source: calculated from Canadian Institute for Health Information Heath Expenditure database (2012)*

The *British Medical Journal* reported in 2004, for example, that the National Health Service was charged 47 percent more for hip replacements performed in private surgical clinics than for the same procedures provided in public hospitals. In 2002/03, a coronary-bypass operation cost 91 percent more in a private clinic than in a non-profit hospital.

The experience in Canada is similar. For example, hip replacement surgery in a non-profit hospital in Alberta last year cost a reported $10,000. Hip replacement surgery in a for-profit clinic can cost up to $21,780. In Canada's public hospital system, knee replacement surgery, according to the Canadian Institute for Health Information, averages $8,002 compared to between $14,000 and $18,000 in a private surgical facility.

An estimated 50,000 patients obtained surgery at for-profit clinics in 2005, according to the Vancouver Sun, paying between $700 and $17,000 each in facility fees, which in 1995 were deemed a violation of the *Canada Health Act*.

Publicly funded hospitals are more efficient. Most of the outpatient surgery in Canada is done in non-profit hospitals, but for-profit clinics are waging an aggressive campaign to capture a larger share of the "market." Most peer-reviewed studies have shown that publicly-funded hospitals are much more efficient their for-profit counterparts, provide a higher quality of care at a much lower cost, both in terms of quality of care, mortality (death) rates and price. In spite of such compelling evidence, some provinces, including our own, are providing space and opportunity to clinic owners.

Private health care, including private health insurance, is unfair and unsustainable. We opted for universal Medicare in the 1960s.

A Giant Step towards Privatized Health Care. In the model of private clinics proposed by Ontario's government, there is no legislated protection against for-profit privatization. In fact, the government plans to establish private clinics expressly *not* under the *Public Hospitals Act* and therefore without the protections against privatization that exist in the *Public Hospitals Act*. This is a giant step towards privatized health care.

Already, for-profit corporations are lining up to bid for hospital services and procedures. And despite the fact that the Health Minister has repeatedly promised to protect non-profit care, she has not done so.

Already, all across Ontario, services cut from local hospitals are being privatized. Examples include physiotherapy, endoscopies and cataract surgeries.

Our community hospitals should be supported, protected and improved. Not cut and dismantled.

Private Clinics and Poorer Quality Health Care

In the last two years a flurry of media reports have raised concerns about quality and safety issues in private clinics. In one well-publicized case, an Ottawa area private endoscopy clinic was found to have failed to properly sterilize equipment, resulting in 6,800 patients having to be notified that they should be tested to see if they had contracted HIV or Hepatitis from the clinic.

In a 2007 study, it was found that 13% of colonoscopies conducted in private clinics were not completed (the scope failed to reach the colon). Researchers also found that there are more missed cancers in private clinics than in public hospitals.

"Private clinics have significantly fewer requirements for quality control than our public hospitals," reports Natalie Mehra, director of the Ontario Health Coalition. "One of the major concerns we share with many hospital surgeons is that these clinics cut corners and do not have sufficient oversight to protect the public."

Our Local Hospitals at Risk. The government's private clinics plan would de-stabilize our local hospitals' budgets, siphoning off the profitable and easy procedures to the private clinics and leaving the hard and costly procedures to the public hospitals.

In England, where they have had more than a decade of experience with this type of private clinics, the evidence is indisputable that the clinics take wealthier, healthier, and light-care patients, leaving the complex and heavy cases for public hospitals with fewer resources to treat them.

Private Clinics Take Scarce Staff Out of Our Local Hospitals, Worsening Wait Times. All across Ontario there are shortages of nurses, anesthesiologists, and health professionals. This worsens wait times.

The Ontario government contracted private corporations to open several MRI/CT clinics, in 2002 rather than increasing MRI machines in local hospitals. The clinics recruited MRI technologists by taking them away from local hospitals in Toronto, Kingston and Windsor. Several hospitals reported that they were forced to reduce their hours of operation for MRI machines as a result of losing staff to the private clinics.

Private Cancer Treatment Returned

to Public Ownership: Millions in Higher Costs Reports Auditor. In 2001 the Ontario government opened a for-profit cancer treatment centre. It didn't last long. The clinic was closed after only two years, following a report from the Ontario Auditor General which found that the clinic had been paid $4 million extra to set up, and was being paid a premium of $500 more per procedure than public cancer treatment centers. Public cancer centers did more to reduce wait time with every dollar of funding they received.

It's about fairness, equity and access to the care we need.

"Health care should be about promoting health and well-being. It should be focused on providing compassionate care for people when they are elderly, ill, or in need. It should not be about taking profits out of public funding for care.

Fair, equitable, accessible health care cannot be accomplished with private clinics. The evidence is clear that private clinics do not save money. In fact they cost more. Worse, private clinics demonstrate poorer quality of care and more inequitable access to care.

How Private Clinics are Undermining Public Medicare for Canadian Families. Private clinics have been found to be illegally billing patients hundreds of thousands of dollars. Mariel Schoof, a resident of British Columbia, was charged more than $6000 for sinus surgery at a private clinic. She wrote to the provincial government to try to get reimbursed for her surgery which should have been covered by BC's OHIP plan. The government did not take action against the private clinic. So Mariel did.

She and four other patients have taken their fight to the courts. Finally forced by the patients to take action, the BC government tried to audit the province's largest private clinic. The clinic refused to let the auditors in, despite the fact that they bill the public health system for millions of dollars each year. Eventually the BC government won access to the clinic for its auditors, in court. They found hundreds of instances in which the clinic had illegally billed patients.

BC is "ground zero" for private clinics in Canada, having gone further than any other province in privatizing its hospital services. Amid promises of reduced waits and faster care, British Columbians are getting a taste of the ugly side of private health care. Ontario's government is proposing to do the same thing, cutting hospital services and contracting them out to private clinics.

In July 2012 the BC government released an astonishing audit report about two private clinics. The audit shows that almost half the procedures performed at these for-profit clinics involved some type of direct billing of patients, which is prohibited by the *Canada Health Act* which protects patients against user charges and extra-billing by physicians.

The audit found nearly $500,000 in extra-billing within just a small sample of the procedures at these clinics, including at least $66,000 that appeared to involve double billing (where both the patient and BC's Medical Services Plan – the equivalent to OHIP – were billed for the same procedure). Patients were often illegally billed at rates far greater than allowed under the provincial plan – in some cases up to 500 percent more.

In one typical example, a patient was billed $7,215.00 for services for which the province allows only $1,288.04.

The Commission gave the clinics 30 days to stop their illegal billing. When the clinics' owner refused, the Commission applied for a court injunction to compel compliance. The clinics are fighting the injunction with a court case to bring down single-tier Medicare in Canada.

