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A Letter to Independent "Liberal" Senators

By Richard Priestman, President, Kingston Chapter, COMER

During a visit with my friend Kevin Connolly on Monday, February 3, 2014, in the palliative care unit of St. Mary's Hospital by the Lake in Kingston, Kevin asked what I thought about Justin Trudeau's decision to terminate membership in the Liberal caucus of those Senators who, until then, had been sitting as "Liberal Senators." From that point on these Senators were and are considered as "Independent" members of the Senate.

The main reason given by Trudeau, as I understood it, for taking this action was because he believed many Canadians want a Senate free from the control of the Party Leader so it could provide the "sober second thought" that the Senate was supposed to provide, but could not if senators were taking direction from the Party leader.

My reaction to Kevin's question was cautiously positive. I said it appeared to me as a step forward because senators could now express opinions which they may have been reluctant to do previously, opinions which could be in the best interests of the nation even if not of the Party. Kevin responded to my remarks almost with a roar! "I believe it was a *great* move," he said. "He's got the chickens in the hen house talking to each other now. Maybe it's not perfect, but it's a step forward."

I responded to Kevin's enthusiasm saying this would be a good time to send a letter to these Senators about monetary policy. "Yes," said Kevin, "the letter could begin with, 'Now that you are independent….'" And that is how the letter begins.

Dear Senator:

Now that you are independent you may wish to comment on a matter which has been simmering for over 30 years. Many Canadians have spent hours at various locales and times, at meetings of political parties, social action groups, all-candidates meetings and municipal councils, and have written letters to newspapers, political parties, unions, and conferences on poverty to explain what has happened since the mid-1970s and why our governments are saddled with huge, unnecessary debts and interest costs.

This letter is about the Bank of Canada (Canada's central bank, the Bank), created in 1934 as a private corporation under the *Bank of Canada Act*.[1]

During the 1934 debates on the proposed Act, Opposition Leader Mackenzie King strongly opposed the concept of a *private* central bank, but Prime Minister Bennett prevailed.[2]

Then, in 1935, Bennett called an election and King campaigned to nationalize the Bank of Canada. Early in the campaign he said,

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

King won the 1935 election and by 1938 nationalization of the Bank was completed, that is, entirely owned by the federal government. This means that all interest paid on government debt held by the Bank comes back to the government as dividend so that

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Senators *from page 1*

the debt is almost interest free except for minimal administrative costs.

"The Bank produced most of the money supply from 1935 to 1939, and 62% of new money during the last years of World War II. This policy (coupled with realistic controls and regulations) gave Canada the highest employment it has ever had, very low interest rates and very low inflation. After the war and up to the mid-1970s, the Bank traditionally created enough new money to absorb (or "monetize") between 20% and 30% of the federal government deficit. After 1975 it steadily reduced its share of the deficit and therefore the broadly defined money stock."[3]

The result: three serious recessions, an explosion of debt, drastic cutbacks in public services and deterioration of public infrastructure.

By the early 1970s much of the "world," including Canada, had adopted the ideology of the Chicago school of economics on the privatization of public services and assets. When interest rates soared in 1980 the government of Canada paid exorbitant interest rates like everyone else instead of borrowing from its own bank. Federal public debt increased by 3,000% from $18 billion in 1974 to $588 billion in 1997. It fluctuated after that reaching $582 billion in 2012. Provincial and municipal debts rose likewise, adding about $420 billion for a total of more than a trillion dollars. Total interest paid by the three levels of government in 2011-2012 amounted to over $50 billion.

"In 1974, the Basel Committee on Banking Supervision (the Bank for International Settlements – BIS) was created by the central bank Governors of the Group of Ten nations (now expanded to twenty)…. The Committee, in turn, sets the rules for banking globally, including capital requirements and reserve controls."[4]

In a 2003 article titled "Controlling the World's Monetary System, The Bank for International Settlements" Joan Veon wrote:

"The BIS is where all of the world's central banks meet to analyze the global economy and determine what course of action they will take next to put more money in their pockets, since they control the amount of money in circulation and how much interest they are going to charge governments and banks for borrowing from them….

"When you understand that the BIS pulls the strings of the world's monetary system, you then understand that they have the ability to create a financial boom or bust in a country. If that country is not doing what the money lenders want, then all they have to do is sell its currency."[5]

The influences of the *ideology* of the Chicago school of economics and the BIS *veiled threat* contributed to Canada's decision to reduce its use of the Bank of Canada to finance its investments in public capital projects.

"Progressive" organizations, lobby groups and politicians continually press the government for more support for education, health services, infrastructure, environment protection, protection of our industries, etc., etc., but the usual reply from the government is that it can't afford to do more because of the heavy debt load and interest payments. None of the major political parties has challenged the government to use its own Bank to reduce the debt load and interest.

So, our governments continue to pay interest to the private banks when they borrow from them to finance capital expenditures when we could, in stead, borrow from our own Bank. What can you, as an Independent Senator, do about this? Do you believe that all Bills that come before the Senate should be for the good of Canada, rather than for self-seeking groups? Will you be willing to speak publicly on this issue?

Much, much more can be said on this issue. Many books have been written. There are experts who would be glad to answer your questions. For more information, please contact the undersigned.

References

1. *A Power Unto Itself, The Bank of Canada*, W. Krehm, p. 3.
2. *Hansard*, June 21 and June 22, 1934, pp. 4149 to 4197.
3. *The Deficit Made Me Do It*, May, 1992, p. 9, Harold Chorney, Assoc. Professor of Political Economy and Public Policy, Concordia University, Montreal; John Hotson, Professor of

Letter to Justin Trudeau

February 18, 2014

Justin Trudeau, MP
Leader of the Liberal Party

Dear Mr. Trudeau:

On behalf of the Kingston Chapter of the Committee on Monetary and Economic Reform (COMER) I congratulate you on your excellent decision to free Liberal Senators from Party discipline and political influence.

Our group is taking this opportunity to copy to the Independent "Liberal" Senators the attached letter.

Sincerely,

Richard Priestman, President,
Kingston Chapter, COMER

Economics, University of Waterloo; Mario Seccareccia, Assoc. Professor of Economics, University of Ottawa; Ed Finn, Editor, Canadian Centre For Policy Alternatives.

4. *Global Research*, April 17, 2013. The Tower of Basel: Secretive Plans for the Issuing of a Global Currency, Ellen Brown.

5. Joan Veon, "The Bank for International Settlements Calls for Global Currency," *News with Views* (August 26, 2003).

Post Script

Members of COMER attending the 1994 national conference of the Council of Canadians got a resolution adopted supporting use of the Bank to carry public debt. Other COMER members attending the national convention of the New Democratic Party in 1995 got a similar resolution adopted. In both cases the resolutions were and continue to be ignored.

On December 12, 2011, COMER filed a Statement of Claim in the Federal Court against the government for not using the Bank of Canada as it should to benefit Canadians. The suit is on-going and is very expensive. If you would care to donate to it, you can send a cheque, made out to "COMER Lawsuit," to Ann Emmett, 83 Oakwood Avenue, Toronto, ON, M6H 2V9.

Kevin died February 19, 2014.

Please share these letters with others.

It would be very helpful if you sent your own letter to the Independent Senators.■

The Stone that Brings Down Goliath? Richmond and Eminent Domain

By Ellen Brown, Web of Debt at http://ellenbrown.com, March 3, 2013.

In a nearly $13 billion settlement with the US Justice Department in November 2013, JPMorganChase admitted that it, along with every other large US bank, had engaged in mortgage fraud as a routine business practice, sowing the seeds of the mortgage meltdown. JPMorgan and other megabanks have now been caught in over a dozen major frauds, including LIBOR-rigging and bid-rigging; yet no prominent banker has gone to jail. Meanwhile, nearly a quarter of all mortgages nationally remain underwater (meaning the balance owed exceeds the current value of the home), sapping homeowners' budgets, the housing market and the economy. Since the banks, the courts and the federal government have failed to give adequate relief to homeowners, some cities are taking matters into their own hands.

Gayle McLaughlin, the bold mayor of Richmond, California, has gone where no woman dared go before, threatening to take underwater mortgages by eminent domain from Wall Street banks and renegotiate them on behalf of beleaguered homeowners. A member of the Green Party, which takes no corporate campaign money, she proved her mettle standing up to Chevron, which dominates the Richmond landscape. But the banks have signaled that if Richmond or another city tries the eminent domain gambit, they will rush to court seeking an injunction. Their grounds: an unconstitutional taking of private property and breach of contract.

How to refute those charges? There is a way; but to understand it, you first need to grasp the massive fraud perpetrated on homeowners. It is how you were duped into paying more than your house was worth; why you should not just turn in your keys or short-sell your underwater property away; why you should urge Congress not to legalize the MERS scheme; and why you should insist that your local government help you acquire title to your home at a fair price if the banks won't. That is exactly what Richmond and other city councils are attempting to do through the tool of eminent domain.

The Securitization Fraud that Collapsed the Housing Market

One settlement after another has now been reached with investors and government agencies for the sale of "faulty mortgage bonds," including a suit brought by Fannie and Freddie that settled in October 2013 for $5.1 billion. "Faulty" is a euphemism for "fraudulent." It means that mortgages subject to securitization have "clouded" or "defective" titles. And that means the banks and real estate trusts claiming title as owners or nominees don't actually have title – or have standing to enjoin the city from proceeding with eminent domain. They can't claim an unconstitutional taking of property because they can't prove they own the property, and they can't claim breach of contract because they weren't the real parties in interest to the mortgages (the parties putting up the money).

"Securitization" involves bundling mortgages into a pool, selling them to a non-bank vehicle called a "real estate trust," and then selling "securities" (bonds) to investors (called "mortgage-backed securities" or "collateralized debt obligations"). By 2007, 75% of all mortgage originations were securitized. According to investment banker and financial analyst Christopher Whalen, the purpose of securitization was to allow banks to avoid capitalization requirements, enabling them to borrow at unregulated levels.

Since the real estate trusts were "off-balance sheet," they did not count in the banks' capital requirements. But under applicable accounting rules, that was true only if they were "true sales." According to Whalen, "most of the securitizations done by banks over the past two decades were in fact secured borrowings, not true sales, and thus potential frauds on insured depositories." He concludes, "bank abuses of non-bank vehicles to pretend to sell assets and thereby lower required capital levels was a major cause of the subprime financial crisis."

In 1997, the FDIC gave the banks a pass on these disguised borrowings by granting them "safe harbor" status. This proved to be a colossal mistake, which led to the implosion of the housing market and the economy at large. Safe harbor status was finally withdrawn in 2011; but in the meantime, "financings" were disguised as "true sales," permitting banks to grossly over-borrow and over-leverage. Over-leveraging allowed credit to be pumped up to bubble levels, driving up home prices. When the bubble collapsed, homeowners had to pick up the tab by paying on mortgages that far exceeded the market value of their homes. According to Whalen:

[T]he largest commercial banks became "too big to fail" in large part because they used non-bank vehicles to increase leverage without disclosure or capital backing….

The failure of Lehman Brothers, Bear Stearns and most notably Citigroup all were largely attributable to deliberate acts of securities fraud whereby assets were "sold" to investors via non-bank financial vehicles. These transactions were styled as "sales" in an effort to meet applicable accounting rules, but were in fact bank frauds that must, by GAAP and law applicable to non-banks since 1997, be reported as secured

borrowings. Under legal tests stretching from 16th Century UK law to the *Uniform Fraudulent Transfer Act* of the 1980s, virtually none of the mortgage-backed securities deals of the 2000s met the test of a true sale.

…When the crisis hit, it suddenly became clear that the banks' capital was insufficient.

Today…hundreds of billions in claims against banks arising from these purported "sales" of assets remain pending before the courts.

Eminent Domain as a Negotiating Tool

Investors can afford high-powered attorneys to bring investor class actions, but underwater and defaulting homeowners usually cannot; and that is where local government comes in. Eminent domain is a way to bring banks and investors to the bargaining table.

