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COMER

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Rocco Galati in Court to Challenge How Bank of Canada Does Business

By Les Whittington, Ottawa Bureau reporter, Toronto Star, March 24, 2015

Renowned Toronto lawyer brings unusual case to change the way Canada's central bank operates.

Ottawa – Renowned Toronto lawyer Rocco Galati is pursuing a court case intended to do nothing less than force the Bank of Canada to reorient its activities on behalf of Canadians.

Galati, who led a successful challenge against an appointment to the Supreme Court of Canada, is representing a small Toronto group whose legal bid is attracting increasing attention from people in Canada and elsewhere who distrust global financial institutions.

The unusual case originated with William Krehm, a much-travelled 101-year-old Toronto native and former Trotskyite who was in Spain during the Spanish Civil War and once stood guard over Leon Trotsky's corpse after the Russian revolutionary was assassinated in Mexico City.

Krehm, later an economic writer, asked Galati to launch the case on behalf of his Committee on Monetary and Economic Reform (COMER). Galati first filed the case in 2011 and after several legal rounds – including a court skirmish with federal government lawyers – is expected to return to Federal Court within days to move the challenge forward.

COMER contends the Bank of Canada, a publicly owned national financial institution created in the Great Depression, is mandated to provide debt-free support for public projects undertaken by federal, provincial and city governments. Not doing so has deprived Canadians of the benefits of larger infrastructure investments, COMER alleges.

Among other arguments in its court submission, the group alleges Canada ceded its sovereign ability to conduct independent monetary policy to the "secret" deliberations and control of private foreign bankers. This unconstitutional move, COMER argues, was a result of Ottawa's decision to join several multinational financial organizations, particularly the Bank for International Settlements (BIS).

Headquartered in Switzerland, the BIS is an organization that brings together the central banks from 60 countries to cooperate in the promotion of international monetary and financial stability. Canada joined in 1970.

"It's by far the most serious and important case I've ever done," said Galati, who gained national prominence in a classic David versus Goliath case last year in which he moved to block Prime Minister Stephen Harper's appointment of Justice Marc Nadon to Canada's top bench.

Of the current case, Galati says, "It impacts the entire country in a profound way, right down to the bone of our economics and the history of the way we've maintained and lost, through illegal action, our independent monetary policy. It's huge."

The federal government tried to quash the case on the grounds it was frivolous and the alleged infringement of the plaintiffs' constitutional rights was "too uncertain, speculative and hypothetical."

And judges noted COMER's contention that the Bank of Canada has a mandate to provide interest-free loans to governments in Canada hinges on the interpretation of a sentence in the bank's enabling legislation saying it "may" provide such loans.

But the courts have said Galati can pro-

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ceed with an amended statement of claim.

"We have no comments on a matter that is before the courts," the Bank of Canada stated.

But on its website, the Bank of Canada explains why it doesn't "print money to repay the national debt or to finance government programs." Doing so, it says, "would reduce the value of our money, raise interest rates, and undermine the growth of the economy."

Ann Emmett, a former teacher who now chairs COMER, said she "absolutely" believes foreign banks are controlling the Bank of Canada's actions.

"I have to tell you that the lawsuit has sparked interest around the world," Emmett added. "They are not going to be able to put the genie back in the bottle."

The lawsuit also alleges the federal finance minister is depriving MPs of their right to properly vet government spending by inappropriately calculating available financial resources.

The original COMER case indicated an intention to make it a class action suit, with $1 in damages for each Canadian. But it's unclear if that part of the claim will stand.

Reader Comments

As Ann [Emmett] commented in the Toronto Star article "The genie is out of the bottle" and we won't be putting her/him back! We will proceed until we restore the Bank of Canada to its original intent – to serve Canadians and build a kinder, fairer country for all its people.

Margaret Rao, Friend of COMER

Finally a major paper covering this case. So exciting! And the article really does do justice to the nature of the case. Picks out the really important aspects. Reads well. Makes sense of the case. Now maybe more public will begin to get a handle on the crime being perpetrated against us.

I am so proud of all of you, Bill, Anne, and Rocco for your ongoing noble work.

Watch all the insignificant useless hypocritical gatekeepers now try to get on board.

Bill, you are and have been such an incredible force keeping this case going financially. It is such a tribute to your life.

Anne, your constant attention to educating is really paying off.

Rocco, your work at so much reduced rate of fees is an incredible contribution to Canada. The quality of your work goes without saying. You have already proven yourself over and over in this case, as well as so many others. You are a special gem in the fiber of this country, and in fact of the world. You refused to accept no.

I remember how hard Bill worked to get this case off the ground and into your gifted mind and hands. I remember all that early struggling so well: off to other lawyers none of whom had the balls or competence to run this case; Bill's initial anxieties troubling his determination to make this lasting contribution out of his life's pursuits; the do good know-it-all naysayers pouring water on the fire of excellence.

I feel privileged and honoured to know all of you personally. You are so incredibly special, all of you….

Both Rocco and Bill have been making an incredible financial contribution to this case. Bravo! Bravo!

Connie Fogal

Letter in the *Toronto Star*, published March 31, 2015:

"Once a nation parts with the control of its currency and credit, it matters not who makes the 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 sacred responsibility, all talk of the sovereignty of parliament and of democracy is idle and futile."

That was William Lyon Mackenzie King, Canada's 10th and longest serving prime minister, whose accomplishments include the creation of old age pensions, unemployment insurance, family allowances, who led Canada through World War II and, in 1938, in the midst of the Great Depression, removed private bankers' ownership and control of our central bank by nationalizing the Bank of Canada making the government of Canada its sole shareholder on behalf of the people of Canada.

Rocco Galati, on behalf of COMER, argues for the restoration of the BoC's previously successful role of financing the borrowing of all three levels of government at minimal interest cost to the Canadian taxpayer, but at substantial cost in lost profits to the private banking establishment.

As for inflation, it is not who creates the money – currency and credit – that causes inflation, but how much money is created. Who creates the money determines how much that money will cost taxpaying citizens – with compound interest currently paid to privately held banks, represented (surprise) by the Bank for International Settlements (BIS), frequently referred to as

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The Terror We Give Is the Terror We Get

By Chris Hedges, www.truthdig.com, posted February 8, 2015

We fire missiles from the sky that incinerate families huddled in their houses. They incinerate a pilot cowering in a cage. We torture hostages in our black sites and choke them to death by stuffing rags down their throats. They torture hostages in squalid hovels and behead them. We organize Shiite death squads to kill Sunnis. They organize Sunni death squads to kill Shiites. We produce high-budget films such as "American Sniper" to glorify our war crimes. They produce inspirational videos to glorify their twisted version of jihad.

The barbarism we condemn is the barbarism we commit. The line that separates us from the Islamic State of Iraq and Syria (ISIS) is technological, not moral. We are those we fight.

"From violence, only violence is born," Primo Levi wrote, "following a pendular action that, as time goes by, rather than dying down, becomes more frenzied."

The burning of the pilot, Jordanian Lt. Muath Al-Kaseasbeh, by ISIS militants after his F-16 crashed near Raqqa, Syria, was as gruesome as anything devised for the Roman amphitheater. And it was meant to be. Death is the primary spectacle of war. If ISIS had fighter jets, missiles, drones and heavy artillery to bomb American cities there would be no need to light a captured pilot on fire; ISIS would be able to burn human beings, as we do, from several thousand feet up. But since ISIS is limited in its capacity for war it must broadcast to the world a miniature version of what we do to people in the Middle East. The ISIS process is cruder. The result is the same.

Terror is choreographed. Remember "Shock and Awe"? Terror must be seen and felt to be effective. Terror demands gruesome images. Terror must instill a paralyzing fear. Terror requires the agony of families. It requires mutilated corpses. It requires anguished appeals from helpless hostages and prisoners.

Terror is a message sent back and forth in the twisted dialogue of war. Terror creates a whirlwind of rage, horror, shame, pain, disgust, pity, frustration and impotence. It consumes civilians and combatants. It elevates violence as the highest virtue, justified in the name of noble ideals. It unleashes a carnival of death and plunges a society into blood-drenched madness.

During the Bosnian War of the 1990s, relatives paid enormous sums to retrieve the bodies of their sons or husbands being held by corpse traders on the opposing side. And they paid even more in attempts to secure the release of sons or husbands when they were alive. Such trades are as old as war itself. Human beings, whether in our black sites or in the hands of Islamic militants, are war's collateral.

Not all hostages or prisoners evoke the same national outcry. Not all command the same price. And not all are slated for release. The Revolutionary Armed Forces of Colombia (FARC), which turned kidnapping and ransom negotiations into an efficient business and took hundreds of captives, held tiers of hostages.

Celebrity hostages – including politician Ingrid Betancourt, who was captured while she was running for the presidency of Colombia and who was freed by the Colombian military after being held six years – were essentially priced out of the market. FARC also had middle-priced hostages such as police officers and soldiers and low-priced hostages who included peasants.

Celebrity hostages are worth more to all sides of a conflict while they are in captivity. These celebrity hostages – onetime Italian Prime Minister Aldo Moro, who was kidnapped and executed by the Red Brigades in 1978, is another example – heighten war's drama. Saddam Hussein in a cage served this purpose.