As BC Health Coalition spokesperson, Rachel Tutte, said, "The government must protect patients from two-tier care that allows special treatment for the wealthy and leaves the rest of us with longer waits, crowded hospitals and declining care." To do so, they must protect and improve our local hospital services and avoid the danger posed by private clinics.

This story includes excerpts from the Health Sciences Association of British Columbia, Report 3, volume 33, 2012.

You Can Help to Stop the Dismantling of our Local Public Hospitals

Contact Ontario's Premier and ask her to stop her government's plans to cut local hospital services and contract them out to private clinics:

Hon. Kathleen Wynne, Premier of Ontario
kwynne.mpp@liberal.ola.org
Room 281, Main Legislative Building
Queen's Park
Toronto, Ontario M7A 1A1
Tel: 416-325-1941, fax: 416-325-9895

Join the campaign and help deliver leaflets to your neighbours, your local social service agencies or seniors' centre, and your colleagues at work. Email us at ohc@sympatico.ca to help out.

Visit www.ontariohealthcoalition.ca or Like us on Facebook – go to Ontario Health Coalition. For more information, call us at 416-441-2502.

Our Comment

Too bad the shredding of our public health care system hasn't created the same level of debate – public and parliamentary – that Tommy Douglas generated when he proposed the concept.

"In 2013, a routine, mandatory public notice, posted on the government's regulations' website revealed that a change in the ownership and control of public hospital services in Ontario was being planned. The Ontario government was preparing to introduce two new regulations to cut clinical services from local public hospitals and contract them out to private clinics. The public was never consulted about this plan and it has never been debated in the legislature." – OHC Briefing Note

Were it not for the dedicated efforts of the OHC and others, the practices they expose might well succeed in totally undermining public healthcare.

But, where is the level of outrage and concern such information should provoke? Stealth aside, could the mistaken belief that we cannot afford to maintain the system have anything to do with that? A dose of the truth about money might be just what the doctor ordered.

It isn't enough to trace the decline. We must address its true cause. The problem is not economic. It is political.

Élan

The Dragon with Five Heads

By Derek Skinner

Part 1

Almost all money supply is created by the obligations and debts of those who borrow. We pay interest on debts so it follows that we incur interest on the total money supply as it is created. The money supply is a continuously revolving wheel of debts incurred, repaid and replaced by new debt on which we pay interest.

The Canadian money supply in circulation M(3) is about $1.5 trillion. (See item 5 below.)

There are five (5) machines used to create and manipulate our money supply. In Canada the authorities and machines that create and manipulate the money supply are:

1. Bank of Canada (BoC), is authorized to create money as needed by the governments of Canada. Specifically, the money base M(0) which is created by accepting and holding 10% of government bonds issued, and then printing or minting the money in your pocket. M(0) is currently 3% of the total money in circulation. It is almost interest free because the BoC is a Crown Corporation and any profit from interest has to be returned to Treasury. At one time in the prosperous period from 1939 to 1974, M(0) was up to 25% of the money supply, even over 50% during WWII, but the Bank for International Settlements (BIS) and the consortium of national banks thought this was unfair because they were losing a lot of potential interest; so, in 1974 BoC Governor Bouey agreed or was persuaded to change the rules. (see item 5 below).

2. Chartered banks and financial institutions are authorized to create digital money as a multiple of the capital "reserve" that they possess. This is the well known "fractional reserve" principle. The reserve used to be held as bullion but is now determined by the value of the shares the banks own on the Stock Exchange plus some other accounting variables. The multiple used to be 10 for good practice but sometimes grew to 20 or even 50 times reserve. The Basel Accords were trying to hold the level at 12½ times but did allow 20 times under special circumstances (Basel II). The BoC is slow to apply the Accords and without access to the reports issued by the banks to the Office of the Superintendent of Financial Institutions (OSFI) there is little that can be checked by outsiders. It is reported by others that the financial institutions are now using a leverage ratio of 30 for assets to capital through the use of "off book" special instruments.

Bank-created digital money, M(3)-M(0), accounts for 97% of the total money in circulation.

3. The Stock Exchange. This is a casino for creation and maintenance of corporate capital in the form of shares. Shares are frequently created or bought with borrowed money which entails interest.

4. The Bond Market. Federal and provincial governments issue bonds and redeem them when due as a revolving debt load. The BoC is used as Agent to auction federal government bonds (the "national debt") to financial institutions. All these bonds pay annual interest (coupons). Most of the redemption money is used to buy newly issued replacement bonds. Corporations also issue bonds to raise money in the commercial bond market. Some bonds pay interest in the double-digit range. (Think Greece and Spain where IMF Structural Adjustments are applied, and commercial Junk Bonds.)

5. The Vacuum Cleaners. Everywhere that interest is payable there is a vacuum cleaner contract document to hoover the interest money from the borrower, usually the 99% of us, up into the account of the 1% investor or lender who is holding the debt that entailed the interest.

Imagine if you can the amount of money that is moved by interest payments on the total of digital money in circulation. Digital money is made up of mortgages at rates that vary from 5% to 10% (in good times), charges of 2% or more on shop keepers' total credit card accounts, let alone the 22% paid on outstanding card holders' accounts, business lines of credit, and all the myriad accounts of those who borrow.

That digital money is actually created by monetizing the value of the credit rating or collateral deposited as security by the borrower. (In Canada alone, assume an average interest rate of 5% on $1.5 trillion. That represents $75 billion transferred every year from us to them. Much of it goes to the 1% of the 1%.)

Imagine the control that that sort of money can exert; and it is now inherited from generation to generation through trusts and corporations that may never die.

In the last 50 years we have created a class of monied "elites" who can buy and sell political parties and governments and manipulate money markets to suit their own interests and agendas.

This is anti-democratic and we are stupid to allow it. We are in the era of the oligarchs. On a world scale they meet in secret enclaves like the Bilderbergers and create organizations like the World Bank and the International Monetary Fund (IMF) that can intimidate governments and force feed them loans in order to control them with debt and interest payments. If governments resist then "popular revolts" and coups are organized with military force. (Think Iraq, Libya, Syria, Sudan, Ukraine and soon to be Venezuela and Iran.)

So – what to do?

First of all, we must understand the scale of the monetary problem and realize that the uncontrolled, privately created money supply must be curbed and replaced, at least in part, by a government-issued, interest free, money supply. Control of the money supply is the first duty of any government because the common good is dependent on it.

We cannot continue to let private entities create almost unlimited amounts of money at will and charge interest on what they create.

This is not to suggest that private satisfaction of commercial and industrial demands should be abolished. We are not likely to get rid of money-lending and capitalism but they can be made to work alongside government infrastructures rather than replacing or destroying them.