Professor Robert Hockett of Cornell University Law School is the author of the plan to use eminent domain to take underwater loans and write them down for homeowners. He writes on NewYorkFed.org:

[In] the case of privately securitized mortgages, [principal] write-downs are almost impossible to carry out, since loan modifications on the scale necessitated by the housing market crash would require collective action by a multitude of geographically dispersed security holders. The solution…is for state and municipal governments to use their eminent domain powers to buy up and restructure underwater mortgages, thereby sidestepping the need to coordinate action across large numbers of security holders.

The problem is blowback from the banks, but it can be blocked by requiring them to prove title to the properties. Securities are governed by federal law, but real estate law is the domain of the states. Counties have a mandate to maintain clean title records; and legally, clean title requires a chain of "wet" signatures, from A to B to C to D. If the chain is broken, title is clouded. Properties for which title cannot be established escheat (or revert) to the state by law, allowing the government to start fresh with clean title.

New York State law governs most of the trusts involved in securitization. Under it, transfers of mortgages into a trust after the cutoff date specified in the Pooling and Servicing Agreement (PSA) governing the trust are void.

For obscure reasons, the REMICs (Real Estate Mortgage Investment Conduits) claiming to own the properties routinely received them after the closing date specified in the PSAs. The late transfers were done through the fraudulent signatures-after-the-fact called "robo-signing," which occurred so regularly that they were the basis of a $25 billion settlement between a coalition of state attorneys general and the five biggest mortgage servicers in February 2012. (Why all the robo-signing? Good question.)

Until recently, courts have precluded homeowners from raising the late transfers into the trust as a defense to foreclosure, because the homeowners were not parties to the PSAs. But in August 2013, in Glaski v. Bank of America, NA, 218 Cal. App. 4th 1079 (July 31, 2013), a California appellate court ruled that the question whether the loan ever made it into the asset pool could be raised in determining the proper party to initiate foreclosure. And whether or not the homeowner was a party to the PSA, the city and county have a clear legal interest in seeing that the PSA's terms were complied with, since the job of the county recorder is to maintain records establishing clean title.

Before the rise of mortgage securitization, any transfer of a note and deed needed to be recorded as a public record, to give notice of ownership and establish a "priority of liens." With securitization, a private database called MERS (Mortgage Electronic Registration Systems) circumvented this procedure by keeping the deeds as "nominee for the beneficiary," obscuring the property's legal owner and avoiding the expense of recording the transfer (usually about $30 each). Estimates are that untraceable property assignments concealed behind MERS may have cost counties nationwide billions of dollars in recording fees.

Counties thus have not only a fiduciary but a financial interest in establishing clean title to the properties in their jurisdictions. If no one can establish title, the properties escheat and can be claimed free and clear. Eminent domain can be a powerful tool for negotiating loan modifications on underwater mortgages; and if the banks cannot prove title, they have no standing to complain.

The End of "Too Big to Fail"?

Richmond's city council is only one vote short of the supermajority needed to pursue the eminent domain plan, and it is seeking partners in a Joint Powers Authority that will make the push much stronger. Grassroots efforts to pursue eminent domain are also underway in a number of other cities around the country. If Richmond pulls it off successfully, others will rush to follow.

The result could be costly for some very large banks, but they have brought it on themselves with shady dealings. Christopher Whalen predicts that the FDIC's withdrawal of "safe harbor" status for the securitization model may herald the end of "too big to fail" for those banks, which will no longer have the power to grossly overleverage and may have to keep their loans on their books.

Wall Street banks are deemed "too big to fail" only because there is no viable alternative – but there could be. Local governments could form their own publicly-owned banks, on the model of the state-owned Bank of North Dakota. They could then put their revenues, their savings, and their newly-acquired real estate into those public utilities, to be used to generate interest-free credit for the local government (since it would own the bank) and low-cost credit for the local community. For more on this

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.

Peter O'Brien earned his BA from the University of Notre Dame, his MA from McGill University and he attended the Banff School of Fine Arts. He has edited or written a number of books that have been widely reviewed, and published articles and reviews in a number of newspapers and magazines on literature, art, architecture and family history. He has won various awards, including the Eleanor Meehan Medal for Literary Merit (Notre Dame) and a Graphis Gold Award.

Gwendolyne Preboy is the creative inspiration and principal craftsperson behind Gwendolyne Hats, which was founded in 1991, and is known as one of Toronto's finest, one-of-a-kind hat and accessory ateliers. All Gwendolyne Hats are known for their fine materials, original designs, artistic beauty and exquisite, durable and lasting craftsmanship.

Hélène St. Jacques is an expert consumer and market researcher with a history that spans many food, health, social justice and environmental sectors. Her experience includes working on local, national and international fronts with large- and small-size public and private sector organizations. She has a BA from the University of Waterloo and a MEd from the University of Toronto.

promising option, which has been or is being explored in almost half the state legislatures in the US, see http://publicbankinginstitute.org.

Ellen Brown is an attorney, president of the Public Banking Institute, and a candidate for California State Treasurer running on a state bank platform. She is the author of twelve books including the best-selling Web of Debt *and her latest book,* The Public Bank Solution*, which explores successful public banking models historically and globally.*

Who Benefits from Government Actions? Our Corporate Rulers.

By Ed Finn, CCPA Monitor, Volume 20, No. 8

For a planet that has already been ravaged to a nearly irremediable extent, capitalism is the worst possible economic system that could have attained global supremacy.

Lucius Cassius, a consul whom the people of ancient Rome revered as a wise and honest judge, was often required to adjudicate disputes involving the laws or policies of the Senate.

Time and again, his first question was "Cui bono?" which can be translated as "Who benefits?" or "To whose benefit?" His reasoning was that no political action could be explained unless it was first determined who gained from it.

The even more illustrious Roman orator and statesman Cicero often quoted this maxim of Cassius in his own speeches.

It's an analytical query that is just as applicable today as it was more than two millennia ago.

If applied, for example, to most of the major laws and policies of the Harper government over the past eight years, it would reveal that the beneficiaries have overwhelmingly been the top executives, investors, and shareholders of the largest corporations.

They have certainly benefited financially from the massive corporate tax cuts, the privatization of public services, the attacks on unions and union rights, the refusal to curb industrial pollution, the deregulation of controls on their marketing activities, and the lax enforcement of the regulations that remain.

The business and upper class members of the élite also benefit – if only in the short term – from the government's indifference to the inexcusably high rates of poverty, hunger and homelessness that afflict so many Canadians, including hundreds of thousands of children. Spending more on the poor would leave less for the rich, so is excluded from the agenda of a government that operates as a plutocracy serving the rich and powerful.

Shortly before last Christmas, Industry Minister James Moore, when asked by a reporter about the scourge of child poverty, claimed it was not the federal government's responsibility to ensure that hungry people get fed.

"Is it my job to feed my neighbor's kids?" he asked. "I don't think so!" he declared, laughing.

He later apologized, but in reality he had blurted out his true feelings, and unquestionably those feelings are shared by most of his cabinet colleagues, including Prime Minister Harper. Their concern is solely for the welfare of the most affluent people, who never have to worry about being poor or hungry.

Also just before Christmas, the premiers of all the provinces met with federal Finance Minister Jim Flaherty to seek his support for improving the Canada Pension Plan. This is an urgently needed reform. Two-thirds of Canadians don't have a workplace pension, and most can't afford to put much into an RRSP; so they have to depend for retirement income on the CPP, Old Age Security, and GIS.

A Contribution Increase Would Be Affordable

Boosting the CPP contributions and benefits would clearly be affordable for all but the smallest employers. But the big corporations would have to shell out a bit more, so it wasn't surprising that Flaherty – who is guaranteed a hefty parliamentary pension himself – quickly vetoed the provinces' proposal.

"Any hike in CPP premiums," he proclaimed, "would amount to a payroll tax that would result in fewer jobs and take money out of worker's pockets."

Subjected to the "cui bono" question, however, that statement really translates as "any hike in CPP premiums would amount to an increase in corporate taxes and take money out of shareholders' pockets."

It's not only the Harper government that is servile to the big corporations and billionaires. To varying degrees, all governments are. Canadian provinces may occasionally dare to defy their corporate overlords on some social issue, but basically they all see their primary role as keeping Big Business happy. That means keeping business taxes low, keeping regulations weak, keeping social program spending down, keeping pollution-control measures minimal, and keeping unions on a tight legislative leash.

On an international scale, too, of course, the large corporations – especially the high-finance ones – are now in effect ruling the world. All governments have become the political arms of this global monster and all human beings now live under its oppressive capitalist economic system. Some countries in Europe have managed to retain some elements of self-rule, but their economies, too, have all been enmeshed to some extent in the vast global capitalist network.

This victory of plutocracy over democracy would be bad enough if it was confined to economic matters. But it has also been a victory of greed over equality, competition over cooperation, bondage over freedom, free trade over fair trade, war over peace, environmental pollution over protection, and ultimately, madness over sanity.

For a planet whose atmosphere, seas, soil, and forests have already been ravaged to a nearly irremediable extent, uncontrolled capitalism is the worst possible economic system that could have attained global supremacy. Every one of its driving precepts – notably the unlimited pillaging of resources and their unlimited consumption – is the direct opposite of the set of measure that today should be the No. 1 priority for all the world's people and institutions.

We live at a critical time when only a concerted international crusade has any hope of averting ecological, social – and yes economic – annihilation. But it is our greatest misfortune as a "civilization" that it is also a time when we are ruled by purblind ideological oligarchs. They remain hell-bent on putting their short-term affluence ahead of the long-term survival of humankind, and thus are the least likely world leaders ever to mount such a monumental rescue operation.

In the end, who benefits? Nobody.

Capitalism's Crisis of Value and Imagination

By Max Haiven, truth-out.org, February 8, 2014

Excerpts from the Introduction to Crises of Imagination, Crises of Power *by Max Haiven, Zed Books, March 2014.*

You, dear reader, are on the front lines of a war. It is a war between money and the earth, between capital and people, between the blunt stupidity of greed and the resilient creativity of humanity. Perhaps they have destroyed or will destroy the ecosystem in which you live in the name of profit. Perhaps your body or your soul is wrecked or in the process of breaking down because you must work a meaningless, oppressive job to make enough money to survive – or perhaps you like your job but feel the ever-present shadow of the axe in this age of budget cuts and rationalization. Perhaps you are devalued by the colour of your skin, the country of your origin, or your perceived gender or sexuality and feel that devaluation in the form of prejudice, exploitation, intimidation or xenophobia. Usually you will feel it economically too. Perhaps you are among or will be among those statistics that indicate that the largest single cause of the breakdown of marriages and relationships is financial hardship. Perhaps you can no longer recognize yourself after years of seeking success or enduring failure. Perhaps you feel guilty for the ways your economic privilege is fed by the exploitation of others, the way your (relatively) cheap iPod or clothing depends on the incarceration of young people in factories on the other side of the earth. In any case, unless you are extremely fortunate, or extremely avaricious, what and whom you love and value has been or will be undermined by capitalism at some point and in some way.

Of Value and Values

According to free-market ideologues, capitalism is the ultimate system for assigning value to the world's wealth. By bringing people's wants, needs and desires together into an open market, capitalism will accurately and efficiently price things as diverse as the cost of an hour of a shoemaker's time, a loaf of bread, the value of a river, or the price of a song on iTunes. These utopian dreamers, whose thinking has become associated with the term "neoliberalism," believe that by mobilizing people's competitiveness and inherently acquisitive human nature, capitalism is, ultimately, value-neutral – markets are simply egalitarian arenas of exchange. The truth, of course, is quite different. The value of the market itself has become the overarching and unquestionable arbiter of almost every aspect of human existence today. All social, moral, ethical, and personal values are subordinate to the value of money. The result is a system where, in almost every case, the perceived needs of the market trump any other considerations.

Consider, for instance, the dramatic failure of some of the largest assemblies of world leaders in human history to take meaningful action in the face of global warming and the catastrophic climate change it will unleash. In spite of an unprecedented near-consensus of global scientists, and in spite of the evidence that the continuation of present levels of carbon emissions would lead to the destruction of the lives and livelihoods of millions (perhaps billions) of (mostly poor, brown) people, it was ultimately decided that the perceived needs of capitalist markets were more important, and that no action that in any way impeded or jeopardized "economic growth" would be taken.