Celebrity hostages, because the price demanded for their release is so extravagant, are often condemned to death in advance. I suspect this was the case with the American journalist James Foley, who was beheaded in captivity. The proposed ransom was so wildly exorbitant – 100 million euros and the release of Islamic radicals being held by the United States – that his captors probably never expected it to be paid.

The Jordanian government is struggling to contain a virulent, if small radical Islamic movement. There is unease among Jordan's population, as there is unease in the United States about American air assaults on ISIS. The death of the Jordanian pilot, however, bolsters the claims by Washington and Amman that the battle with ISIS is a struggle between democratic, enlightened states (although Jordan is not a democracy) and savage jihadists. And Jordan's hanging of two al-Qaida members Wednesday was calculated, along with Jordanian fighter jet strikes in Syria on the de facto capital of ISIS, to highlight these supposed differences and intensify the conflict.

Sajida al-Rishawi, one of the two who were hanged, had been on death row since 2005 for her role in the attacks on Amman hotels that left 60 people dead. She had been an associate of the Jordanian-born al-Qaida leader Abu Musab al-Zarqawi, who was killed in Iraq in 2006. The tit-for-tat executions by Jordan and ISIS, like the airstrikes, are useful in playing the game of terror versus terror. It fosters the binary vision of a battle between good and evil that is crucial to maintaining the fevered pitch of war. You do not want your enemy to appear human. You do not want to let your population tire of the bloodletting. You must always manufacture terror and fear.

France and most other European states, unlike the United States, negotiate with kidnappers and pay for hostages. This has devolved into an established business practice. The tens of millions of dollars raised by ISIS through kidnapping is a significant source of its revenue, amounting to perhaps as much as half of its operating budget. The New York Times, in an investigation, wrote in July 2014 that "Al Qaeda and its direct affiliates have taken in at least $125 million in revenue from kidnappings since 2008, of which $66 million was paid just last year." But negotiating and paying ransoms has consequences. While French and other European citizens are more likely to be ransomed, they are also more likely to be taken hostage. But France is spared the scenes that Americans, who refuse to pay, must endure. And because of this France is able to remain relatively sane.

Terror serves the interests of the war mongers on both sides of the divide. This is what happened during the 444-day Iran hostage crisis that took place from 1979 to 1981. And this is why Jordan – unlike Japan, which saw two of its nationals executed but is not involved militarily against ISIS – has reacted with sanctimonious fury and carried out retaliation. It is why Foley's murder strengthened the call by the war lobby in Washington to launch a bombing campaign against ISIS. Terror – the terror we commit and the terror done to us – feeds the lusts for war. It is a recruiting tool for war's crusade. If ISIS were not brutal it would have to be made to seem brutal. It is the luck of the fanatics we oppose, and the fanatics in our midst, that everyone's propaganda needs are amply met. The tragedy is that so many innocents suffer.

Mideast governments allied with the West, including Jordan, Iraq and Saudi Arabia, have watched in horror as ISIS has carved out of parts of Syria and Iraq to create a self-declared caliphate the size of Texas. ISIS has managed through oil exports and the business of hostage taking to become financially self-sufficient. The area under its control has become a mecca for jihadists. It has attracted an estimated 12,000 foreign fighters, including 2,000 from Europe.

The longer the rogue caliphate remains in existence the more it becomes a mortal threat to the West's allies in the region. ISIS will not invade countries such as Saudi Arabia and Jordan, but its continued existence empowers the discontented and the radicals in those countries, many groaning under collapsing economies, to stoke internal upheavals.

The United States and its allies in the region are determined to erase ISIS from the map. It is too destabilizing. Dramas like these, because they serve the aims of ISIS as well as those of the nations seeking to destroy ISIS, will be played out as long as the caliphate exists.

Terror is the engine of war. And terror is what all sides in this conflict produce in overabundance.

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Our Comment. The goal of terror is submission, it seems unlikely that such a strategy will succeed against ISIS extremists.

Perhaps, however, the terror we invoke is designed more to enlist our support for their extermination.

What if, instead, we began to demonstrate an interest in understanding the root cause of the problem, and a genuine effort towards a peaceful resolution? *Élan*

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"the bankers' bank."

Derrell R. Dular, Toronto

I'm glad to see a major newspaper covering the lawsuit against the Bank of Canada. More attention needs to be paid to how the bank could be used to serve people of Canada. Instead, we've created an economy where we're all going further and further into debt and paying interest to the financial industry. It's like an anvil around our necks but it doesn't need to be this way, and it used to be different.

Thanks to lawyer Rocco Galati and COMER for bringing this to the courts. I hope they win and we get the bank we need.

Jeff Dean, Victoria, BC

Thank you for breaking the media embargo on the case involving Rocco Galati's COMER and the Government of Canada.

Ed Goertzen, Oshawa

This topic has evaded the public eye for much too long. The people of this country are being robbed blind of their wealth and financial freedom under the fraudulent debt-money system controlled by the private bankers.

Why is this important topic not being blasted all over the news? Because "they" (the private bankers) do not want the people to know how they have been scammed over the past several years.

Time for the media to do their job – inform the public!

Grant Baudais, Kelowna, BC

It was interesting to read the article on the lawsuit by the Canadian group Committee on Monetary and Economic Reform (COMER). While the article plainly tried to spin the suit as a nuisance suit by a bunch of "commie kooks," nothing could be further from the truth.

This country of ours had it's greatest years of development (1938 to 1974) attaining its modern character and form with the Bank of Canada as primary lender to the people's governments insuring a stable monetary heartbeat. After 1974, Canada's politicians were "hoodwinked" into believing that borrowing from an international cabal of bankers would somehow be less inflationary than borrowing from Canada's own public bank, having the best interest of the people as its guide, rather than the rich shareholders of private for profit banking houses.

The proof is in the charting of Canada's governmental debt over the years. Up until 1974, Canada had a modest and very easily manageable debt. Afterwards, the rise in debt is precipitous as Canadian governments switched to borrowing from commercial banks at the going interest compounding. How very foolish!

Since then inflation has, continually in a downward spiral, been eroding the value of the Canadian dollar as the amount of debt by all three levels of governance, carried by the taxpayers, and all owed to the commercial banking class, instead of to ourselves with any profit from that self-owed debt accruing to ourselves as under the previous Bank of Canada regimen.

The very statement by today's Bank of Canada, stating that a return to their direct lending to government at practically 0 percent interest would somehow be more inflationary instead of borrowing from commercial banks at the going rate of compounding interest defies logic and shows how that formerly lifesaving institution has been captured by the bankers for their own ends; which dear reader will not coincide with your or our nation's best interests.

I wish Mr. Galati and COMER every success as this will also mean every success for Canada and her people if they succeed in tearing Canada away from the avaricious grasp of the money lenders.

Brad Fuller, Nelson, BC

Letter to *ER* editor:

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

Precisely. I would like to know why the Federal Government – which owns the Bank of Canada – doesn't borrow from it at LOW interest rates, rather than borrowing from commercial banks at *high* (compound!) interest rates, which it has done for decades, and which results in inflation and escalating government debt. Moreover, payment of this debt (through *our* taxes!) apparently transcends Canadian citizen concerns, such as health care, affordable housing, the scientific oversight of the environment – and so on.

The government lectures citizens as to how to stay out of debt – while their own backyard is in a debt shambles. If the Bank of Canada were used by the Federal Government to assist with needed government expenditures, we wouldn't be in this mess.

By the way, there's nothing in the *Bank of Canada Act* which would prevent the Government of Canada from doing this! If we were to do so, we could move towards a more Positive, less stressful Economy, rather than having to endure our current Negative, debt-ridden Economy. This would be a welcome change.

Good Luck, Rocco!

Happy Trials, COMER!

John Riddell

Government's Anti-terror Laws Target Anti-pipeline Foes

By Joyce Nelson, CCPA Monitor, Volume 21 No. 2, March 2015

Since October's shooting and attack on Parliament Hill, the Harper government has introduced or passed four pieces of legislation that impinge on civil liberties in ways that almost certainly contravene legal protections in Canada's Charter of Rights and Freedoms. Though the government claims these reforms are meant help security agencies confront new terrorist threats to Canada, they could be used to hassle and spy on a larger group of people at home and abroad, in particular those opposed to the government's energy agenda. Equally worrying is that the laws are being introduced without any corresponding oversight of security activities.

In the order they were introduced, there is Bill C-13, highly unpopular and long-delayed online spying legislation that passed the Senate in November and received royal assent December 9. The bill creates legal incentives for Internet service providers to voluntarily intercept and hand over personal information on their customers to law enforcement agencies that request it, even when they don't have a warrant. David Christopher with the group OpenMedia says "important parts of this legislation have already been ruled unconstitutional by the Supreme Court."

Then came Bill C-44, tabled in Parliament in the immediate aftermath of the Michael Zehaf Bibeau attacks, which expands CSIS's surveillance reach, removes legal hurdles to agents operating abroad (even in contravention of foreign or international law), grants anonymity to CSIS informants, and alters the conditions under which a person's Canadian citizenship can be revoked. Bill C-44, which was deemed "highly problematic" by the Canadian Civil Liberties Association (CCLA), passed third reading on February 2 and was with the Senate at time of writing.