Secondly, we must understand that the current concentration on uncontrolled growth in corporate "market share," and "profit" at any cost to the ecosphere have led to a crisis in the environment of monumental proportions. Unending pollution of the atmosphere has created climate change that will engulf large parts of the world and its populations.

As Naomi Klein has so elegantly described in her article "The Change Within…" published in *Nation*, we are out of sync with our capability to manage our affairs. At a time when it is so basically necessary to limit our polluting ways and destruction of the planet that supports us, we have been led to consume and waste as never before.

Part 2. How to Control a Dragon

So again – what to do?

1. Get rid of any government that toler-

ates corporate pollution (tar sands, fracking, etc.)

2. Eliminate the possibility of another majority party government dictatorship by legislating proportional representation elections instead of the current first-past-the-post.

3. Re-establish the BoC as a major partner in the creation of the money supply.

Objective: our current first-past-the-post (FPTP) electoral system is a relic from the British feudal middle ages that is maintained by those who benefit from it by using tradition as the excuse.

Those who benefit are the parties and candidates with money because it costs between \$80,000 and \$100,000 to win a contested seat.

Furthermore, parliamentary procedures, the *Elections Act* and the corporate-controlled media work to ensure that minor Parties cannot be heard if they do not have an elected caucus of at least 20 Members. FPTP has been abandoned everywhere except in the English-speaking world and it is time we adopted a democratic system that provides more citizen participation than an opportunity to vote every 4 years – particularly if it leads to control by a single Party that gained about 40% of the votes cast or 26% of the total electorate, leaving 74% of the population without effective representation. This is grossly undemocratic.

We must move to a form of proportional representation with a high probability of a coalition government that will debate issues and can be kept honest by open examination of performance.

Objective: in order to re-establish the BoC as the prime creator of interest-free money required by the government for social and physical infrastructure work it is necessary to elect a government with the guts to stand up to the corporate and financial lobbies that will try to maintain the status quo.

The *Bank of Canada Act* contains the necessary wording to permit the Minister of Finance to instruct the Governor of the Bank of Canada to hold the necessary Bonds for its own account in order to fund government necessities.

These could include adequate funding of health care to provide doctors, nurses and first class hospital facilities everywhere, including First Nations' territories, and to eliminate long waiting times; funding free education through university level for those with the desire and necessary capabilities; providing support for those in need; providing social services such as daycare and affordable housing; re-establishing properly staffed bureaucracies to oversee and enforce regulations to control the excesses of marketplace capitalism. These issues are not inflationary if the results contribute to GDP growth.

The list of benefits is endless if we can just summon the effort to work together to elect a government that will make the necessary changes.

When these objectives are accomplished and a "peoples' government" is in place, we can move on to the long list of corrections that are needed to reinstate our commons in the environment, judicial processes and social underpinnings. We will also then have the time and resources to work out how to tie the monetary dragon to a regime that will benefit everyone and not just a few.

On May 7, 2014, Derek Skinner wrote:

Hello All,

I am writing to you as a group in the hope that someone will either support what I say below or show me what is wrong.

Are we agreed that all money is created by debt? – even the BoC money base M(0) is created by payment for Bonds which entail interest although that interest, less management costs is returned to Treasury at year end?

Are we agreed that we pay interest on all money created? From the 2% levied by the credit-card companies on shopkeepers' credit card receipts through corporate financing contracts to the 10% on a second mortgage to the 22% on unpaid credit card accounts?

The total of digital money created by Banks and Financial Institutions in Canada is in the order of \$1.5 trillion circulating through the economy about once a year.

At a guess, the average rate of interest applied to the whole might be around 5%.

5% interest on \$1.5 trillion means that some \$75 billion in value is being transferred every year from the borrowers' equity to the lenders' accounts.

To my mind this would account for the growing disconnect between the 99% and the 1% and the widening difference in average incomes.

If I am wrong in any of my statements will somebody please correct me.

With my Best Wishes to you All,

Derek Skinner

(Derek Skinner (b.1925) is a retired civil engineer/project manager. He has lived in Europe, Iran, Turkey. Indonesia and the Philippines and has worked on major industrial installations, harbours, bridges etc. around the world. On retiring he took an interest in politics and ran for the Canadian Action Party in Victoria in the 2006 Federal election. He is currently angry at the foreign policy being implemented by successive Federal governments that will reduce Canada back to colonial status in the putative NWO American Empire. He lives in BC with his beautiful 90-year-young wife. He has three kids and five grandkids by a previous marriage, and a British sense of humour.)

On May 15, 2014, Paul Hellyer wrote:

Hi Derek:

I've just read your e-mail of May 7 and I have only a couple of observations.

First of all, there have been times in history when money was created debt-free. This despite Adam Smith's declaration that all money is debt. In recent years nearly all money has been created as debt, but I would exempt such things as coins including the silver and gold ones that I have in my collection. They are not subject to either interest or repayment. For your purposes, however, this is just a tiny exception to a very general rule.

For a long time nearly all money has been created as debt and, as we have often argued, debt that has to be repaid with interest. Unfortunately, as the ratio of debt to income – whether it be the governments' or individuals,' rises, the proportion of total income going to interest increases. This has been happening in recent decades and especially since 1974 when the BIS persuaded central banks to stop lending cheap money to governments. Consequently, governments had to start paying market rates, at higher interest. This increased the percentage of national income flowing to the lenders.

This system is unstable and unsustainable and the only way to correct it is through substantial injections of government-created, debt-free money which does not have to be repaid – ever!

Keep up the good work.

Paul

Our Comment

Replacing, "*at least in part*," "the uncontrolled, privately created money supply," would seem to be tantamount to sharing your tent with the proverbial camel. Been there! Done that! (Shared-money creation with private banks, that is.)

Lord Josiah Stamp, one-time director of the Bank of England, put it this way: "The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banking was conceived in iniquity and born in sin. Bankers own the earth; take it away from them, but leave them with the power to create credit, and with the stroke of a pen they will create enough money to buy it back again…. If you want to be slaves of the bankers, and pay the cost of your own slavery, then let the banks create money."

In *The Public Bank Solution*, Ellen Brown traces the tragic pattern, in several countries, of failed efforts by government to maintain control over monetary policy. In Chapter 17 (reprinted in *Economic Reform*, vol. 25, no. 6, June 2013), "The Canadian Movement for Monetary Sovereignty: Rise and Fall," she describes how this happened in Canada. She tells of how, "for over three decades, the Bank of Canada used its lucrative credit-creating tools for the benefit of the public," and how, after 1974 (in keeping with a policy advocated by the Bank for International Settlements), the government borrowed, instead, from private banks – "Bad economic policy [that killed] the Canadian Golden goose."

Mr. Skinner raises another contentious issue when he suggests that, "We are not likely to get rid of money – lending and capitalism but they can be made to work alongside government infrastructures rather than replacing or destroying them." The problem of usury and the question of how much of the money supply government should create are not unrelated, and should be carefully examined and factored into the equation underlying recommended reform.