> "IMAGINATION IS MORE IMPORTANT THAN KNOWLEDGE."
> — ALBERT EINSTEIN

Such a perversion of any reasonable notion of what is valuable is, sadly, neither new nor shocking. It occurs everywhere, all the time. Individuals and communities around the world are left to languish in poverty, ill health and strife because markets demand lower taxes, access to resources and cheap labour. Whole nations and populations are ruined by speculative investment because markets desire the unfettered ability to gamble on currencies, food prices and government bonds. In the age of austerity, hospitals, pensions, mental health services, schools and universities and even civil infrastructure must be abandoned in the name of plugging the bleeding holes in the crisis-ridden market. And everywhere the value of the earth and the value of individuals and their labour is measured exclusively in their capacity to render profit for increasingly uncontrollable and unanswerable corporations and the god-like market they serve.

The process is insidious. We are told that the value of the atmosphere itself is best imagined though "carbon credits," that the value of individuals is best imagined through the price of their time in the form of wages, or that the value of schools, universities and other public institutions is to be measured in the fiscal "return on investment" they afford their "customers." Everywhere, money becomes the measure of the imagination, the means by which we comprehend and act upon the world that we share. And, ultimately, the crises we now face (the ecological crisis; the economic crisis of global markets; the political crisis of austerity; the social crisis of alienation; the cultural crisis of dislocation; the food crisis; the water crisis; the crisis of education; the crisis of incarceration) are all crises of value, where the pathological value of the market is diametrically opposed to the plural values of humanity.

The crises of our age, like the crises of ages past, are the crises of capitalism. In this book, capitalism represents a cancerous disorder in the "fabric" of social reproduction, one that works by perverting our sense of what and who is valuable and conscripting us to reproduce a system that works in the short-term interests of the few and against the interests of the vast majority of humanity. The failure to acknowledge that the many global crises we now face are, inherently, crises of capitalism represents a massive failure of the imagination. And without the radicalization of the imagination, we have no hope of overcoming these crises.

The crisis of the imagination develops on several interconnected levels.

First, it represents a crisis of parochialism. While the 2008 financial crisis came as a shock to many in the global North, it came as no surprise to many in the so-called Third World who have been experiencing the dangerous volatilities of financial markets, predatory lending and extortionary debt for generations. Indeed, "austerity," from one perspective, is merely the application of economic discipline to the First World that once was only reserved for former colonies: the maddeningly bull-headed imposition of a neoliberal economic agenda in spite of its inherent flaws and history of abject failures. The idea that capitalism has ever not been in crisis is a privilege afforded to the privileged. As the capitalist crises deepen and widen, swallowing many who once imagined them-

selves deservingly immune (notably, the Northern white middle class), the imagination struggles to find purchase.

The crises we now face are also crises of the imagination at the heart of the ruling paradigm. The pompous and enthusiastic announcements of the "end of history" and the eternal and unquestionable value of free markets and global trade which characterized the two decades since the fall of the Berlin Wall have given way to hopeless resignation. While practically no one still believes that unfettered free markets will lead to prosperity, sustainability, peace and human fulfillment, the vast majority of politicians and policymakers remain enthralled to the now undead ideology of necroneoliberalism. Margaret Thatcher's famous dictum that "there is no alternative" to unregulated capitalism has ceased to be a smug, self-satisfied pronouncement from on high and has instead become a shrill and desperate mantra of a crisis-ridden and potentially suicidal system, rehearsed with slavish devotion by nearly every government in the world, whether avowedly right or ostensibly left.

Finally, the crisis of imagination is a much deeper, broader crisis, which is the subject of this book. Economic systems, for all their material wealth and very real relations of labour, exploitation, violence, hunger and tangible inequality, are also dependent on the imagination. As I argue more fully in this book, capitalism relies not only on the brutal repression of workers in factories and fields; it also relies on conscripting our imaginations.

On a basic level, it relies on each of us imagining ourselves as essentially isolated, lonely, competitive economic agents. It relies on us imagining that the system is the natural expression of human nature, or that it is too powerful to be changed, or that no other system could ever be desirable. Capitalism, as a system, is driven by a process whereby the plural, living values of humanity, for all their contradictions and vagaries, are translated, transformed and subordinated to the monolithic, singular value of capital. We reproduce our lives, our society and our world through cooperation, and our cooperation is guided by what and who we imagine is valuable. Capitalism is a system that drives and relies on the conscription of that imaginative process of valuing and the subordination of all value to price.

While the system is ultimately held in place by the threat and exercise of very real violence and the concentration of very material wealth and power in the hands of the ruling class, its imaginary and imaginative dimensions cannot be ignored. For instance, sexism, racism, homophobia and nationalism are, for all intents and purposes, forms of power essential to the reproduction of capitalist social and economic relations based, ultimately, on largely imagined attributions of value to individuals. Those who are empowered by these value systems, in turn, typically use their power to reproduce the system. Ranks, hierarchies and other forms of coercive authority are, in spite of the fact that they are often backed by real wealth, privilege and violence, ultimately imaginary distinctions between people. In all these cases, inequality, oppression and exploitation based on imaginary distinctions are central to the reproduction of capitalism, and also reproduced by and within that system.

So the crisis of imagination is also a crisis we all experience every day, a crisis in how and who and what we value, a crisis in the patterns by which we imagine the world around us and, hence, act in the world, a crisis in the way we, as social, cooperative beings, reproduce our world and are reproduced by it. Essentially, a crisis occurs when the reproduction of capitalism comes into conflict with the reproduction of life and happiness.

The Enclosure of the Commons

Throughout my life of activism and research, I've been heavily indebted to the thinking and writing of a set of authors who have made the idea of the commons a central motif in their analysis of capitalism and resistance to it. The early work of the Midnight Notes Collective looked back at the phase of capitalism Marx called "primitive accumulation" for answers about the nature of capitalist exploitation that went beyond the doctrinaire and conventional Marxist understanding that idealized the industrial labourer.

Primitive accumulation referred to the way the common lands established and fought for by peasants under feudalism were "enclosed" and made private property as the European economy transformed towards capitalism (through both legal changes and extralegal land seizures). This original generation of "capital" in the form of land, as well as the displacement of landed peasants and their transformation into itinerant workers dispossessed of their means of subsistence, created the conditions in which capitalism as a system could take root.

The enclosure of the commons is not only a historical precedent, it is an ongoing process. In a direct way, especially in the Third World and in indigenous territories, lands are actively being seized from communities and transformed into private property. More generally, enclosure refers to the way capital constantly seeks out spheres of common value to devour and transform according to its own logic. The privatization of water, the commercialization and policing of the Internet, the tightening of intellectual property laws (from cultural "content" to life-saving pharmaceuticals to corporate "biopiracy" and the patenting of seed), the corporatization of schooling and the increasing power of capital over governments large and small are all examples of contemporary enclosures where the value and cooperative energies of communities are subordinated to or subsumed under the capitalist paradigm.

So, too, can we speak of all our lives and our time as under enclosure, to the extent that we are compelled to work for a wage to earn back enough of a share of our common wealth to survive, or to the extent that we are made to pay for commodified entertainment, transportation, care and companionship for lack of community. We can also speak about the rise of debt as an enclosure of the future in the sense that it fundamentally delimits and shapes what we imagine might be possible, both as individuals and as collectives. Or we can think about the university as a space for the enclosure of knowledge, where disciplinary boundaries, increasingly corporatized research and commercialized spaces shape and constrain human possibility.

For authors like Silvia Federici, Massimo De Angelis and George Caffentzis, the means to overcome capitalism is through the defence of actually existing commons and the establishment of new commons where we can cooperate on other terms, terms that obey other values, not the single pathological value of capital. Capitalism, especially the unfettered capitalism germane to neoliberalism and austerity, transforms the world, like a virus recalibrating most spheres of life to look like the capitalist marketplace, injecting values of competition, accumulation, hierarchy, coercive power, exploitative labour and imagined differences. Measuring all other values against its inhuman metric of money, capitalism turns human cooperation towards its own reproduction. While it might make a tiny minority of humanity the temporary beneficiaries and agents of this accumulation (the

ruling class), these individuals are disposable and replaceable, though their attempts to maintain their power and compete against one another fundamentally sow the system with crisis.

Struggles for Value

Yet, for all of that, people's resistance, ingenuity and radical imagination escape and evade enclosure. People form new commons all the time, sometimes as small as a circle of friends who support one another, sometimes as large as an occupation or a workers' co-operative. The "commons" refers both to the real, existing alternative anti-capitalist institutions that make life worth living (community gardens, housing co-operatives, social movements) and to the quality or timbre of the many areas of our lives that we hold in common, though they may exist within (indeed, may be necessary to the reproduction of) capitalism. In this sense, we must think of "common" as a verb, not a noun. It names a dimension of action and cooperation, rather than a hard and fast thing, a space or time in which we create value together.

Yet we must also recall the importance of the imagination and creativity to the idea of the commons. Throughout this book I argue that the way we imagine the world is a field of material struggle. In chapter one, I show how the way we imagine value shapes and constrains how we cooperate to reproduce the world. I argue that the talk of "values" hurled about by right-wing commentators (national values, religious values, family values) mystifies and distracts us from the horrific ways capitalism not only vampirically drains workers of the value they create, but transforms who and what we imagine is valuable. In chapter two, I

In Memory of Kevin Connolly

By Richard Priestman

As Hugh and Claire Jenny said, "We've lost a good friend!" Not just our little group, but the whole community and beyond, even as far as El Salvador. Ignacio Melgar will want to tell us how Kevin helped the Kingston El Salvadoran Committee and El Salvador. I know very little about it, except for the tickets Kevin sold me for the Salvadoran dinners, but I remember him telling me about his trip to El Salvador when everyone in their group came down with stomach "flu" except for Kevin until the last day when he succumbed, too. It sounded funny the way he told it, but I'm sure it wasn't funny.

Kevin was very politically minded and active – trying every political party. He became involved with the Liberal Party and thought highly of Ted Hsu. When I was visiting with Kevin on February 3 he suddenly (out of the blue) asked what I thought of Justin Trudeau's decision to terminate membership in the Liberal caucus of those Senators who, until then, had been sitting as "Liberal Senators." The main reason given by Trudeau, as I understood it, for taking this action was to free the Senators from the control of the Party Leader so they could provide the "sober second thought" that the Senate was supposed to provide. I said it appeared to me as a step forward.

Kevin responded to my remarks almost with a roar! "I believe it was a *great* move," he said. "He's got the chickens in the hen house talking to each other now. Maybe it's not perfect, but it's a step forward." I responded to Kevin's enthusiasm saying this would be a good time to send a letter to these Senators about monetary policy. "Yes," said Kevin, "the letter could begin with, 'Now that you are independent….'" And that is how the letter began.

I worked on the letter for a week or so and took a draft of it to Kevin on February 13 or 14. He raised some very good points, especially the end. Where are the questions for the Senators, he asked? Aren't we going to challenge them to do something? So I took the letter home and added the changes he wanted, especially the questions and challenges to the Senators, and sent it out on February 18. I visited Kevin on February 19 (Dolores and Martha were there too) and told him the letter had gone out the night before. He seemed satisfied to hear that and nodded his head in approval. Later that evening Kevin died.

On December 21, *1998*, Kevin and a few other community activists (Don Findlay, Bill and Nora Parish, Peter Mautner, Hugh Jenny, Mort Barken, met in the basement of Dolores and Richard Priestman, to talk about developing a strategy for public education on monetary reform. Herb Wiseman, a board member from the Committee on Monetary and Economic Reform, came from Peterborough as guest speaker. Herb gave a brief history of COMER and Bill Krehm.

On November 1, *1999*, Kevin, along with Martha, hosted a meeting at their house. Darko Matovic had joined the group and COMER in Kingston had been recognized by the COMER Board as the Kingston Chapter of COMER.

The purpose of the meeting was to finalize plans for our first public meeting to be held at the Public Library on November 15, 1999. There were three speakers, Don Findlay (what is money), myself (how Kingston can save $20 million a year in financing charges) and Kevin who gave an excellent presentation on the Bank of Canada (its history, how it helped Canada for over 30 years giving us the best economic times ever, and how it has turned its back on Canadians).