Where the government's security and energy agendas more clearly overlap are in Bill C-639, introduced as a private member's bill by Conservative MP Wai Young on December 3, and Bill C-51, the *Anti-Terrorism Act* 2015, tabled on January 30. Both refer to the protection of "critical infrastructure," disruption to which would "produce serious adverse economic effects," and are obviously aimed at ongoing protests against tar sands expansion and pipeline projects.

Threats to Critical Infrastructure

Young's private member's bill, which is supported by Harper's justice minister, Peter MacKay, creates a new Criminal Code offence for anyone who "destroys or damages any part of a critical infrastructure; renders any part of a critical infrastructure dangerous, useless, inoperative or ineffective; or obstructs, interrupts or interferes with the lawful use, enjoyment or operations of any part of a critical infrastructure."

This language could criminalize peaceful and (currently) lawful protests if they interfere, even temporarily, with "critical infrastructure," defined broadly in the legislation as "including services relating to energy, telecommunications, finance, health care, food, water, transportation, public safety, government and manufacturing, the disruption of which could produce serious adverse economic effects or endanger the health or safety of Canadians." The bill imposes a mandatory minimum sentence of two to 10 years and fines of $500 to $3,000.

Toronto lawyer Ed Prutschi told the *National Post* in December the fact that energy infrastructure was included in this definition has one obvious purpose: "It would have application for pipeline protests." He noted the legislation doesn't necessarily require any damage to have been done, just that a person be in the way, as many people were during a protest in Burnaby last year against Kinder Morgan's Trans Mountain pipeline expansion. As the *Post* noted, Young is the MP for Vancouver South, which is adjacent to the mountain.

From November 19 to 27, at least 100 protesters were arrested for crossing a police line in a municipal conservation area on Burnaby Mountain where Kinder Morgan crews have been doing preliminary work – before approval of the project – in preparation for tunneling. Bill C-639 would appear to offer the police a bigger stick for discouraging these protests, since participants could face new fines and jail time just for exercising their right to dissent.

The BC Civil Liberties Association (BCCLA) considers the Conservative private member's bill a direct attack on our constitutional and Charter rights, suggesting Canada is "borrowing tactics from dictatorial governments." Executive Director Josh Paterson slammed the bill during a meeting in Bangkok in December where he was participating in an investigation of political rights violations in the context of natural resource development.

"We are at the United Nations to cry foul on Canada's latest attempt to criminalize peaceful protest," Paterson said in a news release. "Now striking flight attendants and kids protesting pipelines on Burnaby Mountain could be considered criminals? Either of these lawful protests could count as a crime under this law if they interfere with something of economic value. That is simply ridiculous and it violates the fundamental freedoms of Canadians."

Paterson further stated: "We are meeting in Bangkok with representatives from non-democratic countries where protest is a serious crime…. Canada has not only broken with our own constitution in criminalizing protest, spying on First Nations, and denouncing community groups, it's also breaking its international commitments to protect the freedom of expression and freedom of assembly of Canadians."

RCMP Critical Infrastructure Team

In Young's media release presenting Bill C-639, Minister MacKay claimed it was "the product of extensive, cross-Canada consultation, consistent with our Government's priority to create safer communities." But the bill is obviously based on a March 2011 report written by the RCMP's Critical Infrastructure Intelligence Team, which consulted primarily with private energy companies.

The document, recently obtained by Carleton University criminologist Jeff Monaghan, warned, "Environmental ideologically motivated individuals including some who are aligned with a radical, criminal extremist ideology pose a clear and present criminal threat to Canada's energy sector." It said Canada's law enforcement and security agencies "have noted a growing radicalized faction of environmentalists who advocate the use of criminal activity to promote the protection of the natural environment."

This is from the same RCMP team that spied on Quebec residents opposed to shale gas development, among other groups.

The RCMP report, and Young's proposed legislation, dovetails with the Canada–US Beyond the Border Action Plan, the result of perimeter security and economic integration talks launched by Canada and the United States in late 2010. The protection of shared critical infrastructure is listed as a priority in security documents on the government's Beyond the Border website.

"Canada and the United States share a significant quantity of critical infrastructure assets and systems, including pipelines, the electric grid, and transportation systems," they say. "It is imperative that our countries work together to protect these assets. To effectively do this, our governments will require a close collaboration with the private sector, as they own much critical infrastructure in question."

The plan mentions a pilot project between New Brunswick and Maine, "to learn how best to work together on each of the elements." But according to news reports, that pilot project has been delayed since July 2013 because the US has requested that its cross-border police officers be exempt from Canadian law. Internal RCMP briefing notes regarding this "sovereignty issue" apparently stymied the project temporarily.

On October 28, US Secretary of State John Kerry was in Ottawa to express his government's condolences for the killings of two Canadian soldiers during separate attacks the previous week. Reinforcing the importance of policy alignment, Kerry said the US and Canada would "work quietly and carefully" to strengthen security between the two countries, "making certain that every possible stone is turned over, every possible policy is reviewed because our obligation is obviously to protect our citizens."

Bill C-51

Kerry's October meeting in Ottawa, and the Burnaby Mountain pipeline protests afterwards, provided convenient cover for the introduction of Bill C-639. Then came the *Charlie Hebdo* shootings in Paris in January. Just weeks later, the government tabled more alarming security legislation: Bill C-51, the *Anti-Terrorism Act* 2015.

Harper's proposed update to the existing anti-terrorism legislation grants CSIS the authority to block Canadian websites. The bill further defines "terrorist propaganda" as "any writing, sign, visible representation or audio recording that advocates or promotes the commission of terrorism offences in general…or counsels the commission of a terrorism offence."

The CCLA says the bill "broadens CSIS's powers significantly" and "may criminalize legitimate speech," noting a "potential chilling effect on academics and journalists and bloggers," who could face up to five years in prison. The chilling effect comes from the vagueness of language in the bill, which allows government departments to share personal information related to activities that "undermine the security of Canada," defined quite broadly to include "interference with critical infrastructure," but also "interference with the capability of the Government of Canada in relation to…the economic or financial stability of Canada."

C-51 exempts "lawful advocacy, protest, dissent and artistic expression" as threats to the security of Canada, but as a *Globe and Mail* editorial asked in February, "how well do governments define those things in times of 'great evil'?" Privacy Commissioner Daniel Therrien expressed similar fears in his response to the legislation:

"This Act would seemingly allow departments and agencies to share the personal information of all individuals, including ordinary Canadians who may not be suspected of terrorist activities, for the purpose of detecting and identifying new security threats. It is not clear that this would be a proportional measure that respects the privacy rights of Canadians."

The bill also lowers the threshold for "preventive arrests," makes it easier to place people on no-fly lists, gives authorities the power to hold suspected "terrorists" without charge for seven days, allows a judge to impose up to a year of house arrest on someone who has not been charged or convicted of a crime, and allows CSIS agents to "disrupt" threats to Canadian security, including "covert foreign-influenced activities."

Importantly, Bill C-51 would let law enforcement officials detain someone on the grounds they "may" have terrorist plans where currently the law allows for preventative arrests only when it is suspected they "will commit a terrorism offence." Micheal Vonn, the BCCLA's policy director, has warned "criminalizing people's words and thoughts is misguided and won't make Canadians any safer." Vonn and others have said the bill is "likely unconstitutional."

In Parliament on February 2, Green Party leader Elizabeth May asked Public Safety Minister Steven Blaney if the new anti-terrorism bill "will apply to nonviolent civil disobedience, such as that against pipelines?" He did not directly answer the question, saying only that terrorism "is a criminal act and those who go against the Criminal Code will meet the full force of the law." May told MPs they "must not allow the Conservatives to turn CSIS into a secret police force."

As of early February, the RCMP is still refusing to release what Commissioner Bob Paulson calls a "video manifesto" made by Michael Zehaf-Bibeau days before his October 22 attack on Parliament Hill. The RCMP claims the video shows the shooter's political motives and contains a religious reference. On the basis of this unreleased video, the Harper government is claiming the shooting was a "terrorist act," rather than the actions of a deranged individual in need of help.

If the Harper government is so concerned about "home-grown terrorists," maybe it should shut down the tar sands. In mid-January, the *National Post* reported at least three "radicalized youth" (including Zehaf-Bibeau) headed to the tar sands "to earn money to finance their terrorist activities."

Joyce Nelson is an award-winning freelance writer/researcher and the author of five books.

Our Comment

What is most disturbing about Bill C-51 is that such a piece of legislation could, conceivably, get by a Canadian government.

Of particular interest to COMER is the reference to "interference with the capability of the government of Canada in relation to … the *economic* or *financial* stability of Canada."

Since nothing could be more destabilizing to the economy than the existing debt-money system, perhaps, "of Canada" should more properly read, of the *status quo.*

C-51 has to be more threatening to "peace, order, and good government" in Canada than any number of "*terrorists."* It brings to mind a remarkable message bequeathed us by a remarkable veteran of WWII.