In his passionate and powerful analysis of these matters, Professor John McMurtry argues that we are living through *The Cancer Stage of Capitalism* (second edition) and that the disease is terminal: "The set point shift to [Ecological Economy] is the ultimate choice of life on earth. The global system morbidity is, from a wider view, the secret of disease that is evolution's provocation and history's moving spring."

One thing that does seem clear is that Canadians seeking monetary and economic reform need to get together to see what they can agree upon, and to develop a specific, practical plan of action that, together, they can carry out between now *and the next federal election and beyond!*

Élan

Bond Rating Agencies Loom Like Divine Oracles

By Rick Salutin, Toronto Star, July 18, 2014

Where do bond-rating agencies get the nerve? They loom over economic policy like divine oracles. They tell lenders how safe to feel when making loans and therefore what interest rates to charge governments who borrow from them. In recent decades, as raising revenues through higher taxes became politically toxic, they expanded their influence and arrogance.

Before this week's Ontario budget, they'd already "downgraded" the province's "outlook" – though not its rating – from stable to negative. It really does sound like the Delphic oracle: murky but definitely gloomy. They're part of the economics of ugly forebodings that dominates our era.

Before the June election, columnist John Ivison wrote: "The credit-rating agencies will likely record their verdict on the election within 24 hours of the polls closing and we can expect to see the credit downgrades that would have come already…." The interim Tory leader keened: "It is immoral to give people false hope with a budget…only to have to take away services and programs when the lenders put a gun to your head…." They effectively tell governments how many people to fire and what to sell off to balance their books. Their sole criterion is the math. Human welfare, misery or planetary health never factor in.

Yet these agencies gave us (though not all by themselves) the crash of 2007-8. Many of the funds that bought those absurd "devices" which Warren Buffett said he wouldn't buy because he can't understand them – Warren Buffett! – are legally required to secure triple-A ratings for their purchases. The ratings agencies happily complied. Two years later those ratings had slid to junk level and three huge banks were kaput. They were indispensable in creating the housing bubble, bailouts, demands for austerity – plus a living hell for US homeowners and entire European nations.

They reformed mildly and briefly, like the banks, then reverted to their old ways. They underpay and understaff their workforce so as to increase executive pay; their best employees are routinely hired away by banks. You'd think their reputation might've taken a hit. Like Cassio, in Shakespeare's *Othello*, why aren't they moaning: "Reputation, reputation, reputation! Oh, I have lost my reputation! I have lost the immortal part of myself, and what remains is bestial." But they show no sign of self-doubt.

Alas (Cassio might add), they aren't alone. Reputation is the weirdest thing. How did Peter MacKay salvage his? In 2003, in order to become leader of the Progressive Conservatives, he promised not to merge his party with Stephen Harper's Canadian Alliance. Then he reneged, just like that. When his girlfriend, Belinda Stronach, deserted to the Liberals, he apparently referred to her in Parliament as a dog. *Hansard* didn't record it but it's indistinctly on tape and others heard it. Now he parades as the protector of female virtue against perverts and johns. I've never understood why Brian Mulroney didn't go into hiding after taking bags of cash from Karlheinz Schreiber. Or the US officials who lied about Iraqi WMDs, resulting in the current chaos there – and go on TV now to explain it's Barack Obama's fault. How can they all be so shameless, while innocent kids whose reputations were smeared on the Internet kill themselves from a sense of shame? It's grotesque and incommensurate. But I digress.

So to whose voice should we attend: Moody's and the other bond raters or Evo Morales? He's the president of Bolivia and he presided at a meeting last month of 104 nations that issued a declaration in favour of the economic concept, Vivir Bien – living well. "It means listening to the people, rather than the financial markets," he explained. "It means placing Nature at the core of life and regarding the human being as just another creature of Nature."

I know that sounds syrupy and naive compared to what we're used to. But this week Manitoba experienced flooding that's become the frightening new normal, menacing farmers' livelihoods; fires are advancing on Yellowknife; in Oklahoma, earthquakes have increased more than 200-fold in a few years due to fracking. Who's really naive and who's economically credible at this juncture?

Or, as Shakespeare also wrote (approximately): "The first thing we do, let's kill most of the economists and all the bond raters."

❧ ❧ ❧

Our Comment. Would that everyone reporting on the negative pronouncement of bond-rating agencies regarding Ontario's status had bothered to mention the shameful record of those agencies. Good for Rick Salutin and the Toronto Star! *Élan*

Charter Discontent Reveals Conservatives' Incoherence

By Andrew Coyne, Postmedia News, July 16, 2014

I credit Stephen Harper with this one. "A conservative," I recall him saying once, "is someone who wants to abolish the Charter of Rights and amend it to include a property rights clause." It's a good line. It's also, in some cases, quite literally true.

Amid the generally incoherent state of conservatism in this country, the movement's continuing inability to come to terms with the charter, three decades on, is perhaps the outstanding example. People who supposedly stand for limited government get surprisingly antsy, once in office, about having their own discretion circumscribed. That they profess to do so in the name of Parliament only compounds the incoherence. Who do they think passed the charter?

Until now the complaints have been confined for the most part to the usual nameless backbenchers: a thousand years of parliamentary tradition, judge-made law, what did we fight the war for, etc. But with the government's losing streak at the Supreme Court in danger of hitting double digits, the discontent has begun to break into the open.

Conservative Sen. Bob Runciman, writing in the National Post, advises those judges who "appear to believe they have authority, courtesy of the Charter, to set government policy," to "hang up your robes and run for office." I say again: Conservative *Senator* Bob Runciman.

Meanwhile, over on the democratically elected house, unintended irony was also the order of the day. In a story bearing the imperishable headline "Conservatives warn of diminishing Parliamentary power," Conservative MP Larry Miller told the Post's John Ivison of his growing dismay that the "courts are making laws."

"I'm all for rights and freedoms," he said, "but the Charter complicates things." The problem, as far as rights and freedoms are concerned, is that we have "complicated" them by writing them into law.

This is a common refrain among conservatives. We'd always gotten along fine without a written constitution, you will sometimes hear them say, in the apparent belief that the *British North America Act*, not to mention *Magna Carta*, the Petition of Right and the Bill of Rights 1689, were elaborate works of mime. The idea of codifying rights in law they tend to regard as a vaguely Gallic plot, perhaps forgetting Canada's original Bill of Rights, the handiwork of a certain John George Diefenbaker.

Miller does not disappoint. "Pierre Trudeau," he said, "did this wilfully and deliberately, taking rights away from the majority to protect the minority." Can you believe it? Protecting the minority. I mean, who the hell elected him?