Kevin sent letters to our local paper, *The Whig*. He was quick to comment on erroneous information about money creation, the Bank of Canada and issues like affordable housing.

In the *15 years* he was involved with our group he rarely missed a meeting. We looked forward to his participation because he usually had a new joke to tell, which made our discussions more palatable.

As Hugh and Claire said, we've lost a good friend. We will miss him.

Connolly, Kevin (1933–2014)

On February 19, at St Mary's of the Lake, Kevin succumbed to a brave battle with cancer. He served as full time organizer for the YCW and graduated from St. FX. Passionately supported and fought for numerous local and global causes, great mentor and counselor to all who knew him and during his career as a probation officer. Kevin believed "we are all one and we are here to take care of each other."

Dear COMER supporters,

I believe Kevin would want us to honour his memory not with flowers that get thrown out, but by donating to his and our main cause which we have worked so hard to bring to fruition--The COMER law suit which is ongoing and in need of funds.

Please send your cheques, made out to COMER, to me as your treasurer at 14005 Front Road, RR 1, Stella, ON K0H 2S0, or to our acting treasurer, George Biro.

Please do what you can to keep Kevin's memory alive.

Hugh

suggest that the occupations that animate radical politics today (Occupy Wall Street, the Arab Revolutions, the Movement of the Squares, Occupy Taksim Gezi, the student occupations of public space in Quebec and Argentina, the occupations in Thailand and the Ukraine) allow us to envision how value can be reclaimed and rebuilt through merging a politics of the commons and a politics to defend the public sphere.

In chapter three, I examine how finance capital is not merely a particularly powerful and lawless force of economic and political extortion, it also transforms our social and cultural life, enthroning what might at first appear to be purely imaginary money as the supreme arbiter of global affairs and enclosing us all in a world of debt. Then in chapter four, I argue that the university has become a space where the imagination is enclosed and foreclosed, though one where radical values and practices may still be designed and tested.

Chapter five suggests that we imagine history as a commons, as a shared resource from which to draw hope, inspiration and courage in dark times. By admitting to and working through our debts to past struggles, we rekindle the radical imagination. Chapter six, in contrast, maps out the ways the idea of creativity has been enclosed and harnessed to the reproduction of capitalism. We are offered small, personal opportunities for creativity, only to the extent we accept the rule of capital and give up our autonomy to co-create our social reality. For this reason, in chapter seven, I argue that we must reimagine the imagination itself: it is not an individual possession, but a collective, common process.

For these reasons, I believe the idea of the commons represents a radical and hopeful means not merely to reimagine what is valuable, but to generate a radical imagination based on lived acts of creativity and refusal. The commons represent a means to reclaim our lives, our energies, our passions and our time from a system that orients them towards ecological destruction, horrific inequality and untold misery. To do so, I think we need to keep three "tenses" of the commons in mind.

First, we can imagine the commons as a historical actuality that we hold in our common memory, that is, the commons that existed before capitalism or that have existed under capitalism, which we now find everywhere enclosed or under threat of enclosure. Remembering the commons is also a matter of remembering that each of us, indeed all the world, is the product of our shared, co-operative, reproductive labours, a realization that is key for the radical imagination.

Second, the common imagination refers to the way the commons live on in the present. Not only does the term refer to the way we can recognize and value the commons that are being defended and built today; it also draws our attention to the way the common is an undercurrent throughout our lives, even in some of the most privatized spaces, where we must, in spite of everything, find and build commonality with our fellow workers.

Finally, the common imagination acknowledges that the ultimate horizon for humanity beyond capitalism is in the commons. The common imagination envisions a world beyond the coercive and competitive value paradigm of capital, but it also acknowledges that commoning is an always unfinished work, that even once the pathology of capital is overcome, we will continuously strive to make our commons yet more common, to understand and bridge difference, to transform and adapt.

Max Haiven is a writer, teacher and activist based in Halifax, Canada. More information can be found at www.maxhaiven.com.

Rip Off Alert! How the Credit Card Gravy Train is Running Over You

By Ellen Brown, AlterNet, February 14, 2014

The credit card biz is now the banking industry's biggest cash cow, mostly due to fat hidden fees.

You pay off your credit card balance every month, thinking you are taking advantage of the "interest-free grace period" and getting free credit. You may even use your credit card when you could have used cash, just to get the free frequent flier or cash-back rewards. But those popular features are misleading. Even when the balance is paid on time every month, credit card use imposes a huge hidden cost on users – hidden because the cost is deducted from what the merchant receives, then passed on to you in the form of higher prices.

Visa and MasterCard charge merchants about 2% of the value of every credit card transaction, and American Express charges even more. That may not sound like much. But consider that for balances that are paid off monthly (meaning most of them), the banks make 2% or more on a loan averaging only about 25 days (depending on when in the month the charge was made and when in the grace period it was paid). Two percent interest for 25 days works out to a 33.5% return annually (1.02^(365/25) – 1), and that figure may be conservative.

Merchant fees were originally designed as a way to avoid usury and Truth-in-Lending laws. Visa and MasterCard are independent entities, but they were set up by big Wall Street banks, and the card-issuing banks get about 80% of the fees. The annual returns not only fall in the usurious category, but they are *returns on other people's money – usually the borrower's own money!* Here is how it works….

Economist Hyman Minsky observed that anyone can create money; the trick is to get it accepted. The function of the credit card company is to turn your IOU, or promise to pay, into a "negotiable instrument" acceptable in the payment of debt. A negotiable instrument is anything that is signed and convertible into money or that can be used as money.

Under Article 9 of the Uniform Commercial Code, when you sign the merchant's credit card charge receipt, you are creating a "negotiable instrument or other writing which evidences a right to the payment of money." This negotiable instrument is deposited electronically into the merchant's checking account, a special account required of all businesses that accept credit. The account goes up by the amount on the receipt, indicating that the merchant has been paid. The charge receipt is forwarded to an "acquiring settlement bank," which bundles your charges and sends them to your own bank. Your bank then sends you a statement and you pay the balance with a check, causing your transaction account to be debited at your bank.

The net effect is that your charge receipt (a negotiable instrument) has become an "asset" against which credit has been advanced. The bank has simply *monetized*

your IOU, turning it into money. The credit cycle is so short that this process can occur without the bank's own money even being involved. Debits and credits are just shuffled back and forth between accounts.

Timothy Madden is a Canadian financial analyst who built software models of credit card accounts in the early 1990s. In personal correspondence, he estimates that payouts from the bank's own reserves are necessary only about 2% of the time; and the 2% merchant's fee is sufficient to cover these occasions. The "reserves" necessary to back the short-term advances are thus built into the payments themselves, without drawing from anywhere else.

As for the interest, Madden maintains:

The interest is all *gravy* because the transactions are funded in fact by the signed payment voucher issued by the card-user at the point of purchase. Assume that the monthly gross sales that are run through credit/charge-cards globally double, from the normal $300 billion to $600 billion for the year-end holiday period. The card companies do not have to worry about where the extra $300 billion will come from because it is provided by the additional $300 billion of signed vouchers themselves….

That is also why virtually all banks everywhere have to *write-off* 100% of credit/charge-card accounts in arrears for 180 days. The basic design of the system recognizes that, once set in motion, the system is entirely self-financing requiring zero equity investment by the operator…. The losses cannot be charged off against the operator's equity because they don't have any. In the early 1990s when I was building computer/software models of the credit/charge-card system, my spreadsheets kept "blowing up" because of "divide by zero" errors in my return-on-equity display.

All this sheds light on why the credit card business has become the most lucrative pursuit of the banking industry. At one time, banking was all about taking deposits and making commercial and residential loans. But in recent years, according to the Federal Reserve, "credit card earnings have been almost always higher than returns on all commercial bank activities."

Partly, this is because the interest charged on credit card debt is higher than on other commercial loans. But it is on the fees that the banks really make their money. There are late payment fees, fees for exceeding the credit limit, balance transfer fees, cash withdrawal fees, and annual fees, in addition to the very lucrative merchant fees that accrue at the point of sale whether the customer pays his bill or not. The merchant absorbs the fees, and the customers cover the cost with higher prices.

A 2% merchants' fee is the financial equivalent of a 2% sales tax – one that now adds up to over $30 billion annually in the US. The effect on trade is worse than either a public sales tax or a financial transaction tax (or Tobin tax), since these taxes are designed to be spent back into the economy on services and infrastructure. A private merchant's tax simply removes purchasing power from the economy.

As financial blogger Yves Smith observes:

[W]hen anyone brings up Tobin taxes (small charges on every [financial] trade) as a way to pay for the bailout and discourage speculation, the financial services industry becomes utterly apoplectic…. Yet here in our very midst, we have a Tobin tax equivalent on a very high proportion of retail trade…. [Y]ou can think of the rapacious Visa and MasterCard charges for debit transactions…as having two components: the fee they'd be able to charge if they faced some competition, and the premium they extract by controlling the market and refusing to compete on price. In terms of its effect on commerce, this premium is worse than a Tobin tax.

A Tobin tax is intended to have the positive effect of dampening speculation. A private tax on retail sales has the negative effect of dampening consumer trade. It is a self-destruct mechanism that consumes capital and credit at every turn of the credit cycle.

The lucrative credit card business is a major factor in the increasing "financialization" of the economy. Companies like General Electric are largely abandoning product innovation and becoming credit card companies, because that's where the money is. Financialization is killing the economy, productivity, innovation, and consumer demand.

Exorbitant merchant fees are made possible because the market is monopolized by a tiny number of credit card companies, and entry into the market is difficult. To participate, you need to be part of a network, and the network requires that all participating banks charge a pre-set fee.

The rules vary, however, by country. An option available in some countries is to provide cheaper credit card services through publicly-owned banks. In Costa Rica, 80% of deposits are held in four publicly-owned banks; and all offer Visa/MC debit cards and will take Visa/MC credit cards. Businesses that choose to affiliate with the two largest public banks pay no transaction fees for that bank's cards, and for the cards of other banks they pay only a tiny fee, sufficient to cover the bank's costs.

That works in Costa Rica; but in the US, Visa/MC fees are pre-set, and public banks would have to charge that fee to participate in the system. There is another way, however, that they could recapture the merchant fees and use them for the benefit of the people: by returning them in the form of lower taxes or increased public services.

Local governments pay hefty fees for credit card use themselves. According to the treasurer's office, the City and County of San Francisco pay $4 million annually just for bank fees, and more than half this sum goes to merchant fees. If the government could recapture these charges through its own bank, it could use the proceeds to expand public services without raising taxes.

If we allowed government to actually make some money, it could be self-funding without taxing the citizens. When an alternative public system is in place, the private mega-bank dinosaurs will no longer be "too big to fail." They can be allowed to fade into extinction, in a natural process of evolution toward a more efficient and sustainable system of exchange.

Ellen Brown is an attorney, chairman of the Public Banking Institute, and author of twelve books including the bestselling Web of Debt. *In her latest book,* The Public Bank Solution, *she explores successful public banking models historically and globally. She is currently running for California State Treasurer on a state bank platform.*

Our Comment

I found Ellen Brown's article most informative. So many of us, business merchants like myself or cardholders, have been part of this means transaction in the last 30 years. Knowing now who is behind these big brand credit cards, I shall be making new choices on how to pursue my purchasing behaviors. As a small business owner, my bank charges continued to grow every year.

I see that this trend of skimming money from market transactions is leading to a bankrupt world. The only industries who are making a profit are the ones who are producing nothing. These faceless banks have used brand marketing propaganda to control and profit from the act of shopping; they have truly been wolves in sheep's clothing.

Gwendolyne Preboy

Beat the Tories — Unite Behind Electoral Reform

By Andrew Coyne, National Post, January 25, 2013

Let us just take stock of where we are. There are three opposition parties represented in Parliament, not counting the Bloc: the NDP, the Liberals, and the Greens. Whatever else they disagree on, all three profess to believe the Harper government should be removed at the next election.