In 2010 ninety-three-year-old Stéphane Hessel published a small book (40 pages), that topped the bestseller list in France. As a member of the French Resistance, he had been captured and tortured by the Gestapo. He escaped en route to Bergen-Belsen and, after the war became a diplomat and, along with Eleanor Roosevelt, was involved in drafting the United Nations Universal Declaration of Human Rights (Charles Glass, foreword to *Indignez-vous!).*

His book is entitled, *Indignez-vous! (Time for Outrage).* In it, he rejects the claims that the state "can no longer afford policies to support it's citizens," citing post-war progress towards 'a true social and economic democracy' at a time 'when Europe was ruined'. His message is a call – addressed especially to the young – for a renewal of the spirit of resistance.

He speaks of today's need for the principles and values which then informed "an ambitious resurrection for France… the Comprehensive Social Security Plan… and the [nationalization] of sources of energy and the large banks. "The general interest," he argued, "has to be given precedence over particular special interests, and a fair division of the wealth created by the world of labour, over the power of money."

"History's direction," he maintains, "is towards more justice and more freedom – though not the unbridled freedom of the fox in a henhouse."

He attributes the success of Fascism to the fact that the rich, fearful of Bolshevik revolution, let fear control them.

He points out that his reasons for outrage "came less from emotion than from a will to be engaged and get involved." He identifies as "one of the essentials of being human," the capacity and the freedom to feel outraged," and highlights "two great new challenges": the ever-growing inequality between the very rich and the very poor and, human rights and the state of the planet. He concludes that: "The Western obsession with productivity has brought the world to a crisis that we can escape only with a radical break from the headlong rush for 'more, always more' in the financial realm as well as in science and technology. It is high time that concerns for ethics, justice and sustainability prevail. For we are threatened by the most serious dangers, which have the power to bring the human experiment to an end by making the planet uninhabitable."

Nevertheless, and despite the U-turn of the past few decades, he traces important progress achieved since 1948, and contends that that is the true direction of history. He holds that "we are at a threshold between the horrors of the first decade of the century and the possibilities before us of the decades to come," and urges those "who will create the 21st century," to find [their] own reasons to get angry, and "join the great flow of history!."

On March 14. all across Canada, Canadians demonstrated against this backward, anti-democratic bill. May that expression of outrage continue to inspire peaceful resistance to the escalating erosion of our rights and freedoms.

Those who surrender freedom for security will not have, nor do they deserve either. – Ben Franklin

Élan

European Democracy Is in a State of Emergency

By Claus Offe, Social Europe, March 6, 2015

Europe has had a rocky start to 2015. The Eurozone crisis is back on the agenda, a war is developing at Europe's border and people across the continent seem more and more discontent with their political systems leading to the rise of different forms of populism. How healthy do you think is European democracy?

Who wouldn't agree these days that things are not going well in Europe? Yet do the challenges and disasters you mention have common roots? I think they do, if at a very abstract level. The common root of the war in Ukraine, the Eurozone crisis and the rise of populism can be seen in the absence of fair and effective institutional mechanisms of political interest intermediation, conflict resolution and crisis management. If those are in place and function well, such institutional mechanisms serve to inculcate in political actors, "elite" and "mass" alike, the ability to anticipate crisis, to search for modes of reconciling conflict and to be attentive to the major risks, uncertainties and dangers involved in current political, economic and military configurations of forces. If they are *not* in place or do not function well, we observe instead the spread of pious lies, self-righteous insistence on "non-negotiable" positions as well as all the political pathologies that come with the short-sighted and irresponsible pursuit of both interests and passions and the outright refusal to take notice of harsh and complex realities.

What used to be a utopian dream of Europhiles looking at the distant future has, under the impact of the financial, fiscal, economic and institutional crises, suddenly turned into an urgent move dictated by the necessities of an emergency.

Just to illustrate: Scores of academic and political observers have predicted that the introduction of the Euro into a highly heterogeneous currency area would turn out an intolerably risky adventure unless such monetary strategy were embedded into a political union with strong fiscal capacities. Yet the latter is still not in place. Similarly, the "color revolutions" that took place in the EU's eastern neighborhood in the 2000s, the signals sent to the region by the evolving European Neighborhood Policy, the manifest economic, political, territorial and cultural divisions of Ukraine (as well as Moldova and the Caucasian republics) and the equally manifest and aggressive "grievance nationalism" (Georgia 2006) of a Russian regime relying on the archaic sacralization of territory (Crimea 2014, rather than the conventions of international law) would have called for the establishment of precautionary institutional mechanisms – the timely setting up of mutually acceptable bargaining tables, as it were.

As to the question of the "health" of democracy in Europe, an institutionally unbridged gap, the defining feature of "post-democracy," has opened between the sphere of *politics* (with its mobilizing passions and fragmented protests, its side shows for the entertainment of spectators, its moralizing and personalizing media accounts of events, but also with its legitimate demands) and the sphere of *policy* where national and European technocratic elite actors decide, within the parameters set for them by dictates of financial and other markets, on everything that involves the social and economic well-being of the citizens of the EU and its member states. The democratic bridge between those two poles, i.e., the institutions that allow for enlightened understanding and informed preference formation, organized participation and representation, the building of alliances and consistent/persistent oppositional forces, of an ongoing process of creation and contestation of policies, is largely ruined, and the more so the more deeply policies affect and often violate standards of social and economic justice.

In your new book, Europe Entrapped, *you analysed some of the most pressing issues of European integration. What do you think are the biggest problems?*

In a nutshell: The EU in general and the Eurozone in particular are alarmingly incapable of coping with the problems that integration has brought with it. At the same time, the way back, the return to a system of (putatively) autonomous and sovereign European nation states is not just a horror on normative grounds; it is, in my view, simply (and happily) not going to happen, all the rhetoric of "Grexit" and "Brexit" notwithstanding. Thus the EU finds itself suspended in a state of severely deficient policy capacity without, however, a "way forward" being charted nor political forces and alliances pushing for and defining that way having come forward. At the same time, and as the ongoing Euro and debt crisis demonstrates beyond any reasonable doubt, the current institutional condition of the EU with its severely deficient policy capacity is unsustainable. It is this configuration of (im)possibilities that my metaphorical "trap" refers to. One could even argue, in a more optimistic tone, that what used to be a utopian dream of Europhiles looking at the distant future (such as the building of some "European Republic") has, under the impact of the financial, fiscal, economic and institutional crises, suddenly turned into an urgent move dictated by the necessities of an emergency.

In the EU of 2015, the divide that dominates all others is that between the winners and the losers of the common currency that disunites the "core" and the "periphery." The core is perceived to dictate the terms under which the periphery is to be assisted, while growing political forces in the periphery see themselves as being forced to abide by rules and agreements the terms of which amount to a suicide pact. The two medicines of "austerity" and "structural reforms" that the core has administered have turned out to be poisonous. It now seems to dawn upon political elites on both sides, even those in Berlin and Brussels, that anything resembling a new equilibrium will come at the price of massive redistribution (between countries, social classes, and generations) the requisite size of which dwarfs the redistribution that has been accomplished already: that from tax payers to "systemic" banks.

It would help if we had a clearly articulated European party system (together with supranational election laws) capable of processing the distributional conflict, but that system is unlikely to make much progress in the shadow of exactly that conflict. Meanwhile, rightist populism is emerging in all of the core countries; it has established itself as an effective electoral veto power blocking overly "Europhile" concessions of national governments. Also, all sides agree that any escape from the trap presupposes a resurgence of economic growth. But in the absence of the demand that could stimulate *private* sector investment (and in the pres-

Bank of England Warns of Huge Financial Risk from Fossil Fuel Investments

By Damian Carrington, theguardian.com, March 3, 2015

Global action on climate change could cause insurers' investments in fossil fuels to take a huge hit, says bank's prudential regulation authority

Insurance companies could suffer a "huge hit" if their investments in fossil fuel companies are rendered worthless by action on climate change, the Bank of England warned on Tuesday.

"One live risk right now is of insurers investing in assets that could be left 'stranded' by policy changes which limit the use of fossil fuels," said Paul Fisher, deputy head of the bank's prudential regulation authority (PRA) that supervises banks and insurers and is tasked with avoiding systemic risks to the economy.

"As the world increasingly limits carbon emissions, and moves to alternative energy sources, investments in fossil fuels – a growing financial market in recent decades – may take a huge hit," Fisher told an insurance conference. He said there "are already a few specific examples of this having happened," but did not name them, and added that it was clear his concerns had yet to "permeate" the sector.

The new warning from one of the world's key central banks follows a caution from its head Mark Carney that the "vast majority of [fossil fuel] reserves are unburnable" if climate change is to be limited to 2C, as pledged by the world's governments. The bank will deliver a report to government on the financial risk posed by a "carbon bubble" later in 2015.

"It is encouraging to see this major central bank seeing the need to move with the times and understand its role in dealing with one of the major challenges facing our economies today: climate change," said James Leaton, research director at the Carbon Tracker Initiative. "We hope to see other financial regulators around the world responding in a similar fashion and collaborating on this issue."