Let's try this again. All laws, not just constitutions or charters of rights, constrain government discretion. That's the point. We want governments to act in predictable, non-arbitrary ways, confined to the powers we explicitly grant them through our elected representatives. If we didn't want to do that, we wouldn't have laws. We'd let them rule by decree.

The only difference with a constitution is that it's harder to change. It's not enough to have Parliament write a new law: We have to get the provinces to assent as well. Before 1982, we had to get the British Parliament. But it's always been true in this country that any law found inconsistent with the constitution was declared to be of no force or effect. Who decided such things? The courts: the Supreme Court, and before them, the Judicial Committee of the Privy Council.

Before 1982, these cases usually involved disputes between different levels of government, each vigilant that the other not intrude on its prerogatives. All the charter did was to add a second line of demarcation: between governments and citizens. The charter did not invent the concept of judicial review, or for that matter of judicial activism: have a read of the Judicial Committee's decisions sometime if you want some examples.

The point of judicial review is not, as it is sometimes said, to give judges the last word. It is to hold Parliament to its word. If the law is to serve its intended role of constraining government discretion, you can't simply leave it to governments, or even Parliament, to interpret it for themselves. If laws meant whatever governments felt like on any given day, we might as well have rule by decree. Hence the need for an independent arbiter. And who assigned them that role? Why Parliament, of course.

"Judges don't always get it right," colleague Ivison observes. No, they don't – neither do politicians, if you've noticed. But governments have lots of options in the face of an inclement ruling. They can redraft the law, for starters: It's usually possible to preserve its purpose while removing the offending provisions. Beyond that? Amend the constitution. Appoint better judges. Make the case for a more restrained theory of jurisprudence. Change how the law is taught. Conservatives used to pride themselves on taking the long view of things.

Meantime, if Conservative MPs are so concerned about the powers of Parliament being usurped, I suggest they look closer to home. As defenders of Parliament, they'd be a lot more convincing had they not spent the past many years meekly surrendering one ancient Parliamentary prerogative after another, not to the courts, but to a far more voracious usurper: the executive.

Or if it's the courts they're worried about, there's a simple way to remove them from the equation: Stop passing laws that are so clearly and flagrantly in violation of the Constitution (see, for example, the prostitution bill). Insist, as the political scientist Emmett Macfarlane has suggested, that ministers screen bills for charter compatibility before introducing them in the House. Better yet, have committees of Parliament do the same.

As things stand, MPs seem content to abdicate this responsibility to the courts, so they can pick fights with them later. "Why elect people and pay them to do something the courts are doing," Miller grumbles. Why, indeed.

Our Comment

This is a very insightful and accurate comment on the judiciary in a constitutional democracy, particularly Canada's.

It is also an accurate and direct description of the government's non-respect and misaligned attack of that very judiciary and the role of the judiciary with respect to constitutional issues and how, and by whom, those issues are resolved.

COMER's legal challenge, on constitutional grounds, against the Bank of Canada and the Finance Minister, with respect to abandoning sovereignty and engaging in unconstitutional actions, fits very much in line with Mr. Coyne's description and opinion.

Rocco Galati

Green Leader Elizabeth May Says Democracy "Slipping Away"

By Susan Delacourt, Parliament Hill, Toronto Star, December 31, 2013

Green Party leader Elizabeth May says the ballot-box question in 2015 should focus on what's happening to our democracy in Canada. Power is now so concentrated in the Prime Minister's Office and its unelected staff members, that Canadian democracy already resembles "a dictatorship punctuated by elections."

Ottawa – Green Party Leader Elizabeth May says the next federal election has to be fought on the issue of democracy in Canada – or the lack of it – before it's too late.

"We are on a slippery slope to the loss of our democracy," says May, mincing no words as she looks back on how 2013 unfolded in Parliament and what's ahead for the new year.

Power is now so concentrated in the Prime Minister's Office and its unelected staff members, says May, that Canadian democracy already resembles "a dictatorship punctuated by elections."

And the Green Party leader is worried that things will only get worse after the next election, no matter who wins, unless this becomes a ballot-box issue in the 2015 campaign.

"What future prime minister is likely to arrive in office and start worrying that he or she has too much power," she asks.

May was sounding these warnings throughout the fall on what she called her "democracy tour" across Canada. Though her tour didn't attract much national media attention, she is convinced that people are open, even eager, to discuss what's ailing the political system.

The Canadians she has met along her tour are particularly curious about the whole business of iron-fisted discipline over their Members of Parliament, says May.

"My biggest surprise is the number of Canadians that keep asking: 'Well, why do MPs do what they're told to do? Why don't they stand up?'" May says.

"Those of us who live and work in Ottawa think everybody knows. People don't know. It gets asked everywhere."

Unfortunately for May, there hasn't been a lot of evidence to date that Canadians are willing to make democracy an election issue.

Prime Minister Stephen Harper's government prorogued Parliament twice and was embroiled in serious contempt-of-Commons issues between 2008 and 2011.

Eminent political scientist Peter Russell even made a YouTube video during the 2011 election campaign, warning voters not to reward the Conservatives' disregard for democracy.

"If the Harper Conservatives were to win a majority in the House of Commons, it would be an indication that parliamentary crime pays," said Russell, an emeritus University of Toronto academic and a respected constitutional expert, who's not known for overstatement.

And Conservatives went on to win a majority government, leading many political observers to conclude that democratic problems just aren't a big deal for the voters.

May isn't dissuaded, however. She says she gets her biggest applause on the road when she reminds citizens of how much has been sacrificed so that Canadians can live in a democratic country.

"People have died for us to live in a democracy and we are letting democracy slip through our fingers," she'll say. Or: "If this was a war, we'd sign up to save our country."

May calls 2013 a dispiriting year for her, personally, though it ended on a couple of high notes: she lured former NDP MP Bruce Hyer to sit as a Green, doubling her caucus, and the *Hill Times* newspaper, after polling her colleagues, named her the "Hardest Working MP."

Though she leads a party, May is considered an independent MP, because it takes 12 to make an official party in the Commons. So, she runs her office with a lot of volunteers, many of them tasked simply with handling the volume of correspondence – 400,000 letters or emails last year.

She's lost a lot of weight over the past year, partly because of more careful attention to her diet and, in large part, because of that hard-working reputation.

A seemingly arcane change to the rules surrounding amendments to bills has helped to make May's already busy life much busier. Up until the fall, independent MPs such as May were allowed to suggest amendments from the floor of the Commons – a right that the Green Party leader often used to attempt changes to legislation.

But the government moved to limit that right this past year, requiring independents to submit amendments to the various committees studying legislation. It means that May now has to run from committee to committee trying to suggest changes to bills. She calls it the "Stephen Harper exercise plan."