Indeed, to listen to their rhetoric it is not just desirable, but urgent, not least to prevent the Conservatives from consolidating their grip on power: the longer they stay in power, the more opportunity they will have to change the rules to their advantage, and the harder it will be for any opposition party to dislodge them. Defeating the Conservatives, all three parties would say, is not only a matter of partisan preference, but of democratic necessity.

Not coincidentally, all three parties broadly agree on another matter: the need to reform our democratic institutions, to prevent such accumulations of power – by any party. In particular, all three support, or say they do, some form of electoral reform. The NDP has long been an advocate of proportional representation, as have the Greens; the Liberals have as yet restricted themselves to a milder reform known as the "alternative vote" or ranked ballot, but many in the party would be open to going further.

It will be objected that much of this is merely an expression of the parties' self interest, or more charitably that their principles show a remarkable tendency to align with their self-interest: under proportional representation the Greens would win many more seats than the one they have now, as until recently would the NDP, while the alternative vote tends to favour middle of the road parties like the Liberals. Fair enough. I happen to think these are also useful reforms in the public interest. But it is to those parties' supporters I address myself here: to their self-interest as much as their ideals.

Because none of this is going to happen as things stand: neither the Conservatives' defeat nor the democratic reforms each party proposes would follow. It is not going to happen so long as the Conservatives maintain their apparently unshakeable hold on 35% to 40% of the voters that have stuck with them for much of the past decade. And it is not going to happen so long as the rest is divided so evenly amongst the opposition parties.

But mostly it is not going to happen so long as we continue to operate under the current electoral system, since it is only under "first past the post" that either of the first two points matter. Only under first past the post can a party with 35% or 40% of the vote govern as if it were a majority. Only under first past the post does it matter how the remainder – the larger part – of the vote "splits" among the other parties, since under any other system they would be represented fairly in Parliament regardless.

So the long-term answer to the opposition's dilemma is electoral reform, based on some form of proportional representation. But that isn't going to happen until they can figure out how to beat the Conservatives in the short term. The obvious answer is for the three parties to cooperate in some way at the ballot box: to combine, rather than split their votes. But how? How, especially when the same winner-take-all logic of first past the post that keeps the Tories in power also militates against cooperation amongst the opposition parties, since one or another will forever be tempted to think it can pick up enough votes on its own to bury the others.

Let me put it plainly: They aren't going to beat the Conservatives until they change the electoral system. They aren't going to change the electoral system until they beat the Conservatives

The wrong way out of this box, as I've written before, is merger. It asks too much of the parties and their supporters, presuming a commonality of purpose that isn't there, and as such risks losing many votes to the left or especially the right: a different kind of "vote-splitting." A formal coalition would run into many of the same objections. The parties' interests, loyalties, and ideologies are too divergent.

As it happens, however, an alternative has emerged that has found significant support in all three parties. It is to forge a purely temporary alliance, a one-time electoral pact. Party riding associations would agree to run a single candidate against the Conservatives, on a platform with essentially one plank: electoral reform. Were they to win they would govern just long enough to reform the electoral system, then dissolve Parliament and call fresh elections.

Such a thing has never been tried in this country, of course, and so runs into the objection, so attractive to many of my colleagues, that such a thing has never been tried. A favourite counterargument is to rattle off a number of obvious practical questions in quick succession – How would these common candidates be selected? Would this apply in all ridings, or just some? Could voters be persuaded to turn the election into a referendum on electoral reform? – in a tone that implies they could not be answered. Which is certainly true, as long as no one bothers to try.

Fundamentally, it comes down to this: are the opposition parties serious? Do they really want to beat the Conservatives, or just talk about it? Are they serious about electoral reform, or is it, too, just a talking point? And assuming they mean either, do they realize how crucially each depends on the other? Let me put it plainly: They aren't going to beat the Conservatives until they change the electoral system. They aren't going to change the electoral system until they beat the Conservatives. And they aren't going to do either until they find some way to cooperate.

The first necessity is for the opposition parties to understand the fix they're in. That's the biggest hurdle. Everything else is comparative child's play.

Our Comment

When, in 1939, Canada rose to support the cause of *freedom* here and abroad, its political parties became – overnight – a team, working together in a common cause. Canadians supported that cause. Many of them died for it.

Cicero defined freedom as "participation in power." Democracy is a system designed to ensure "participation in power."

Today, all over the world, people are risking their lives in a global struggle for freedom. At the same time, democracy in Canada has suffered pressures unprecedented in our history; our political structure and its institutions have not withstood the consequential erosion of democracy here.

Surely the threat is now obvious enough to inform both politicians and the public of the need for a united response in defense of our sadly diminished democracy.

Let us hope that the same wisdom – the same spirit of cooperation – that enabled us to survive the threat of 1939, will not allow our political differences and aspirations to gamble away our democratic legacy.

Élan

Before We Can Fix Our Economy, We Must Fix Government

By Kevin Page, The Toronto Star, January 18, 2014

Former parliamentary budget officer Kevin Page says we must repair our institutions before we can fix the economy.

The American educator and philosopher John Dewey once remarked that "we only think when we are confronted with a problem." As a great procrastinator, that quote has always resonated with me. As did another Dewey remark: "We can have facts without thinking but we cannot have thinking without facts."

As we set out into 2014, we are confronted with a host of complex economic problems we can no longer ignore. And yet, in the face of larger societal challenges the solutions may be especially difficult to see. Debate and vision are suffering in our nation's capital. Trust has been eroded. Secrecy and control have become the new normal, at least for now. As other commentators have written, we face the death of evidence: the facts we need to solve our problems are too often ignored or actively obscured.

The Canadian economy is in trouble. GDP growth has been declining since the highs of 2010 (4 percent) and now stands at 1.8 percent. This is weak given the economy is operating well below its capacity. Weak growth makes it difficult to raise our labour market participation and employment rates.

Our productivity growth, too, is weak. Since 2000, Canada's business sector labour productivity averaged a meagre 0.8 percent growth per year, about half the pace we saw over the 1981-2000 period. That's particularly worrying when you consider that productivity is a key determinant of living standards.

Monetary policy appears to have strengthened asset prices more than it has strengthened economic growth. Our bank rate has been stuck at 1.25 percent since 2010. Ottawa has gone into austerity mode in an attempt to reduce a small structural deficit it created with large cuts to the GST and corporate income taxes. This has only added fiscal drag to an economy that is already limping.

Income inequality is increasing in Canada and international comparisons put us well behind many European countries. The richest 1 percent in Canada earns about 10.5 percent of income, up from about 7 percent some 30 years ago. About 9 percent of our population lives in poverty, including some 570,000 of our children. Without aggressive action, these numbers are bound to get worse, not better.

Canadians have also added a lot of debt to our balance sheets. The ratio of household financial liabilities to household disposable income now sits at a record high 166 percent, compared to 110 percent in 2000. And as Canadians try to pay off this increased debt, inevitably consumption will further decrease, adding to more economic drift or stagnation.

So how do we get out of this dangerous spiral? One thing is clear: we cannot overcome the pressing economic challenges before us without the concerted effort of our government institutions. And yet in the wake of a year of scandal, those institutions are more distracted and less able to help than ever before.

The Prime Minister will not stand accountable for the actions of his own office. The Senate has lost trust over a spending scandal. The House of Commons has lost its power of the purse. Members of Parliament are forced to vote on appropriations without the information they need. The public service has become dangerously good at avoiding transparency and accountability.

Without rebuilding – and rebuilding trust in – the bodies charged with protecting our prosperity and democracy, we will continue to drift aimlessly, to put off the thinking we must put off no longer.

This is both possible and necessary. As we approach the 2015 federal election, let's get our political leaders to commit to an open conversation about the state of our institutions and what must be done to equip them to meet the challenges ahead. This will require a level of transparency that is foreign to our government, as well as the kind of frank discussion that has become all too rare in our politics. But the best tool we have to collectively address the problems we face is now broken, and together we must get to the bottom of how to fix it.

Repairing institutions is a famously difficult project. It depends on those living within a particular paradigm to see beyond what they know and the system in which they have thrived in order to design a new one. As the American novelist Upton Sinclair said: "It is difficult to get a man to understand something when his salary depends on his not understanding it." Difficult, yes, but not impossible.

Conservative MP Michael Chong, for instance, demonstrated with his democratic reform initiative last year that it's possible for parliamentarians to engage in thoughtful reflection about their role in a changing world. Let's not stop there. Let's have a national discussion on the Senate. Let's have a discussion on our electoral system and the system that MPs use to scrutinize spending.

The time has come to launch a royal commission on the state of our institutions. We are now confronted by problems we can no longer ignore, and we cannot think up solutions without the facts.

Kevin Page is the Jean Luc Pepin Research Chair at the University of Ottawa. He was Canada's first parliamentary budget officer.

Our Comment

Our thanks to Kevin Page for his provocative call to "frank discussion."

The questions he highlights are key:

Why is "the economy operating well below its capacity"?

Why is our productivity growth weak?

How can we account for the debt load we have added…to our balance sheets?

Why has the House of Commons "lost its power of the purse"?

The answers to these questions lie in the "thinking we must put off no longer."

We are deeply indebted to Kevin Page for the standards he has set as Canada's first parliamentary budget officer – particularly in terms of competence, integrity and courage – and for his ongoing commitment to the restoration of political and economic democracy in Canada.

I cannot, however, share his enthusiasm for a Royal Commission: remember the Carter Commission? Kenneth Carter was also an honest and courageous person who spoke the truth and paid the price. (Read *Behind Closed Doors*, Linda McQuaig.)

We must *act* between now and the next federal election and , surely, our first priority should be a *massive, cooperative movement* to unseat the present government and to effect immediate electoral reform.

We have at hand, I believe, the necessary information to justify and promote these goals.

Élan

Older Mind May Just Be a Fuller Mind

By Benedict Carey, The New York Times, January 28, 2014

Could wisdom that comes with age cause "senior moments"?

People of a certain age (and we know who we are) don't spend much leisure time reviewing the research into cognitive performance and aging. The story is grim, for one thing: Memory's speed and accuracy begin to slip around age 25 and keep on slipping.

The story is familiar, too, for anyone who is over 50 and, having finally learned to live fully in the moment, discovers it's a senior moment. The finding that the brain slows with age is one of the strongest in all of psychology.

Over the years, some scientists have questioned this dotage curve. But these challenges have had an ornery-old-person slant: that the tests were biased toward the young, for example. Or that older people have learned not to care about clearly trivial things, like memory tests. Or that an older mind must organize information differently from one attached to some 22-year-old who records his every Ultimate Frisbee move on Instagram.

Now comes a new kind of challenge to the evidence of a cognitive decline, from a decidedly digital quarter: data mining, based on theories of information processing. In a paper published in Topics in Cognitive Science, a team of linguistic researchers from the University of Tübingen in Germany used advanced learning models to search enormous databases of words and phrases.

Since educated older people generally know more words than younger people, simply by virtue of having been around longer, the experiment simulates what an older brain has to do to retrieve a word. And when the researchers incorporated that difference into the models, the aging "deficits" largely disappeared.

"What shocked me, to be honest, is that for the first half of the time we were doing this project, I totally bought into the idea of age-related cognitive decline in healthy adults," the lead author, Michael Ramscar, said by email. But the simulations, he added, "fit so well to human data that it slowly forced me to entertain this idea that I didn't need to invoke decline at all."

Can it be? Digital tools have confounded predigital generations; now here they are, coming to the rescue. Or is it that younger scientists are simply pretesting excuses they can use in the future to cover their own golden-years lapses?

In fact, the new study is not likely to overturn 100 years of research, cognitive scientists say. Neuroscientists have some reason to believe that neural processing speed, like many reflexes, slows over the years; anatomical studies suggest that the brain also undergoes subtle structural changes that could affect memory.

Still, the new report will very likely add to a growing skepticism about how steep age-related decline really is. It goes without saying that many people remain disarmingly razor-witted well into their 90s; yet doubts about the average extent of the decline are rooted not in individual differences but in study methodology. Many studies comparing older and younger people, for instance, did not take into account the effects of pre-symptomatic Alzheimer's disease, said Laura Carstensen, a psychologist at Stanford University.