A series of analyses have shown that most existing reserves of fossil fuels cannot be burned without blowing the safe budget for carbon emissions. A study in January indicated that 80% of coal reserves, half of gas and a third of oil would have to stay in the ground. But companies spent \$670bn (£436bn) in 2013 alone searching for more fossil fuels, investments that could be worthless if action on global warming slashes allowed emissions.

Other senior financial figures have also warned of the risks to fossil fuel investments. Former US Treasury secretary Hank Paulson said in 2014: "When the credit bubble burst in 2008, the damage was devastating. We're making the same mistake today with climate change. We're staring down a climate bubble that poses enormous risks to both our environment and economy."

World Bank president Jim Yong Kim said: "Sooner rather than later, financial regulators must address the systemic risk associated with carbon-intensive activities in their economies."

Fisher told the Economist conference on Tuesday: "Climate change impacts insurers on both sides of their balance sheets. Insurers may be impacted by increased claims. But it appears that the asset side may also give rise to unexpected risks." He said the insurance industry was already taking steps to stay ahead of the climate curve on the liability side, but were not doing so in their role as long term investors."

Fisher said the bank's approach to addressing systemic economic risks could be changed by its analysis of the carbon bubble. A recent discussion paper from the bank stated: "Fundamental changes in the environment could affect economic and financial stability and the safety and soundness of financial firms, with clear potential implications for central banks."

"Environmental risks, including climate change and climate policy, have already impacted a range of sectors and if anything this will grow in significance," said Ben Caldecott, director of the stranded assets programme at the University of Oxford. "Assets from power stations to mortgages have exposure and the challenge is to figure out how much exposure, when this could be a problem, and to identify the best ways to manage such risks."

❧ ❧ ❧

Our Comment. Boomerang! *Élan*

ence of fiscal constraints and "debt brakes" that hinder *public* sector investment in spite of the ECB adopting extreme versions of monetary policy), the actual performance of investment and labor markets lends growing credibility to the "secular stagnation" hypothesis: major growth rates of GDP per capita are to be observed in other places than Europe or, for that matter, the OECD world as a whole.

It used to be the case that European integration profited from its crises: Whenever developments lead into a dead end, an institutional breakthrough was adopted by European elites which opened up new policy choices. That logic may have become a thing of the past.

Looking forward, what do you think should change in European politics? Can there be such change and what would it take to bring it about?

I guess you are not asking me for my personal wish list but for promising possibilities inherent in the current situation. I am afraid there are not many, given the weakness of political agency at the EU and Eurozone levels. The notion that the monetary union must be complemented by a political one is widely paid lip service to. But the adoption of new Treaties in which such political union would be enshrined is known to be a time consuming affair, highly uncertain as to its outcome.

The core element of a "political" union would be an entity that is endowed with the power to tax, spend and (re)distribute. In order for such a power to come into being, it would have to be democratically accountable, because of "no taxation without representation." There are countless design proposals concerning what a democratized EU might look like in institutional terms. One family of such proposals is focused on the European Parliament which is to be upgraded to a "normal" legislative body, complete with rights of legislative initiative and control over an elected "government." But before that can come into being, the thorny question of "degressive proportionality" must be resolved – the issue of how much deviation from the "one person one vote" is consensually thought to be permissible and practicable. And so on.

It used to be the case that European integration profited from its crises: Whenever developments lead into a dead end, an institutional breakthrough was adopted by European elites which opened up new policy choices.

That logic may have become a thing of the past. Instead, we may face a situation where breakthroughs and innovations are triggered not by an orderly process of negotiated solutions, but by institutionally unscripted forms of politicization, mobilization and confrontation necessitating game-changing responses.

These responses are likely to be disorderly, improvised, unilateral, last minute surprise moves with demarcation lines of *competences* being blurred, contested and challenged. At any rate, it seems far too early to write off European integration as being an unequivocal machinery of neo-liberal market integration. Instead, it remains an ambivalent process the possibilities of which are not yet exhausted.

Our Comment

One size does *not* fit all. The European crisis demonstrates our urgent need to move to a higher level of thinking – one that values and respects diversity for one thing – one that would wake us up to the need to rethink the "New World Order." Only then can we escape from the one-size, neoliberal body bag into which nation states are being

Continued on page 13

Overhaul Our Tax System, Report Says

By Staff, The Canadian Press, metronews.ca, November 27, 2014

C.D. Howe Institute. A revamp of Canada's system would create fairness, argues paper's author

Ottawa – A new research paper for the C.D. Howe Institute says Canada can help combat rising income inequality by taxing people separately for their paycheque and investment income.

The paper's author says applying a flat rate on investment income would create fairness by closing legal, taxation-avoiding tactics – mostly used by higher-income earners.

Kevin Milligan of the University of British Columbia also recommends adding a tax bracket for annual incomes of $250,000, and perhaps another one at $400,000.

Milligan says the changes could open the door to other reforms on consumption taxes, environmental taxes and corporate taxes – which could help promote economic growth.

He says Canada's income-inequality gap has widened considerably over the past 30 years, even though it hasn't kept pace with the divide in the United States.

"We need to look seriously at a number of tax reforms that would improve the efficiency of our economy and provide a better environment for investment to provide the jobs for the future." Kevin Milligan, a fellow in-residence for the C.D. Howe think-tank, in an interview.

Rich Get Richer: 150%

Still, he says over that period Canadians in the top 0.01 percent of earners have seen their incomes rise by 150 percent, while those in the bottom 90 percent have only seen eight percent growth.

Canada's tax system, Milligan added, was developed in the 1960s and no longer fits today's economic reality.

"What's interesting is our tax system hasn't responded at all to that very large change in the distribution of income," Milligan, also a fellow-in-residence for the C.D. Howe think-tank, said in an interview.

"We need to look seriously at a number of tax reforms that would improve the efficiency of our economy and provide a better environment for investment to provide the jobs for the future." The Canadian Press

Our Comment

This news item really makes you think!

If a *flat* tax rate on investment income would close "*legal* taxation-avoiding tactics" – wouldn't a *progressive* tax rate do the same? And wouldn't that be more *fair*? By the way, why have we *ever* tolerated "*legal* taxation-avoiding tactics" in the first place?

It's gratifying that the C.D. Howe is concerned about the growing inequality in Canada. However, the emphasis on "[improving] the efficiency of our economy and [providing] a better environment for investment to provide the jobs for the future" is a rather worn neoliberal theme.

Nor does the tax system alone account for inequality. We need to examine other policies implemented over the last three decades, to understand the problem.

The C.D. Howe research paper might be a good stimulant to fruitful national and parliamentary debate on these and other pertinent matters, between now and the next federal election.

Élan

In Europe, Bond Yields and Interest Rates Go Through the Looking Glass

By Danny Hakim and Peter Eavis, The New York Times, February 27, 2015

Hvidovre, Denmark – At first, Eva Christiansen barely noticed the number. Her bank called to say that Ms. Christiansen, a 36-year-old entrepreneur here, had been approved for a small-business loan. She whooped. She danced. A friend took pictures.

"I think I was so happy I got the loan, I didn't hear everything he said," she recalled.

And then she was told again about her interest rate. It was – 0.0172 percent – less than zero. While there would be fees to pay, the bank would also pay interest to her. It was just a little over $1 a month, but still.

These are strange times for European borrowers, as if a wormhole has opened up to a parallel universe where the usual rules of financial gravity are suspended. Investors lent Germany nearly $4 billion this week, knowing they would not be fully repaid. Bonds issued by the Swiss candy maker Nestlé recently traded in the market for more than they will ever be worth.

Such topsy-turvy deals reflect the dark outlook for the region's economy, as policy makers do whatever they can to revive growth, even taking interest rates below zero to encourage borrowing (and spending). In this environment, the simplest of banking tasks have become a curiosity.

Consumer loans and mortgages with interest rates that are outright negative remain rare, and Ms. Christiansen appears to be one of the few who actually received one while banks mull how to proceed. Some other Danes are getting charged to park their money in their bank accounts.

Such financial episodes are taking place all across Europe.

To breathe life into Europe's economy and stoke inflation, policy makers recently resorted to a drastic measure tried by some other central banks. The European Central Bank, which dictates policy in the 19-member eurozone, announced a plan that involves printing money to buy hundreds of billions of euros of government bonds.

Just the anticipation of the program prompted bond prices to soar and the euro to drop in value. Other countries that do not use the euro were then forced to take defensive countermeasures to keep a lid on the value of their currencies, encourage lending and bolster growth.

Switzerland, for instance, jettisoned its currency's peg to the euro, shocking markets, and cut interest rates further below zero. Denmark's central bank has reduced rates four times in a month, to minus 0.75 percent. Sweden followed suit earlier this month.

Bond Market in Negative Territory

The most profound changes are taking place in Europe's bond market, which has been turned into something of a charity, at least for certain borrowers. The latest example came on Wednesday, when Germany issued a five-year bond worth nearly $4 billion, with a negative interest rate. Investors were essentially agreeing to be paid back slightly less money than they lent.