"I mean who would imagine that a majority party would go to such lengths to shut down the rights of one MP?" May says. "It was really hard, it worsened my workload while reducing my ability to actually get things done…. It's amazing to me that they were able to do this, but I'll continue to take it up with the Speaker."

May isn't shy about taking things up with the Speaker. She also stood up in the Commons late in the year to ask Speaker Andrew Scheer why he was letting Conservative MPs and ministers get away with non-answers and smears against NDP Leader Tom Mulcair during question period.

"I think it is objectionable, under our rules, to put questions to opposition members as a guise for evading the questions that are put properly to members of the governing party," May said in the Commons.

The Green Party leader admits that question period is her least favourite part of the day. "The only unpleasant part of my whole day is question period," she says. "The atmosphere is toxic."

Out on the road on her democracy tour, May has been telling people about the toxic climate, hoping that instead of turning people off politics, she can fire up a demand for change. And despite what she calls a "very hard year" in 2013, she says she has to remain optimistic.

"People say it's too late already, but I think it's totally redeemable," she says. "Look. I've been an MP for two and a half years and everybody said: 'One MP can't do anything.' I think now, I've put that idea to bed."

Our Comment

Is it any wonder that "there hasn't been a lot of evidence to date that Canadians are willing to make democracy an election issue"? Could what people don't know have something to do with that? After all, that "her tour didn't attract much national media attention," is hardly surprising. What people don't know is not altogether their fault – or an accident. Nor, given the current state of politics and of the economy, is it surprising that they are preoccupied with these matter, to them more obviously pressing?

Let's share Elizabeth's information as widely as we can. Anything resembling "a dictatorship punctuated by elections" should alert anyone who values democracy to the need for significant change *now!*

Let's rally to her call to make this a ballot-box issue in the 2015 campaign.

The least we can do is to share the truth about specifications that diminish democratic control and concentrate power, instead, in "the Prime Minister's Office and its unelected staff members."

Democracy in Canada is not ours to let "slip through our fingers." It is a sacred trust and part of our *real* debt, which is to present to future generations of Canadians. *Élan*

"If you will not fight for 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." – Winston Churchill

Strip Private Banks' Power to Create Money

By Martin Wolf, Financial Times, April 24, 2014

Printing counterfeit banknotes is illegal, but creating private money is not. The interdependence between the state and the businesses that can do this is the source of much of the instability of our economies. It could – and should – be terminated.

I explained how this works two weeks ago. Banks create deposits as a byproduct of their lending. In the UK, such deposits make up about 97 percent of the money supply. Some people object that deposits are not money but only transferable private debts. Yet the public views the banks' imitation money as electronic cash: a safe source of purchasing power.

Banking is therefore not a normal market activity, because it provides two linked public goods: money and the payments network. On one side of banks' balance sheets lie risky assets; on the other lie liabilities the public thinks safe. This is why central banks act as lenders of last resort and governments provide deposit insurance and equity injections. It is also why banking is heavily regulated. Yet credit cycles are still hugely destabilising.

What is to be done? A minimum response would leave this industry largely as it is but both tighten regulation and insist that a bigger proportion of the balance sheet be financed with equity or credibly loss-absorbing debt. I discussed this approach last week. Higher capital is the recommendation made by Anat Admati of Stanford and Martin Hellwig of the Max Planck Institute in *The Bankers' New Clothes*.

A maximum response would be to give the state a monopoly on money creation. One of the most important such proposals was in the Chicago Plan, advanced in the 1930s by, among others, a great economist, Irving Fisher. Its core was the requirement for 100 percent reserves against deposits. Fisher argued that this would greatly reduce business cycles, end bank runs and drastically reduce public debt. A 2012 study by International Monetary Fund staff suggests this plan could work well.

Similar ideas have come from Laurence Kotlikoff of Boston University in *Jimmy Stewart is Dead*, and Andrew Jackson and Ben Dyson in *Modernising Money*. Here is the outline of the latter system.

First, the state, not banks, would create all transactions money, just as it creates cash today. Customers would own the money in transaction accounts, and would pay the banks a fee for managing them.

Second, banks could offer investment accounts, which would provide loans. But they could only loan money actually invested by customers. They would be stopped from creating such accounts out of thin air and so would become the intermediaries that many wrongly believe they now are. Holdings in such accounts could not be reassigned as a means of payment. Holders of investment accounts would be vulnerable to losses. Regulators might impose equity requirements and other prudential rules against such accounts.

Third, the central bank would create new money as needed to promote non-inflationary growth. Decisions on money creation would, as now, be taken by a committee independent of government.

Finally, the new money would be injected into the economy in four possible ways: to finance government spending, in place of taxes or borrowing; to make direct payments to citizens; to redeem outstanding debts, public or private; or to make new loans through banks or other intermediaries. All such mechanisms could (and should) be made as transparent as one might wish.

The transition to a system in which money-creation is separated from financial intermediation would be feasible, albeit complex. But it would bring huge advantages. It would be possible to increase the money supply without encouraging people to borrow to the hilt. It would end "too big to fail" in banking. It would also transfer seigniorage – the benefits from creating money – to the public. In 2013, for example, sterling M1 (transactions money) was 80 percent of gross domestic product. If the central bank decided this could grow at 5 percent a year, the government could run a fiscal deficit of 4 percent of GDP without borrowing or taxing. The right might decide to cut taxes, the left to raise spending. The choice would be political, as it should be.

Opponents will argue that the economy would die for lack of credit. I was once sympathetic to that argument. But only about 10 percent of UK bank lending has financed business investment in sectors other than commercial property. We could find other ways of funding this.

Our financial system is so unstable because the state first allowed it to create almost all the money in the economy and was then forced to insure it when performing that function. This is a giant hole at the heart of our market economies. It could be closed by separating the provision of money, rightly a function of the state, from the provision of finance, a function of the private sector.

This will not happen now. But remember the possibility. When the next crisis comes – and it surely will – we need to be ready.

Our Comment

Between 1938 and 1974, the Canadian government exercised its power to create money to fund what has been termed a "Golden Age." It used the Bank of Canada to create money for projects like the Trans-Canada Highway and the St. Lawrence Seaway, and to establish social programs

Continued on page 19

Out-of-control Central Banks are Buying Up the Planet

By Ellen Brown, Web of Debt blog, June 23, 2014

In China and elsewhere, central banks are turning from monetary policy to asset grabs.

Finance is the new form of warfare – without the expense of a military overhead and an occupation against unwilling hosts. It is a competition in credit creation to buy foreign resources, real estate, public and privatized infrastructure, bonds and corporate stock ownership. Who needs an army when you can obtain the usual objective (monetary wealth and asset appropriation) simply by financial means? – Dr. Michael Hudson, *Counterpunch*, October 2010

When the US Federal Reserve bought an 80% stake in American International Group (AIG) in September 2008, the unprecedented $85 billion outlay was justified as necessary to bail out the world's largest insurance company. Today, however, central banks are on a global corporate buying spree not to bail out bankrupt corporations but simply as an investment, to compensate for the loss of bond income due to record-low interest rates. Indeed, central banks have become some of the world's largest stock investors.