Dr. Carstensen and others have found, too, that with age people become biased in their memory toward words and associations that have a positive connotation – the "age-related positivity effect," as it's known. This bias very likely applies when older people perform so-called paired-associate tests, a common measure that involves memorizing random word pairs, like ostrich and house.

"Given that most cognitive research asks participants to engage with neutral (and in emotion studies, negative) stimuli, the traditional research paradigm may put older people at a disadvantage," Dr. Carstensen said by email.

The new data-mining analysis also raises questions about many of the measures scientists use. Dr. Ramscar and his colleagues applied leading learning models to an estimated pool of words and phrases that an educated 70-year-old would have seen, and another pool suitable for an educated 20-year-old. Their model accounted for more than 75 percent of the difference in scores between older and younger adults on items in a paired-associate test, he said.

That is to say, the larger the library you have in your head, the longer it usually takes to find a particular word (or pair).

Scientists who study thinking and memory often make a broad distinction between "fluid" and "crystallized" intelligence. The former includes short-term memory, like holding a phone number in mind, analytical reasoning, and the ability to tune out distractions, like ambient conversation. The latter is accumulated knowledge, vocabulary and expertise.

"In essence, what Ramscar's group is arguing is that an increase in crystallized intelligence can account for a decrease in fluid intelligence," said Zach Hambrick, a psychologist at Michigan State University. In a variety of experiments, Dr. Hambrick and Timothy A. Salthouse of the University of Virginia have shown that crystallized knowledge (as measured by *New York Times* crosswords, for example) climbs sharply between ages 20 and 50 and then plateaus, even as the fluid kind (like analytical reasoning) is dropping steadily – by more than 50 percent between ages 20 and 70 in some studies. "To know for sure whether the one affects the other, ideally we'd need to see it in human studies over time," Dr. Hambrick said.

Dr. Ramscar's report was a simulation and included no tested subjects, though he said he does have several memory studies with normal subjects on the way.

For the time being, this new digital-era challenge to "cognitive decline" can serve as a ready-made explanation for blank moments, whether senior or otherwise.

It's not that you're slow. It's that you know so much.

Our Comment

There always have been different types of knowledge, different types of memory, and different types of wisdom. In this youth-saturated age, it's good to hear some positive reinforcement for those of us approaching or surpassing our climactic years. Perhaps a certain age-related "Ha! The grey matter is working just fine!" smugness creeps in as we age, but is that a bad thing?

Now we see that there is some science behind such healthy smugness.

T.P. O'Brien

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Conservative MP Michael Chong Makes Bid to Fix Parliament

By Susana Mas, CBC News, December 3, 2013

Proposed reform act would restore a system of checks and balances in House of Commons.

Conservative MP Michael Chong today tabled the proposed reform act, a private member's bill intended to restore a system of checks and balances that would shift some power away from party leaders towards members of Parliament and their party caucuses.

"The reform act is an effort to strengthen Canada's democratic institutions by restoring power and the role of elected members of Parliament in the House of Commons," Chong told reporters in Ottawa on Tuesday morning.

Under this bill, Chong said, MPs would be able to better represent the people who voted for them.

For instance, if an MP had a disagreement about a particular issue or bill before the House, this bill would empower the MP "to vote against the bill and in favour of their constituents without a high chance of being expelled from caucus," Chong said.

The reform act would have three main focuses:

1. Restoring local control over party nominations.
2. Strengthening caucuses as decision-making bodies.
3. Reinforcing the accountability of party leaders to their caucuses.

While the bill does grant caucus the power to trigger a leadership review, Chong noted it also grants local riding associations the power to approve the party candidate.

"MPs are going to be careful in exercising the review power that they have of the party leader because they will have to be accountable to the local riding association," Chong said.

Central Power Would be Reduced

The Conservative MP cautioned that under his bill, the prime minister and party leaders would still remain immensely powerful, just not "all powerful."

Chong said the reform act proposals would "reinforce the principle of responsible government, it would make the executive more accountable to the legislature and ensure that party leaders would maintain the confidence of their caucuses."

Bipartisan Support Will be Needed for Success

Chong who has long been an advocate of democratic reform has given much thought to his private member's bill, which he said has been in the making for years.

While private member's bills do not always receive the support needed to become law, the initial reaction to Chong's bill has been positive both inside the Commons and out.

The bill was immediately seconded by James Rajotte, the Conservative MP for Edmonton-Leduc and chair of the commons finance committee.

Early supporters of the bill include Conservative MPs Stella Ambler, Larry Miller and Kyle Seeback, and Conservative Senator Hugh Segal. Green Party Leader Elizabeth May and Independent MPs Bruce Hyer and Dean Del Mastro have also said they will back Chong's bill.

Talking points sent out by the Conservatives said "as we do with all private members' business that comes forward for debate, the caucus will take the time to review Mr. Chong's proposal carefully."

The Conservative memo cited a study showing that the Opposition New Democrats did not have a single MP vote against the party line between June 2, 2011, and January 28, 2013.

"While the Liberals were whipped into conformity 90 percent of the time, the NDP voted as a block 100 percent of the time," the Conservative talking points memo said.

NDP democratic reform critic Craig Scott said NDP Leader Tom Mulcair will allow his caucus members to vote their conscience when the bill comes up for a vote.

"Mulcair said it will be a free vote. He also said if there's ever a bill that deserves being put to a free vote, it's this one."

Scott said he will support Chong's bill and will recommend to his caucus colleagues that they vote in favour of it as well.

Liberal Leader Justin Trudeau said he agreed with the bill's overall goals.

"We are open to any and all discus-

sions on democratic reform and I agree with this bill's broad objectives. We believe MPs should be their community's voice in Ottawa, not the prime minister's voice in their community," Trudeau said in a written statement.

Trudeau has promised he will hold open nominations in all ridings for the next federal election.

The federal Liberals have invited Chong to make a presentation about his bill to the Liberal caucus later this week.

Outside of Parliament former Progressive Conservative prime minister Joe Clark publicly endorsed Chong's bill calling on people in his political circle to contact their MPs.

"This is a very important initiative, which deserves all-party support. Please contact the MPs you know," Clark said in an email.

Clark's support was precipitated by an email from Paul Heinbecker, a retired Canadian diplomat, who urged Clark and others to support Chong's bill "to free MPs from excessive control by the Prime Minister's Office."

Chong's bill would amend two acts of Parliament: the *Canada Elections Act* and the *Parliament of Canada Act* but would not come into force until after the next federal election in 2015.

You can read the text of Chong's bill at www.cbc.ca.

Our Comment

What an encouraging sign, that some members of Stephen Harper's own government have the understanding, the integrity, and the courage to recognize this need for reform, and to act on it!

Élan

Nadon Challenger Rocco Galati Wonders Why He Had to Clean Up "Mess"

By Bruce Cheadle, The Canadian Press, March 21, 2014

"If I hadn't brought the challenge, Justice Nadon would be deciding cases," lawyer says.

Constitutional lawyer Rocco Galati was in the middle of a month-long sojourn on the Indian subcontinent when word reached him Friday that he'd brought down a Supreme Court appointee and rattled the legal underpinnings of the Conservative government.

But the man who first challenged Prime Minister Stephen Harper's choice of Justice Marc Nadon for the top bench was not in a celebratory mood after playing David to a constitutional Goliath.

"When I started this I was very, very clear and convinced that I was right and that this was as clear as a bell to me," Galati told the Canadian Press in a telephone interview from India.

In an unprecedented reference, the top court agreed by a 6-1 margin that Nadon was not eligible to sit amongst them and that the government could not unilaterally rewrite the *Supreme Court Act* rules on the composition of the bench.

"I just regret the fact the government can make a subversive mess of our Constitution and it's got to be private citizens like me – at my own expense, this has cost me a lot of money, my own time, energy and money; I'm not getting any of that back – to clean up what?" said Galati.

"To clean up the mess of the subversive government that doesn't want to respect the Constitution. Why should a private citizen have to do that, quite frankly? If I hadn't brought the challenge, Justice Nadon would be deciding cases as we speak."

The reference ruling came a day after the top court had struck down retroactive Conservative changes to parole eligibility, ruling them a clear breach of the Charter and pointedly noting "that enactment of Charter-infringing legislation does great damage to that confidence" in the justice system.

"Pretty Pathetic"

The back-to-back rulings by a court that now has a majority of Harper appointees reinforces a growing impression in legal circles that the Conservative government is playing fast and loose with the law.

Some, such as Justice Department whistle-blower Edgar Schmidt, are openly questioning who in government is minding the constitutional store.

"If the attorney general, the prime minister, Governor General and the chief justice of the Supreme Court aren't, it's pretty pathetic that they rely on citizens," Galati said.

It's hardly the first time the Toronto lawyer, who specializes in constitutional and immigration law, has stepped up to kick the court system in the shins. In 2011, the Federal Court of Appeal ruled that the Federal Court was in breach of the law after Galati questioned why retired judges over 75 were being retained as deputy judges, despite mandatory retirement language in the *Federal Courts Act*.

Thirteen deputy judges had to be let go.

Constitution Belongs to Citizens: Galati

"People said to me in that case, 'They've been doing it for 60 years, how can it be wrong?'" Galati related in an interview last November.

"I said, 'Nobody's challenged it.'"

Ultimately, private citizens must be prepared to step up and challenge government and the courts, Galati said Friday.

"It's probably apt, because the Supreme Court in 1951 ruled specifically that the Constitution doesn't belong to either government. It belongs to the citizens and it's there that we find our protection," he said.

"That's true, it's often the citizens that bring up these challenges. It's just pathetic that the court doesn't recognize that the citizens who are grieved by these constitutional breaches shouldn't have to be the ones to pay to fix the constitutional breaches."■

Reader Letter

March 22. 2014

Dear Mr. Galati,

Mess indeed! May I extend "congratulations" for this unprecedented success in judgement, but moreover my thanks and gratitude for finally a Canadian working for Canadians. It truly is a triumph for all of us that you have put a significant wrench in the cog of corruption at the highest levels of our government and judiciary. Kudos.

I am also following the COMER Bank of Canada challenge, which you are representing. I worked closely with William Krehm and COMER for many years in the 90s, and I fully support that cause.

All the best for your continued work for Canada and all Canadians. True patriot love!

Thank you, again, and again.

Kind regards,

Larry Farquharson, London ON

Credit Score, by Multiple Choice

By Sarah Wheaton, The New York Times, December 31, 2013

For the developing world, a test to determine when to lend.

No credit? No problem – just take a test.

That's the message being delivered to more than 70,000 small-business owners in developing countries where credit ratings are rare and many potential entrepreneurs keep their money in cash rather than bank accounts.

Banks in 16 countries are using a psychometric test to predict future behavior – specifically, whether someone will pay back a loan. Originally a Harvard doctoral project, the Entrepreneurial Finance Lab's test has increasingly won the confidence of risk-averse bankers in places where, many economists believe, credit bottlenecks are severely stunting growth.

Now, a partnership with MasterCard has potential to speed the model's proliferation.

In the United States and other mature economies, assessments by multiple credit agencies based on a lifetime of bill payments and account balances help determine with relative confidence whether to give an individual or business a loan.

But the lack of such data in much of the rest of the world creates a "massive inefficiency in emerging markets," said Bailey Klinger, 34, the chief executive of the Entrepreneurial Finance Lab. Banks have money to lend, but even profitable small businesses often cannot access it, choking growth.

In wealthy countries like the United States, small- and medium-size enterprises are typically responsible for about half of business activity and almost two-thirds of employment gains. In poor countries, such enterprises on average, account for only about 17 percent of spending and a third of new jobs.

In 2006, Mr. Klinger was studying this problem, known as the "missing middle," with Prof. Asim Khwaja at Harvard's Kennedy School of Government. They struck upon a technique some companies have long used to screen potential employees.

For Jhonathan Darwin Montes Mendoza, a 40-minute test led to a $1,500 loan last year to buy Christmas-themed towels, curtains and other decorations ahead of the holiday rush for his market stall in Lima, Peru. Mr. Montes's score gave Banco Interamericano de Finanzas confidence he would pay back the loan – even though he had been in business for less than a year, with no credit history.