Bonds issued by Switzerland, the Netherlands, France, Belgium, Finland and even fiscally challenged Italy also have negative yields. Right now, roughly $1.75 trillion in bonds issued by countries in the eurozone are trading with negative yields, which is equivalent to more than a quarter of the total government bonds, according to an analysis by ABN Amro.

One reason investors are willing to tolerate such yields is the relative safety of the bonds, in a weak economy. Traders are also betting that the prices of the bonds will keep going up.

Even some corporate bonds, which are generally deemed less creditworthy than government bonds, are falling into the negative territory, including some issued by Nestlé and Novartis, a Swiss pharmaceutical company. While they did not initially have negative yields, investors bid up their prices after they were issued.

"This is obviously a once-in-a-lifetime and once-in-history phenomenon," said Heather L. Loomis, a managing director at JPMorgan Private Bank, who specializes in bonds, "and it is hard to make sense of it."

It can be especially hard for people who are not bankers. Ms. Christiansen, a sex therapist, took out a loan to finance a website called LoveShack that is part matchmaking site, part social network.

For her, the full novelty of her loan didn't sink in until a spokeswoman for the bank called her back.

"She said, 'Hi, Eva, they have contacted us from TV 2' – it's a big station in Denmark, one of the biggest – 'and they would like to talk to you because of this loan,'" Ms. Christiansen said. "Then I was really like, 'O.K., this is big.'"

She said she was generally aware of what the Danish central bank was doing, but fuzzy on the specifics and had not paid close attention to the issue until she realized she might be asked about it in front of a camera.

"When I was contacted by the television, I was like, 'OK, I need to know something,'" she said, laughing, during an interview at her office, where two distant windmills were visible outside the windows.

"So I actually called my bank adviser and said, 'Can we please have a meeting?' Because all these financial terms, I'm not used to them," she said. "If I talk about something, I'd like to know something about it."

Some other Danes are facing a related, if somewhat opposite, issue.

Last month, Ida Mottelson, a 27-year-old student, received an email from her bank telling her that it would start charging her one-half of 1 percent to hold her money.

"At first I thought I had misunderstood this, but I hadn't," she said.

Ms. Mottelson is studying for a master's degree in health sciences, and lives in Odense, a city about 100 miles west of Copenhagen. She said she had been following the news about the central bank, but called her own bank just to make sure she was reading the email correctly.

"I asked him super-naïvely, 'Can you explain this to me?' And he tried, but I got the feeling he was like, come on, just move the money and you'll be fine."

She does plan to move her money to another bank. And there are signs that such practices are spreading to the United States. This week, JPMorgan Chase said it would start charging some institutional clients to hold their money, because of a combination of new regulations and low interest rates.

Economists are now pondering some of the odd things that might occur if interest rates stay negative for a long time.

Companies and individuals may start to hoard cash outside of ordinary banks if the banks start to effectively charge substantial sums to hold deposits. Large savers, for instance, may choose to put their money in special institutions that do little more than warehouse their cash.

"There is some negative interest rate at which it would become profitable to stockpile cash," said James McAndrews, an economist at the Federal Reserve Bank of New York. He said that economists had speculated that such cash hoarding might begin once interest rates were around minus 0.5 percent.

For most people not poring over the financial pages, it can all seem a bit strange.

"I'm not an expert," Ms. Mottelson said, "but to me it sounds so weird that you have to pay to have your account at a bank."

Our Comment

"I believe our banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation and then by deflation, the banks and the corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the continent their fathers conquered." – Thomas Jefferson, 1802, in a letter to then Secretary of the Treasury, Albert Gallatin

And, sure enough, our banks and corporations have confiscated most of the world's wealth, and have come to dominate political and economic policy.

In an interview, first aired on Pacifica, September 14, 2011, Michael Hudson discussed the politics of debt deflation in Europe.

He identified Europe's financial crisis as "a stage in a class war," and cited as its "weapon of mass financial destruction," the financial sector's threat "to wreck the economy if politicians [didn't] surrender and strip the economy bare to pay the creditors.

He explained that commercial banks have fueled an enormous asset-price inflation in recent years. The debt they have created imposes an interest burden that deflates the economy.

"At issue," he says, "is whether governments, and the EU should put the interests of the banks and wealthy investors first, or the economy at large."

He points out that "what is really at stake is bailing out the rich, not the poor – saving the financial markets that have profited from government deficits and now want to avoid taking a loss on the unworkable plan their short-term self-interest has created."

"If the government is going to bail out banks," he asks, "then why shouldn't banks be public in the first place?"

The reason the EU can't solve its debt problem is that neither its member nations nor its central bank can create money as needed. The European Central Bank "exists to help private banks, not governments or the economy as a whole. The economy exists to provide a surplus to the financial sector. So the basic question concerns just who is to make European financial and fiscal policy. Is it the constitution? Governments?"

The Canadian government does not have the EU governments' excuse for its debt. The Canadian Constitution gives Ottawa exclusive power over money, banking, and paper currency.

As Graham Towers confirmed, "what is physically possible and desirable, can be made financially possible."

Will we let our federal government wrest from us that power (which, since 1974, it has denied us) for the foreseeable future – through some trade deal made behind our backs?

Let's make use of the Bank of Canada a real issue in the next federal election!

Élan

Denmark, Deutschland and Deflation: Strange Times for EU

By Andrew Walker, BBC World Service Economics Correspondent, January 29, 2015

There have been two important, connected economic developments in Europe.

New official figures from Germany show that prices have fallen, by 0.5%, over the previous 12 months.

Meanwhile the Danish Central Bank has cut one of its main interest rates for the second time in a week.

It is a rate paid to commercial banks for excess funds parked at the central bank. It was already below zero. Now it is even lower – minus 0.5%.

It means banks have to pay to leave money at the central bank, above certain specified limits.

Negative interest rates are another example of the strange financial world that has emerged in the aftermath of the financial crisis.

What is the connection between falling prices – or deflation – in Germany and the Danish central bank? It is about Denmark's 35-year policy of tying its currency, the krone, to the euro, and before that to the German mark.

That peg has come under increasing strain as the European Central Bank, the ECB, has taken steps to combat deflation.

Falling prices arrived for the eurozone as a whole last month. Germany was an exception to the pattern, but provisional figures for January show that is no longer the case. Deflation in Germany suggests the eurozone will experience faster falls in prices in the months ahead.

There is a debate to be had about whether deflation really is a problem and if so how serious, but the ECB clearly thinks it is.

The steps it has taken to address low inflation, and then deflation, have made it harder for financial market investors to make money in the eurozone.

The ECB cut interest rates and last week launched its quantitative easing programme, which also tends to reduce returns on financial assets.

So investors piled into other currencies, including the krone, pushing it higher, though not so high that it has gone above the top of the central bank's target band.

The Danish central bank's rate cuts are intended to offset that pressure.

Does it sound familiar? The Swiss central bank recently gave up its attempt to cap the value of the franc and allowed it to rise. It would be a bigger loss of credibility for Denmark to do the same, because the peg to the euro has been the central element of its economic policy for so long.

In addition, Denmark is a smaller financial system and it is not an established magnet for internationally mobile money in the way that Switzerland is.

Those are reasons why the Danish currency peg may survive. But the attempt to preserve it has already taken the Danish National Bank into some unusual territory.■

Book Review: "Party of One" by Michael Harris

By John Riddell

Quote On – Quote

In *Party of One* author Michael Harris covers the Harper administration so far, from 2006 (minority government) through 2011 (majority government) and on to 2014. This review is a bit different. It offers a series of quotations in two parts. Harris Quotes; and Quotes by others. All quotes are taken from *Party of One.*

Harris Quotations:

Harris: "Until that moment [Harper's win in 2006], Canada had been a secular and progressive nation that believed in transfer payments to better distribute the country's wealth, the Westminster model of governance, a national Medicare program, a peacekeeping role for the armed forces, an arm's-length public service, the separation of church and state, and solid support for the United Nations. Stephen Harper believe[s] in none of these things."

The **"in-and-out"** affair: "The Conservative Party agreed to plead guilty to exceeding spending limits in the 2006 election, to pay the maximum fine of $52,000 and repay a further $230,198."

The **robocalls** scheme (2011 election): Conservative Michael Sona "was charged with having willfully prevented an elector from voting…."

Harper's background: "…While a student at the University of Calgary, Harper became a devotee of the 'Calgary School' of economics…. For Harper, only one measure of being 'better off' mattered, and that was economic. To him, that meant corporate balance sheets and the GDP, not the day-to-day situation of average people. There was no concept of social security, no passion for equalization of the country's unevenly divided treasure, and no doubt that anything governments could do, private enterprise could do better – including delivering health care. It was a philosophical tunnel vision Harper would never lose."

On the **F-35:** "Looked at over the six years the project was in the Harper government's hands, the F-35 is a story of hoodwinking the public, misleading Parliament, and risking billions of dollars–all that without the federal government's having the foggiest idea of what Canadians were getting for their money."

Science: "Both *The New York Times* and the prestigious British science journal *Nature* slammed Canada's government. The *Times* called Harper's suppression of federal scientists 'an attempt to guarantee ignorance.'"