Central banks have the power to create national currencies with accounting entries, and they are traditionally very secretive. We are not allowed to peer into their books. It took a major lawsuit by Reuters and a congressional investigation to get the Fed to reveal the $16-plus trillion in loans it made to bail out giant banks and corporations after 2008.

What is to stop a foreign bank from simply printing its own currency and trading it on the currency market for dollars, to be invested in the US stock market or US real estate market? What is to stop central banks from printing up money competitively, in a mad rush to own the world's largest companies?

Apparently not much. Central banks are for the most part unregulated, even by their own governments. As the Federal Reserve observes on its website: "[The Fed] is considered an independent central bank because its monetary policy decisions do not have to be approved by the President or anyone else in the executive or legislative branches of government, it does not receive funding appropriated by the Congress, and the terms of the members of the Board of Governors span multiple presidential and congressional terms."

As former Federal Reserve Chairman Alan Greenspan quipped, "Quite frankly it does not matter who is president as far as the Fed is concerned. There are no other agencies that can overrule the action we take."

The Central Bank Buying Spree

That is how "independent" central banks operate, but it's evidently not the US central bank that is gambling in the stock market. After extensive quantitative easing, the Fed has a $4.5 trillion balance sheet; but this sum is accounted for as being invested conservatively in Treasuries and agency debt (although QE may have allowed Wall Street banks to invest the proceeds in the stock market by devious means).

Which central banks, then, are investing in stocks? The biggest player turns out to be the People's Bank of China (PBoC), the Chinese central bank.

According to a June 15 article in *USA Today:*

"Evidence of equity-buying by central banks and other public sector investors has emerged from a large-scale survey compiled by Official Monetary and Financial Institutions Forum (OMFIF), a global research and advisory group. The OMFIF research publication *Global Public Investor (GPI) 2014,* launched on June 17 is the first comprehensive survey of $29.1 trillion worth of investments held by 400 public sector institutions in 162 countries. The report focuses on investments by 157 central banks, 156 public pension funds and 87 sovereign funds, underlines growing similarities among different categories of public entities owning assets equivalent to 40% of world output.

"The assets of these 400 Global Public Investors comprise $13.2 trillion (including gold) at central banks, $9.4 trillion at public pension funds and $6.5 trillion at sovereign wealth funds."

Public pension funds and sovereign wealth funds are well known to be large holders of shares on international stock markets. But it seems they now have rivals from unexpected sources:

One is China's State Administration of Foreign Exchange (SAFE), part of the People's Bank of China, the biggest overall public sector investor, with $3.9 trillion under management, well ahead of the Bank of Japan and Japan's Government Pension Investment Fund (GPIF), each with $1.3 trillion.

SAFE's investments include significant holdings in Europe. The PBoC itself has been directly buying minority equity stakes in important European companies.

Another large public sector equity owner is Swiss National Bank, with $480 billion under management. The Swiss central bank had 15% of its foreign exchange assets – or $72 billion – in equities at the end of 2013.

Public pension funds and sovereign wealth funds invest their pension contributions and exchange reserves earned in foreign trade, which is fair enough. The justification for central banks to be playing the stock market is less obvious. Their stock purchases are justified as compensating for lost revenue caused by sharp drops in interest rates. But those drops were driven by central banks themselves; and the broad powers delegated to central banks were supposed to be for conducting "monetary policy," not for generating investment returns. According to the OMFIF, central banks collectively now have $13.2 trillion in assets (including gold). That is nearly 20% of the value of all of the stock markets in the world, which comes to $62 trillion.

From Monetary Policy to Asset Grab

Central banks are allowed to create money out of nothing in order to conduct the monetary policies necessary to "regulate the value of the currency" and "maintain price stability." Traditionally, this has been done with "open market operations," in which money was either created by the central bank and used to buy federal securities (thereby adding money to the money supply) or federal securities were sold in exchange for currency (shrinking the money supply).

"Quantitative easing" is open market operations on steroids, to the tune of trillions of dollars. But the purpose is allegedly the same – to augment a money supply that shrank by trillions of dollars when the shadow-banking system collapsed after 2008. The purpose is not supposed to be to earn an income for the central bank itself. Indeed, the US central bank is required to return the interest earned on federal securities to the federal government, which paid the interest in the first place.

Further, as noted earlier, it is not the US Federal Reserve that has been massively investing in the stock market. It is the PBoC, which arguably is in a different position than the US Fed. It cannot print dollars or Euros. Rather, it acquires them from local merchants who have earned them legitimately in foreign trade.

However, the PBoC has done nothing to earn these dollars or Euros beyond printing yuan. It trades the yuan for the dollars earned by Chinese sellers, who need local currency to pay their workers and suppliers. The money involved in these transactions has thus doubled. The merchants have been paid in yuan and the central bank has an equivalent sum in dollars or Euros. That means the Chinese central bank's holdings are created out of thin air no less than the Federal Reserve's dollars are.

Battle of the Central Banks?

Western central banks have generally worked this scheme discreetly. Not so much the Chinese, whose blatant gaming of the system points up its flaws for all to see.

Georgetown University historian Professor Carroll Quigley styled himself the librarian of the international bankers. In his 1966 book *Tragedy and Hope*, he wrote that their aim was "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 feudalist fashion *by the central banks of the world acting in concert by secret agreements*," central banks that "were themselves private corporations."

It may be the Chinese, *not* acting in concert, who break up this cartel. The PBoC is no more transparent than the US Fed, but it is not an "independent" central bank. It is a government agency accountable to the Chinese government and acting on its behalf.

The Chinese have evidently figured out the game of the "independent" central bankers, and to be using it to their own advantage. If the Fed can do quantitative easing, so can the Chinese – and buy up our assets with the proceeds. Owning our corporations rather than our Treasuries helps the Chinese break up US dollar hegemony.

Whatever power plays are going on behind the scenes, it is increasingly clear that they are not serving we-the-people. Banks should not be the exclusive creators of money. We the people, through our representative governments, need to be issuing the national money supply directly, as was done in America under President Abraham Lincoln and in colonial times.

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Our Comment. Time to force our politicians out from behind the taboo on discussing monetary policy! Time to challenge the excuse that we can't have the government creating money because that would be interfering with the independence of the Bank of Canada! *Élan*

Private Banks *from page 17*

like universal Medicare and old age pensions – without creating unreasonable debt or spiking price inflation.