"You can't give a loan to someone without knowing if they have psychological problems," said Mr. Montes, 23, in Spanish, perhaps not fully understanding what the test was measuring. Though similar to tools used by psychologists to assess IQ, define personalities or screen for addictions, the bank's test was intended to measure the traits at the core of entrepreneurship: fluid intelligence, business skill, integrity and attitudes.

After paying back the first loan, Mr. Montes is on a second round, paying down a $2,500 debt. The finance lab calibrates the test for each country where it is introduced.

The lab's model asks questions that do not necessarily have a right answer; using an algorithm, it aims to predict whether an individual is likely to default based on how the answers relate to one another.

For example, to assess their sense of personal control over outcomes – which tends to correlate with loan repayment – respondents might be asked to rate how much they agree or disagree with the statement:" I believe in the power of fate."

Assessing Risk Tolerance

Another question on risk tolerance might ask them to choose between opposing responses with equal social desirability, such as: "I plan for every eventuality," "I'm in between" or "Planning takes the fun out of life."

There are some unexpected findings: Optimism and self-confidence are good signs among seasoned entrepreneurs, but high levels in younger business owners do not bode well, statistically.

And the math and reasoning questions meant to measure fluid intelligence can also assess integrity – of the loan officer. Too many correct answers can reveal that an applicant was coached.

The small-business loans have proved to be a "good revenue source" for Banco Interamericano do Finanzas, the fifth-largest commercial bank in Peru, where they have increased by about 50 percent, said Hugo Palomino, its director of commercial products. Over the last year and a half, repayment rates on loans made with the entrepreneurial finance lab's model have been about the same as those that used a traditional assessment.

The big difference for the borrowers is that under the traditional model, those who did manage to get a loan with minimal credit history would pay about 60 percent interest, said My. Palmino. Instead, people like Mr. Montes can qualify for rates of 30 to 45 percent.

Since Standard Bank, Africa's largest, first adopted EFL's model in Kenya in 2008, bankers around the world have used it to lend more than $200 million, in average amounts of $7,500, to entrepreneurs who would not have otherwise qualified, the finance lab's founders say.

Now an independent company based in Lima with about 30 employees, the Entrepreneurial Finance Lab has grown with the help of grants, including a $3.6 million prize for being among the winners of a G-20 challenge for small-business financing in 2011.

Still, the program's early successes are "by no means final validation that the model will really work," said Peer Stein, a director at the World Bank's International Finance corporation, which administers the G-20 challenge grant. The loan test, he said, would "probably have to go through still other iterations."

Mr. Klinger, the lab's director, agree. The test is "not a silver bullet," he said, adding that the overall value of the portfolio still depended on other aspects of the bank's operations. "A lot of banks we work with are using that very successfully, and some are using it less successfully," Mr. Klinger said. Some have stopped using it.

D.J. DiDonna, 30 the firm's chief operating officer, was recruited from Harvard Business School to be, as he put it, the "greedy capitalist." During the first year, Mr. DiDonna's job was to tote academic data around the world and tell financial executives that they should "operationalize" this inside your bank; sort of hand over your business decision-making with us."

"That was a tough sell," he said.

The Inter-American Development Bank and its Multilateral Investment Fund made his job easier in Latin America by helping banks pay for adoption and guaranteeing some of the new loans. More potential to expand will come in January, when MasterCard plans to start a pilot program for small-business accounts at BHD Bank in the Dominican Republic.

Edward Glassman, MasterCard's group executive for global commercial products,

said he had been looking for alternative underwriting models after hearing from banks that they would like to do more with small business, but didn't have the right tools to do it.

Though the model needs more tweaking to take into account the differences between term loans and credit cards, Mr. Glassman said, "with the emergence of electronic payments, the whole transition payment, the whole transition from cash to electronic – which is sweeping the market-place around the world – this is a very logical fit."

Evaluating Borrowers

The Entrepreneurial Finance lab uses a psychometric test to help banks decide whether to lend money in developing economies to small entrepreneurs who otherwise might have no access to credit.

To determine the individual's potential ability to pay back the loan, it asks questions about business skills and what is called "fluid intelligence."

To discover the person's willingness to pay the debt, other questions drive at ethics, as well as attitudes and beliefs. In general, there are no right or wrong answers. Following are some examples of questions posed to applicants:

Business Skills: Which of the following should you take into account when calculating costs? Check all that apply.

Inventory ___ Rent ___ Profits ___

Fluid Intelligence: Remember this number for five seconds: 5346831

(On a computer, the number appears for five seconds, then disappears. Five seconds later, the applicant is asked to type the number.)

Ethics and Honesty: How many suppliers do you think cheat their customers?

0% ___ 30% ___ 90% ___ 100% ___

Attitudes and Beliefs: A big part of success is luck.

True ___ False ___

Our Comment

There's a metric for almost everything! The need to measure whatever is pervasive be it happiness to now your likelihood of making good on your debt obligation. Pity that in this instance small business owners "good to pay" risk quotient is being measured to aid banks charging what we would deem to be extortionist interest rates. Some argue that the right to credit is a fundamental right and that means must be made available to those in need. For example the now famous Grameen Bank, founded in Bangladesh by Muhummad Yunus, brought micro-credit to millions of people with skills but no money. This model and others such as credit unions and co-operatives are easing the way for the poor with some benefits flowing to the community.

In this instance, a handful of rich people will get richer but at what cost to their customers?

H. St. Jacques

GOLD-BUGS BEWARE!

Naked Gold Shorts: The Inside Story of Gold Price Manipulation

By Dr. Paul Craig Roberts and David Kranzler, Global Research, January 18, 2014

The deregulation of the financial system during the Clinton and George W. Bush regimes had the predictable result: financial concentration and reckless behavior. A handful of banks grew so large that financial authorities declared them "too big to fail." Removed from market discipline, the banks became wards of the government requiring massive creation of new money by the Federal Reserve in order to support through the policy of Quantitative Easing the prices of financial instruments on the banks' balance sheets and in order to finance at low interest rates trillion dollar federal budget deficits associated with the long recession caused by the financial crisis.

The Fed's policy of monetizing one trillion dollars of bonds annually put pressure on the US dollar, the value of which declined in terms of gold. When gold hit $1,900 per ounce in 2011, the Federal Reserve realized that $2,000 per ounce could have a psychological impact that would spread into the dollar's exchange rate with other currencies, resulting in a run on the dollar as both foreign and domestic holders sold dollars to avoid the fall in value. Once this realization hit, the manipulation of the gold price moved beyond central bank leasing of gold to bullion dealers in order to create an artificial market supply to absorb demand that otherwise would have pushed gold prices higher.

The manipulation consists of the Fed using bullion banks as its agents to sell naked gold shorts in the New York Comex futures market. Short selling drives down the gold price, triggers stop-loss orders and margin calls, and scares participants out of the gold trusts. The bullion banks purchase the deserted shares and present them to the trusts for redemption in bullion. The bullion can then be sold in the London physical gold market, where the sales both ratify the lower price that short-selling achieved on the Comex floor and provide a supply of bullion to meet Asian demands for physical gold as opposed to paper claims on gold.

The evidence of gold price manipulation is clear. In this article we present evidence and describe the process. We conclude that ability to manipulate the gold price is disappearing as physical gold moves from New York and London to Asia, leaving the West with paper claims to gold that greatly exceed the available supply.

The primary venue of the Fed's manipulation activity is the New York Comex exchange, where the world trades gold futures. Each gold futures contract represents one gold 100 ounce bar. The Comex is referred to as a paper gold exchange because of the use of these futures contracts. Although several large global banks are trading members of the Comex, JP Morgan, HSBC and Bank Nova Scotia conduct the majority of the trading volume. Trading of gold (and silver) futures occurs in an auction-style market on the floor of the Comex daily from 8:20 am to 1:30 pm New York time. Comex futures trading also occurs on what is known as Globex. Globex is a computerized trading system used for derivatives, currency and futures contracts. It operates continuously except on weekends. Anyone anywhere in the world with access to a computer-based futures trading platform has access to the Globex system.

In addition to the Comex, the Fed also engages in manipulating the price of gold on the far bigger–in terms of total dollar value of trading–London gold market. This market is called the LBMA (London Bullion Marketing Association) market. It is comprised of several large banks who are

LMBA market makers known as "bullion banks" (Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan-Chase, Merrill Lynch/Bank of America, Mitsui, Société Générale, Bank of Nova Scotia and UBS). Whereas the Comex is a "paper gold" exchange, the LBMA is the nexus of global physical gold trading and has been for centuries. When large buyers like Central Banks, big investment funds or wealthy private investors want to buy or sell a large amount of physical gold, they do this on the LBMA market.

The Fed's gold manipulation operation involves exerting forceful downward pressure on the price of gold by selling a massive amount of Comex gold futures, which are dropped like bombs either on the Comex floor during NY trading hours or via the Globex system. A recent example of this occurred on Monday, January 6, 2014. After rallying over $15 in the Asian and European markets, the price of gold suddenly plunged $35 at 10:14 am. In a space of less than 60 seconds, more than 12,000 contracts traded – equal to more than 10% of the day's entire volume during the 23 hour trading period in which gold futures trade. There was no apparent news or market event that would have triggered the sudden massive increase in Comex futures selling which caused the sudden steep drop in the price of gold. At the same time, no other securities market (other than silver) experienced any unusual price or volume movement. 12,000 contracts represents 1.2 million ounces of gold, an amount that exceeds by a factor of three the total amount of gold in Comex vaults that could be delivered to the buyers of these contracts.

This manipulation by the Fed involves the short-selling of uncovered Comex gold futures. "Uncovered" means that these are contracts that are sold without any underlying physical gold to deliver if the buyer on the other side decides to ask for delivery. This is also known as "naked short selling." The execution of the manipulative trading is conducted through one of the major gold futures trading banks, such as JPMorgan-Chase, HSBC, and Bank of Nova Scotia.

These banks do the actual selling on behalf of the Fed. The manner in which the Fed dumps a large quantity of futures contracts into the market differs from the way in which a bona fide trader looking to sell a big position would operate. The latter would try to work off his position carefully over an extended period of time with the goal of trying to disguise his selling and to disturb the price as little as possible in order to maximize profits or minimize losses. In contrast, the Fed's sales telegraph the intent to drive the price lower with no regard for preserving profits or fear or incurring losses, because the goal is to inflict as much damage as possible on the price and intimidate potential buyers.

The Fed also actively manipulates gold via the Globex system. The Globex market is punctuated with periods of "quiet" time in which the trade volume is very low. It is during these periods that the Fed has its agent banks bombard the market with massive quantities of gold futures over a very brief period of time for the purpose of driving the price lower. The banks know that there are very few buyers around during these time periods to absorb the selling. This drives the price lower than if the selling operation occurred when the market is more active.

A primary example of this type of intervention occurred on December 18, 2013, immediately after the FOMC announced its decision to reduce bond purchases by $10 billion monthly beginning in January 2014. With the rest of the trading world closed, including the actual Comex floor trading, a massive amount of Comex gold futures were sold on the Globex computer trading system during one of its least active periods. This selling pushed the price of gold down $23 dollars in the space of two hours. The next wave of futures selling occurred in the overnight period starting at 2:30 am NY time on December 19. This time of day is one of the least active trading periods during any 23 hour trading day (there's one hour when gold futures stop trading altogether). Over 4,900 gold contracts representing 14.5 tonnes of gold were dumped into the Globex system in a 2-minute period from 2:40-2:41 am, resulting in a $24 decline in the price of gold. This wasn't the end of the selling. Shortly after the Comex floor opened later that morning, another 1,654 contracts were sold followed shortly after by another 2,295 contracts. This represented another 12.2 tonnes of gold. Then at 10:00 am EST, another 2,530 contracts were unloaded on the market followed by an additional 3,482 contracts just six minutes later. These sales represented another 18.7 tonnes of gold.

All together, in 6 minutes during an eight hour period, a total amount of 37.6 tonnes (a "tonne" is a metric ton–about 10% more weight than a US "ton") of gold future contracts were sold. The contracts sold during these 6 minutes accounted for 10% of the total volume during that 23 hours period of time. Four-tenths of one percent of the trading day accounted for 10% of the total volume. The gold represented by the futures contracts that were sold during these 6 minutes was a multiple of the amount of physical gold available to Comex for delivery.