"In the words of former diplomat Daryl Copeland, the Harper government's botching of the environment file has made Canada the 'idiot boy' of the **climate change** crisis."

First Nations Peoples: "…What this centuries-old injustice requires is a visionary and a peacemaker, not a federal government that perpetually tries to strong-arm opponents into submission."

"What troubled [Robert Marleau, clerk of the House of Commons for thirteen years] most about the suppression of information under Stephen Harper comes down to four simple words: 'Government spending goes unverified' – a stiletto through the heart of Canada's parliamentary **democracy.** The Harper government creates new programs but suppresses their costs. It makes substantial cuts at the departmental level, but the details of what services are affected are kept secret. It proclaims policy without white papers or a word of debate. The late finance minister Jim Flaherty would bring in a budget but wouldn't table the Planning and Priorities report to show how the funds would be allocated. Not even Canada's parliamentary budget officer can penetrate the darkness."

Militarism: "Stephen Harper had always been quick to turn to the military option with less than a perfect understanding of the issues." [As I write this review (March 2015), Harper has just expanded the current Canadian forces mission of combat with the Islamic State of Iraq and Syria (ISIS) into Syria; and has extended the mission for one year. This action is in violation of international law, is not endorsed by the UN; is not supported by NATO; *and sets a dangerous precedent.*"]

"**The war in Afghanistan** drew Canada's biggest military deployment since the Korean War. Forty thousand Canadians served during the 12 year mission…. The 'all-in costs' up to 2014, when the Canadian troops came home, have been estimated at $28 billion, a number that can't be verified, because of the lack of transparency of the DND…. The Harper government secrecy about everything to do with the Afghanistan mission [is] staggering."

Quotations by Others

Bruce Moncur, a *veteran* wounded in Afghanistan, blogged that it was easier fighting the Taliban than being a wounded veteran fighting for benefits back home: "It's like we've become an inconvenience. If veterans aren't safe from budget cuts, I guarantee you, no one else is. Every Canadian needs to take note of this."

Paul Heinbecker, former ambassador to the UN: "The neo-conservative idea of *foreign policy* is about flexing military muscle. It's about free-trade deals. It is a reversal of our history. We used to be advocates of constructive internationalism, we used to work hard to make that work. That's why our advice and our particular insight were so sought after by other countries. Now we are a country with baggage. Those invitations to counsel others and to take part in that international meeting of the minds don't get issued."

Sheila Fraser, former auditor general: "*Parliament* has become so undermined it is almost unable to do the job that people expect of it…. A glaring example is the [omnibus] budget bill, where there is no thoughtful debate or scrutiny of the legisla-

THANK YOU FOR YOUR SUPPORT!

tion. And the legislation was massive, little of it to do with the budget."

Robert Marleau: "Canadians are *sleep-walking* through dramatic, social, economic, and political changes surreptitiously being implemented by a government abusing omnibus bills and stifling public and parliamentary debate….We operate under Westminster rules – an honourable understanding that you will play within the rules and by the rules. Mr. Harper has not played within the rules. Having attained absolute power, he has absolutely abused that power to the maximum."

Harris ends *Party of One* with a walk and a talk with Farley Mowatt. Harris quotes Farley as follows:

• "…Stephen Harper is probably the most dangerous human being ever elevated to power in Canada…. This son of a bitch incited Canada into becoming a warrior nation."

• "Harper has smothered MPs and is destroying Parliament. Elizabeth May is our one ray of hope…."

• "About the country and our future…. It is like an aura that seems to have gone wrong. I have the sound of old cannon fired in 1812 in my ears. It is the sound of war again. War is coming back. There is an inevitable sense about it. I'm pretty pessimistic."

Me: Harris also covers the "under the bus" crowd: they are many, including former cabinet minister Helena Guergis; Linda Keen, former president of the Canadian Nuclear Safety Commission (CNSC); Kevin Page, former parliamentary budget officer; not to mention Harper's former chief of staff, Nigel Wright…. The forgoing quotations would suggest that the Duffy-gate/Senate scandal may be the *least* of our worries…."

"Oh no," we say, "that couldn't happen here. This is Canada!"

Me: I've heard that before and, likely, so have you. Is our democracy being eroded, turned into an antidemocratic, autocratic form of government – or worse? Do we really want another four years of Stephen Harper? Canadians need to get a grip. I've given you only a taste of "Party of One" through these quotations. If you love this country, read this book. Then look to see how you can best participate in the 2015 federal election.■

Emergency *from page 9*

zipped, through debt and "free trade."

Michael Hudson's, *Finance Capitalism and its Discontents,* includes the edited transcript of a phone interview for *Athens News,* September, 2012.

It's to be hoped that the following excerpts from that will drive the reader to rush right out and get a copy of this wonderfully clear and comprehensive overview of "how finance capitalism is pushing the world, starting with Europe, into austerity and neo-feudalism."

• The problem is that neither Greece nor other Eurozone countries have a central bank to monetize their budget deficits. So they need to borrow from bankers and bondholders, at interest rates that rise as the dysfunctional system grows more untenable.

• …Families and companies can not pay their debts when government imposes such extreme austerity. Bank loans go bad and the government's tax revenue declines, widening the deficit. This is well illustrated decade after decade, case after case for the International Monetary Fund's austerity programs imposed on Latin America in the 1970s and '80s.

• Unfortunately, the history of economic thought no longer is taught as part of the neoliberalized economics curriculum, at least here in the United States. So people are not aware of either of how destructive financialized management and planning ever since the fall of Rome, or of the alternative developed by Enlightenment, classical political economics and Progressive Era reforms.

• Greece joined Europe because it wanted to increase its prosperity, not let the financial sector end up with all the benefits. To promote fair growth whose benefits are widely distributed, it needs a real central bank – and taxation of unearned income, windfall gains and "unexplained enrichment," that is, all forms of economic rent. Either this is created within the Eurozone, or else Greece or the European periphery should start afresh with the kind of Clean State that fueled Germany's Economic Miracle. Europe needs a debt cancellation to bring debts back within the ability to pay.

• The financial sector cannot and should not continue as it is. The existing debt claims ("savings") held by the 1% on the 99% should be wiped out along with the debt overhead.

• Q: How can Greece counter the terror propaganda warning about the horrors and calamities that threatens to befall the nation if it defies its troika conquerors and tries to go it alone? A: The real terror is what would happen if Greece surrenders to these financial aggressors. Throughout most of history, populations and governments have fought back against creditors. Either they win and resume their economic growth, or the creditors will win and impose austerity, turning economics toxic and driving many citizens to emigrate.

• But the reality in this financial war is that Greece can do whatever it wants with *which* debts get paid or *which* will be written down or written off altogether. Greece has a wide array of options. It can re-denominate debts in its own currency and than devalue. Or it can simply repudiate the debt as being unpayably high.

• Greece wouldn't need to act alone in defending its economy. Its diplomats can pursue agreements with other countries that are in the same sinking debt boat. They may reject the Eurozone model of austerity and debt deflation.

• At issue is how society will resolve the buildup of debts that can't be paid. If governments let the financial sector foreclose, they will end up being forced to privatize the public domain under duress conditions at distress prices. They also will have to dismantle public administration and welfare services.

• The alternative is write down debts to what can be paid, within the framework of a mixed public/private economy whose tax policies and monetary system aim to distribute wealth and income more equitably. The history of how societies have dealt politically with their debt overhead throughout history needs to be highlighted in the public consciousness and placed at the heart of the academic curriculum and media discussion.

Michael Hudson: Distinguished Professor of Economics at the University of Missouri (Kansas City), and President of the Institute For The Study of Long-term Economic Trends (ISLET).

The EU example is "writing on the wall" that we need to read and really *think* about, before our own body bag – already zipped to the chin – is snapped shut and locked!

International cooperation? Fair trade? *Of course!*

But one-world fascist, feudal rule???

Time to sort out the difference!!!

Élan

How Harper Killed Medicare — and Got Away With It

By Linda McQuaig, www.ipolitics.ca, January 7, 2015

The Harper government's anti-democratic actions have been so numerous, it's easy to lose track of them.

I almost forgot, for instance, about the way it clamped down on that little bird-watching group in southwestern Ontario, putting its charitable status under surveillance after the group raised concerns about government-approved chemicals damaging bee colonies.

Harper's behaviour – his attack on the Chief Justice of the Supreme Court, his muzzling of government scientists and disdain for scientific evidence, his proroguing of Parliament to save his own skin, his use of omnibus bills to avoid Parliamentary scrutiny – has been so at odds with democracy and the democratic process that he's even alienated many of his natural allies in Canada's elites.

Hence, he's come under fairly harsh attack from nothing less than the editorial board of the Globe and Mail, which could be said to be a mouthpiece (often an intelligent one) for Canada's establishment.

Indeed, the prime minister's apparent contempt for the democratic process has been so outrageous it's sucked all the political oxygen out of the room.

In our distraction, we've barely noticed something else important going on. In addition to sabotaging our democracy, Harper has been restructuring our country in a fundamental way – something that will be hard to reverse and, incidentally, very pleasing to Canada's elite.