But after Canada joined the Basel committee, established by central-bank Governors of the 10 countries of the Bank for International Settlements, the Canadian government stopped borrowing from its own central bank and has since borrowed, instead, from private banks at compound interest. By 2012, the Canadian government had paid C$1 trillion – twice its national debt – in interest! – (Ellen Brown, *The Public Debt Solution.*)

Why, I wonder, should the central bank of a truly democratic sovereign nation, be independent of government? (Especially if it's following, instead, policies decided upon elsewhere….)

Monetary and fiscal policy are the two main tools that a government has to manage the economy. When – as Joseph Stiglitz, Nobel economist, and former chief of the World Bank, points out in, *The Price of Inequality* – monetary policy is the key determinant of the performance of the economy, why should a democratically elected government have no control over the country's monetary policy?

Should "non-inflationary growth" be the sole criterion and goal of money creation?

Politics and economics are two sides of the same coin. Could an independent committee be depended upon to be less affected by this reality than the government?

Would it not be better to educate the electorate about the basics in these and other economic matters?

With a better electoral system, could we not then bring to government a wider perspective and a greater competence in determining monetary and fiscal policies?

Until we elect to the House, representatives who have been educated to the truth about money, and who have the integrity and the courage to do the right thing, money will continue to be "the master and not the servant of man" in Canada.

In Canada, the question of who should determine its monetary policy has been made quite clear. It is not an independent committee or an independent central bank. It is not the Bank for International Settlements. It is the Canadian Parliament.

Constitution Act of 1867 – Legislative Authority of the Parliament of Canada: Article 91 – hereby declare that the exclusive Legislative Authority of the Parliament of Canada extends to all Matters coming within the Classes of Subjects next hereinafter enumerated; that is to say, Section 1A, The public debt and property…. Sub 14. Currency and coinage Sub 15. Banking, Incorporation of Banks, and the issue of paper money Sub 16…. Savings Banks Sub 20. Legal Tender

Bank of Canada Act of 1934 – created specifically to end the hardships of the depression and to make government fully responsible for the economic well-being of the Nation.

Bank of Canada preamble: *…it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the nation-al monetary unit and to mitigate thereby its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion….* The preamble has never been changed.

By Article 18(1) of the Act, the central bank may: (c) buy and sell securities issued or guaranteed by Canada or any Province… (i) make loans or advances… (j) make loans to the Government of Canada or the government of any Province….

Article 14(2) If, notwithstanding the consultations provided for in subsection (1), there should emerge a difference of opinion between the Minister and the Bank concerning monetary policy to be followed, the Minister may…give the governor a written…and the Bank shall comply with that directive (Bill Abram, *Money*).

Élan

Only the Ignorant Live in Fear of Hyperinflation

By Martin Wolf, Financial Times, April 10, 2014

Failure to understand the monetary system has made it more difficult for central banks to act.

Some years ago I moderated a panel at which a US politician insisted that the Federal Reserve's money printing would soon cause hyperinflation. Yet today the Fed's main concern is rather how to get inflation up to its target. Like many others, he failed to understand how the monetary system works.

Unfortunately ignorance is not bliss. It has made it more difficult for central banks to act effectively. Fortunately the Bank of England is providing much needed education. In its most recent *Quarterly Bulletin*, its staff explain the monetary system. So here are seven fundamental points about how it really works as opposed to how people think it does.

First, banks are not just financial intermediaries. The act of saving does not increase deposits in banks. If your employer pays you, the deposit merely shifts from its account to yours. This does not affect the quantity of money; additional money is instead a byproduct of lending. What makes banks special is that their liabilities are money – a universally acceptable IOU. In the UK, 97 percent of broad money consists of bank deposits mostly created by such bank lending. Banks really do "print" money. But when customers repay, it is torn up.

Second, the "money multiplier" linking lending to bank reserves is a myth. In the past when bank notes could be freely exchanged for gold, that relationship might have been close. Strict reserve ratios could yet re-establish it. But that is not how banking operates today. In a fiat (or government-made) monetary system, the central bank creates reserves at will. It will then supply the banks with the reserves they need (at a price) to settle payments obligations.

Third, expected risks and rewards determine how much banks lend and so how much money they create. They need to consider how much they have to offer to attract deposits and how profitable and risky any additional lending might be. The state of the economy – itself strongly affected by their collective actions – will govern these judgments. Decisions of non-banks also affect banks directly. If the former refuse to borrow and decide to repay, credit and so money will shrink.

Fourth, the central bank will influence the decision of banks by adjusting the price it charges (the interest rate) on extra reserves. That is how monetary policy works in normal times. Since it is the monopoly supplier of bank reserves and since the banks need deposits at the central bank to settle with one another, the central bank can in this way determine the short-term interest rate in the economy. No sane bank would lend at a rate lower than it must pay the central bank, which is the banks' bank.

Fifth, the authorities can also affect the lending decisions of banks by regulatory means – capital requirements, liquidity requirements, funding rules and so forth. The justification for such regulation is that bank lending creates spillovers or "externalities." Thus, if many banks lend against the same activity – property purchase, for example – they will raise demand, prices and activity, so justifying yet more lending. Such a cycle might lead – indeed often has led – to a market crash, a financial crisis and a deep recession. The justification for systemic regulation is that it will, or at least should, attenuate these risks.

Sixth, banks do not lend out their reserves, nor do they need to. They do not because non-banks cannot hold accounts at the central bank. They need not because they can create loans on their own. Moreover, banks cannot reduce their aggregate reserves. The central bank can do so by selling assets. The public can do so by shifting from deposits into cash, the only form of central bank money the public is able to hold.

Finally, quantitative easing – the purchase of assets by the central bank – will expand the broad money supply. It does so by replacing, say, government bonds held by the public with bank deposits and in the process expands the reserves of the banks at the central bank. This will increase broad money, other things being equal. But since there is no money multiplier, the impact on the money supply can be – and indeed has recently been – modest. The main impact of QE is on the relative prices of assets. In particular, the policy raises the prices of financial assets and lowers their yield. The justification for this is that at the zero lower bound normal monetary policy is no longer effective. So the central bank tries to lower yields on a wider range of assets.

This is not just academic. Understanding the monetary system is essential. One reason is that it would eliminate unjustified fears of hyperinflation. That might occur if the central bank created too much money. But in recent years the growth of money held by the public has been too slow not too fast. In the absence of a money multiplier, there is no reason for this to change.

A still stronger reason is that subcontracting the job of creating money to private profit-seeking businesses is not the only possible monetary system. It may not be even the best one. Indeed, there is a case for letting the state create money directly. I plan to address such possibilities in a future column.

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Our Comment. In Canada, the *Constitution Act*, and the *Bank of Canada Act,* invest Parliament with the power to create money, and with the ultimate responsibility for monetary policy. *Élan*