The purpose of driving the price of gold down was to prevent the announced reduction in bond purchases (the so-called tapering) from sending the dollar, stock and bond markets down. The markets understand that the liquidity that Quantitative Easing provides is the reason for the high bond and stock prices and understand also that the gains from the rising stock market discourage gold purchases. Previously when the Fed had mentioned that it might reduce bond purchases, the stock market fell and bonds sold off. To neutralize the market scare, the Fed manipulated both gold and stock markets.

While the manipulation of the gold market has been occurring since the start of the bull market in gold in late 2000, this pattern of rampant manipulative short-selling of futures contracts has been occurring on a more intense basis over the last 2 years, during gold's price decline from a high of $1900 in September 2011. The attack on gold's price typically will occur during one of several key points in time during the 23 hour Globex trading period. The most common is right at the open of Comex gold futures trading, which is 8:20 am New York time. To set the tone of trading, the price of gold is usually knocked down when the Comex opens. Here are the other most common times when gold futures are sold during illiquid Globex system time periods:

- 6:00 pm NY time weekdays, when the Globex system re-opens after closing for an hour;
- 6:00 pm Sunday evening NY time when Globex opens for the week;
- 2:30 am NY time, when Shanghai Gold Exchange closes
- 4:00 am NY time, just after the morning gold "fix" on the London gold market (LBMA);
- 2:00 pm NY time any day but especially on Friday, after the Comex floor trading has closed – it's an illiquid Globex-only session and the rest of the world is still closed.

In addition to selling futures contracts on the Comex exchange in order to drive the price of gold lower, the Fed and its agent bullion banks also intermittently sell large quantities of physical gold in London's

LBMA gold market. The process of buying and selling actual physical gold is more cumbersome and complicated than trading futures contracts. When a large supply of physical gold hits the London market all at once, it forces the market a lot lower than an equivalent amount of futures contracts would. As the availability of large amounts of physical gold is limited, these "physical gold drops" are used carefully and selectively and at times when the intended effect on the market will be most effective.

The primary purpose for short-selling futures contracts on Comex is to protect the dollar's value from the growing supply of dollars created by the Fed's policy of Quantitative Easing. The Fed's use of gold leasing to supply gold to the market in order to reduce the rate of rise in the gold price has drained the Fed's gold holdings and is creating a shortage in physical gold. Historically most big buyers would leave their gold for safe-keeping in the vaults of the Fed, Bank of England or private bullion banks rather than incur the cost of moving gold to local depositories. However, large purchasers of gold, such as China, now require actual delivery of the gold they buy.

Demands for gold delivery have forced the use of extraordinary and apparently illegal tactics in order to obtain physical gold to settle futures contracts that demand delivery and to be able to deliver bullion purchased on the London market (LBMA). Gold for delivery is obtained from opaque Central Bank gold leasing transactions, from "borrowing" client gold held by the bullion banks like JP Morgan in their LBMA custodial vaults, and by looting the gold trusts, such as GLD, of their gold holdings by purchasing large blocks of shares and redeeming the shares for gold.

Central Bank gold leasing occurs when Central Banks take physical gold they hold in custody and lease it to bullion banks. The banks sell the gold on the London physical gold market. The gold leasing transaction makes available physical gold that can be delivered to buyers in quantities that would not be available at existing prices. The use of gold leasing to manipulate the price of gold became a prevalent practice in the 1990s. While Central Banks admit to engaging in gold lease transactions, they do not admit to its purpose, which is to moderate rises in the price of gold, although Fed Chairman Alan Greenspan did admit during Congressional testimony on derivatives in 1998 that "Central banks stand ready to lease gold in increasing quantities should the price rise."

Another method of obtaining bullion for sale or delivery is known as "rehypothecation." Rehypothecation occurs when a bank or brokerage firm "borrows" client assets being held in custody by banks. Technically, bank/brokerage firm clients sign an agreement when they open an account in which the assets in the account might be pledged for loans, like margin loans. But the banks then take pledged assets and use them for their own purpose rather than the client's. This is rehypothecation. Although Central Banks fully disclose the practice of leasing gold, banks/brokers do not publicly disclose the details of their rehypothecation activities.

Over the course of the 13-year gold bull market, gold leasing and rehypothecation operations have largely depleted most of the gold in the vaults of the Federal Reserve, Bank of England, European Central Bank and private bullion banks such as JPMorganChase. The depletion of vault gold became a problem when Venezuela was the first country to repatriate all of its gold being held by foreign Central Banks, primarily the Fed and the BOE. Venezuela's request was provoked by rumors circulating the market that gold was being leased and hypothecated in increasing quantities. About a year later, Germany made a similar request. The Fed refused to honor Germany's request and, instead, negotiated a seven year timeline in which it would ship back 300 of Germany's 1,500 tonnes. This made it apparent that the Fed did not have the gold it was supposed to be holding for Germany.

Why does the Fed need seven years in which to return 20 percent of Germany's gold? The answer is that the Fed does not have the gold in its vault to deliver. In 2011 it took four months to return Venezuela's 160 tonnes of gold. Obviously, the gold was not readily at hand and had to be borrowed, perhaps from unsuspecting private owners who mistakenly believe that their gold is held in trust.

Western central banks have pushed fractional gold reserve banking to the point that they haven't enough reserves to cover withdrawals. Fractional reserve banking originated when medieval goldsmiths learned that owners of gold stored in their vault seldom withdrew the gold. Instead, those who had gold on deposit circulated paper claims to gold. This allowed goldsmiths to lend gold that they did not have by issuing paper receipts. This is what the Fed has done. The Fed has created paper claims to gold that does not exist in physical form and sold these claims in mass quantities in order to drive down the gold price. The paper claims to gold are a large multiple of the amount of actual gold available for delivery. The Royal Bank of India reports that the ratio of paper claims to gold exceed the amount of gold available for delivery by 93:1.

Fractional reserve systems break down when too many depositors or holders of paper claims present them for delivery. Breakdown is occurring in the Fed's fractional bullion operation. In the last few years the Asian markets–specifically and especially the Chinese–are demanding actual physical delivery of the bullion they buy. This has created a sense of urgency among the Fed, Treasury and the bullion banks to utilize any means possible to flush out as many weak holders of gold as possible with orchestrated price declines in order to acquire physical gold that can be delivered to Asian buyers.

The $650 decline in the price of gold since it hit $1,900 in September 2011 is the result of a manipulative effort designed both to protect the dollar from Quantitative Easing and to free up enough gold to satisfy Asian demands for delivery of gold purchases.

Around the time of the substantial drop in gold's price in April, 2013, the Bank of England's public records showed a 1,300 tonne decline in the amount of gold being held in the BOE bullion vaults. This is a fact that has not been denied or reasonably explained by BOE officials despite several published inquiries. This is gold that was being held in custody but not owned by the Bank of England. The truth is that the 1,300 tonnes is gold that was required to satisfy delivery demands from the large Asian buyers. It is one thing for the Fed or BOE to sell, lease or rehypothecate gold out of their vault that is being safe-kept knowing the entitled owner likely won't ask for it anytime soon, but it is another thing altogether to default on a gold delivery to Asians demanding delivery.

Default on delivery of purchased gold would terminate the Federal Reserve's ability to manipulate the gold price. The entire world would realize that the demand for gold greatly exceeds the supply, and the price of gold would explode upwards. The Federal Reserve would lose control and would have to abandon Quantitative Easing. Otherwise, the exchange value of the US dollar would collapse, bringing to an end US financial hegemony over the world.

Last April, the major takedown in the gold price began with Goldman Sachs is-

suing a "technical analysis" report with an $850 price target (gold was around $1,650 at that time). Goldman Sachs also broadcast to every major brokerage firm and hedge fund in New York that gold was going to drop hard in price and urged brokers to get their clients out of all physical gold holdings and/or shares in physical gold trusts like GLD or CEF. GLD and CEF are trusts that purchase physical gold/silver bullion and issue shares that represent claims on the bullion holdings. The shares are marketed as investments in gold, but represent claims that can only be redeemed in very large blocks of shares, such as 100,000, and perhaps only by bullion banks. GLD is the largest gold ETF (exchange traded firm), but not the only one. The purpose of this announcement was to spur gold sales that would magnify the price effect of the short-selling of futures contracts. Heavy selling of futures contracts drove down the gold price and forced sales of GLD and other ETF shares, which were bought up by the bullion banks and redeemed for gold.

At the beginning of 2013, GLD held 1,350 tonnes of gold. By April 12, when the heavy intervention operation began, GLD held 1,154 tonnes. After the series of successive raids in April, the removal of gold from GLD accelerated and currently there are 793 tonnes left in the trust. In a little more than one year, more than 41% of the gold bars held by GLD were removed – most of that after the mid-April intervention operation.

In addition, the Bank of England made its gold available for purchase by the bullion banks in order to add to the ability to deliver gold to Asian purchasers.

The financial media, which is used to discredit gold as a safe haven from the printing of fiat currencies, claims that the decline in GLD's physical gold is an indication that the public is rejecting gold as an investment. In fact, the manipulation of the gold price downward is being done systematically in order to coerce holders of GLD to unload their shares. This enables the bullion banks to accumulate the amount of shares required to redeem gold from the GLD Trust and ship that gold to Asia in order to meet the enormous delivery demands. For example, in the event described above on January 6, 14% of GLD's total volume for the day traded in a 1-minute period starting at 10:14 am. The total volume on the day for GLD was almost 35% higher than the average trading volume in GLD over the previous ten trading days.

Before 2013, the amount of gold in the GLD vault was one of the largest stockpiles of gold in the world. The swift decline in GLD's gold inventory is the most glaring indicator of the growing shortage of physical gold supply that can be delivered to the Asian market and other large physical gold buyers. The more the price of gold is driven down in the Western paper gold market, the higher the demand for physical bullion in Asian markets. In addition, several smaller physical gold ETFs have experienced substantial gold withdrawals. Including the more than 100 tonnes of gold that has disappeared from the Comex vaults in the last year, well over 1,000 tonnes of gold has been removed from the various ETFs and bank custodial vaults in the last year. Furthermore, there is no telling how much gold that is kept in bullion bank private vaults on behalf of wealthy investors has been rehypothecated. All of this gold was removed in order to avoid defaulting on delivery demands being imposed by Asian commercial, investment and sovereign gold buyers.

The Federal Reserve seems to be trapped. The Fed is creating approximately 1,000 billion new US dollars annually in order to support the prices of debt related derivatives on the books of the few banks that have been declared to be "too big to fail" and in order to finance the large federal budget deficit that is now too large to be financed by the recycling of Chinese and OPEC trade surpluses into US Treasury debt. The problem with Quantitative Easing is that the annual creation of an enormous supply of new dollars is raising questions among American and foreign holders of vast amounts of US dollar-denominated financial instruments. They see their dollar holdings being diluted by the creation of new dollars that are not the result of an increase in wealth or GDP and for which there is no demand.

Quantitative Easing is a threat to the dollar's exchange value. The Federal Reserve, fearful that the falling value of the dollar in terms of gold would spread into the currency markets and depreciate the dollar, decided to employ more extreme methods of gold price manipulation.

When gold hit $1,900, the Federal Reserve panicked. The manipulation of the gold price became more intense. It became more imperative to drive down the price, but the lower price resulted in higher Asian demand which scant supplies of gold were unable to meet.

Having created more paper gold claims than there is gold to satisfy, the Fed has used its dependent bullion banks to loot the gold exchange traded funds (ETFs) of gold in order to avoid default on Asian deliveries. Default would collapse the fractional bullion system that allows the Fed to drive down the gold price and protect the dollar from QE.

What we are witnessing is our central bank pulling out all stops on integrity and lawfulness in order to serve a small handful of banks that financial deregulation allowed to become "too big to fail" at the expense of our economy and our currency. When the Fed runs out of gold to borrow, to rehypothecate, and to loot from ETFs, the Fed will have to abandon QE or the US dollar will collapse and with it Washington's power to exercise hegemony over the world.

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