Which explains why the Globe editorial board and many prominent commentators berate Harper for his democratic shortcomings – but conclude that, overall, his record is pretty good.

The essence of the Harper makeover of Canada has been the deep slashing of taxes, putting serious constraints on what government is able to provide in public programs and services.

Previous Liberal governments had started down this path already, but Harper has taken the aversion to taxes to new heights, turning it into something like a cult. "I don't believe any taxes are good taxes," he said – which is an odd comment for a prime minister to make, given that taxes are the necessary building blocks for *any* national project.

Under Harper, taxes as a percentage of the economy are at their lowest level in 70 years. But 70 years ago, governments weren't providing the extensive public benefits and services – in areas like health care, education, pensions, public transit – that we want and expect today.

As a result of Harper's cuts to the GST, personal and corporate taxes, Ottawa now collects about $45 billion less revenue per year. No wonder we're told we can't afford anything but austerity.

So Harper has accomplished his deeper agenda: to destroy our sense that we can do things collectively as a nation…besides fight wars, patrol the Arctic, punish criminals and watch hockey.

Take public health care, typically at the top of the list of public programs that Canadians deeply value. All seems pretty quiet on the health care front, currently presided over by Rona Ambrose, who previously held other portfolios of little interest to the Harper Conservatives, like the environment, labour and women.

We don't see much in the way of fireworks over health care these days – no big blow-outs with the premiers, no loud accusations that Stockwell Day and his Canadian Alliance would bring in two-tier medicine.

So things must be OK now, right? Well, no.

True, there are no theatrics over Medicare these days. But that's because Stephen Harper is craftier than Stockwell Day. In reality, two-tier medicine is a virtual certainty if the Conservatives are re-elected.

Harper has quietly put in place the mechanism for deep cuts to federal support for public health care. There was, of course, no proclamation pointing that out. His government simply announced, just before Christmas in 2011, that there would be no negotiations to renew the expiring health accord with the provinces.

Instead, it unilaterally imposed a new formula – which will cut federal support for health care by an estimated $36 billion over the next decade, leaving the cash-strapped provinces scrambling to cover costs, with private, profit-seeking health entrepreneurs buzzing at their doorsteps.

Yet the media treated this hugely significant change as a dull story about federal-provincial spending formulas, and largely buried it in the rush of year-end media trivia. It has received little attention since.

As a result, few Canadians seem to realize that, as things stand, our Medicare system – an institution cherished by millions – faces serious spending cuts starting in 2017.

At that point, we'll be told we can no longer *afford* a public health care system. What we won't be told is that the revenue to pay for a public health care system has been spent already – in tax cuts.

Harper appears to have figured out how to discreetly undermine and eventually end Medicare. This shouldn't surprise us, since he once headed up the National Citizens Coalition – an organization established in the 1960s with the goal of killing Medicare.

Harper's anti-democratic tendencies are only part of the story about him. Beneath his autocratic tendencies beats a heart bent on stripping the national cupboard bare and forcing Canadians to fend for themselves in the harsh world of the private marketplace.

Winner of a National Newspaper Award, Linda McQuaig has been a reporter for The Globe and Mail*, a columnist for the* National Post *and the* Toronto Star. *She was the New Democrat candidate in Toronto Centre in 2013. she is the author of seven controversial best-sellers, including Shooting the Hippo: Death by Deficit and other Canadian Myths and It's the Crude, Dude: War, Big Oil and the Fight for the Planet. Her most recent book (co-written by Neil Brooks) is The Trouble with Billionaires: How the Super-Rich Hijacked the World, and How We Can Take it Back.*

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Our Comment. "$45 billion a year," you say? Aren't we lucky not to have to give up benefits like Medicare "cold turkey"? At that rate of loss, surely we can – with careful planning – save up for the odd hip replacement. Best learn something about the cost of health care when you have to go it alone! Forewarned is forearmed. *Élan*

About Our Commenter

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.

In Greece, a New Government Pushes Back Against Austerity

By Bruce Campbell, CCPA Volume 21 No. 9, March 2015

On January 26, a political earthquake brought the left-wing Syriza party to power in Greece with a sweeping mandate to end the six-year nightmare of economic austerity imposed by the European establishment.

Since the 2008 global financial crisis, the so-called German-backed troika – the European Central Bank, the European Commission and International Monetary Fund – forced Greece into accepting $275 billion in bailout loans conditional on harsh restructuring measures.

Under troika-mandated austerity, the Greek government has been forced to cut its budget by 38 percent – gutting public services, laying off thousands of employees, slashing retiree pensions by 40 percent.

The results amounted to a modern-day Greek tragedy.

The Greek economy (GDP) shrank by one quarter.

Unemployment rose to 28 percent and almost 60 percent for youth.

Average wages fell by 40 percent.

Canada has never experienced anything remotely comparable, not even in the depths of the Great Depression.

Framed as a blueprint for recovery – short-term pain for long term gain – the troika plan was nothing of the sort: austerity has driven up Greece's debt burden from 125 to 175 percent of GDP.

Restructuring of the Greek debt was never in the cards. Leaked minutes from a May 2010 IMF board meeting revealed the true purpose of the loans: "[They] may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bailout of Greece's private debt holders, mainly European financial institutions."

Greece was effectively insolvent but not allowed to declare bankruptcy for fear (in Berlin, Brussels and the banks) that it would set off a chain reaction in southern Europe.

Irresponsible lenders are the other side of the coin of irresponsible borrowers. However, the troika insisted on bailing out failed banks with no conditions and no questions asked.

To justify their actions, policy-makers and much of the news media propagated a narrative of debtor country profligacy. A speedy return to growth could only happen if these sluggish economies took some strong medicine, to boost confidence among private investors and financial markets.

Proponents of this approach included Stephen Harper who, in a visit to Athens in the spring of 2011, endorsed the socialist government's austerity plan, expressing confidence that it would soon produce a return to growth.

The Angela Merkel-led German government (supported by a large majority of the population according polls) is the power behind this extreme austerity program. Such ideological intransigence and astonishing callousness in the face an ongoing humanitarian crisis is a sad case of a country forgetting its own history.

Harsh debt repayment conditions imposed on Germany after the First World War planted the seeds of Nazism, and ultimately led the continent straight back into war. More positively, in 1953 a large portion German debt was written off, with repayments tied to the country's growth performance.

With the democratic victory of Syriza, the eyes of the world have been drawn to the new Greek Finance Minister, Yanis Varoufakis, who is charged with negotiating a new deal.

Several years ago I invited Varoufakis, a well-respected economist and academic, to speak at an event questioning the premise of austerity in Canada. He gave a commanding performance, shredding any argument for austerity and suggesting Canadians take note.

Now in power, Varoufakis has vowed to put an end to "fiscal water boarding" that has inflicted unimaginable pain and suffering on Greek society. He has said that Greece's debt repayment needs to be tied to its ability to restore growth.

Varoufakis has been in high-profile negotiations with the International Monetary Fund to swap its sovereign debt for growth-linked bonds and will likely do the same with the European Central Bank and European creditor governments.

The Syriza government has pledged to end corruption, reform the bureaucracy, end the tax immunity for wealthy Greeks, and halt the fire-sale privatization of public assets. In its first week, the government scrapped the privatization of Greece's main ports and the state electricity company.

Its program includes measures to alleviate poverty: food stamps, reconnecting electricity to homes that had been cut off, rehiring of public sector workers, tax cuts for all but the rich, a big increase the minimum wage and pensions, and a moratorium on private debt payments to banks above 20 percent of disposable income.

Implicit support for an end to austerity has come from ex-pat Canadian Mark Carney, now governor of the Bank of England, who argued in a recent speech for an end to hardline Eurozone budgetary policies.

What are the lessons from Syriza's democratic success to date?

First, it has dealt a blow to the neoliberal austerity obsession that prevails among European policy elites.

Second, it demonstrates that a new progressive political force can emerge from outside the established political order – one that rejects the conventional rules of the game, with a bold anti-austerity plan connected to the aspirations of the Greek people.

Third, it raises hope for a realistic, humanistic path out of the mess that Europe finds itself in – a path that would allow the debtor countries of southern Europe to escape their austerity trap and begin a sustainable recovery.

The alternative is that, in the face of continued misery, populations will turn increasingly to right-wing nationalist, racist parties – from the National Front in France to Golden Dawn in Greece – bent on the dismantling of Europe.

Finally, it is a warning to established social democratic parties in Europe and beyond that have been apologists for, and at times enforcers of austerity, that they could quickly be rendered irrelevant. Witness the Greek socialist party Pasok, reduced from 44 percent in 2010 to now less than five percent of the popular vote.

This is a fast moving story. The challenges for the new government are enormous. The forces against which it is aligned are formidable. But history is being rewritten in real-time, and Greece's new finance minister is the chief author.

Bruce Campbell is executive director of the Canadian Centre for Policy Alternatives.

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Our Comment. Prescribing austerity to solve the debt problem is like prescribing strict fasting to save someone dying from starvation. *Élan*

Backbench Business: Money Creation and Society

Part II appeared in the January–February 2015 issue of ER.

Source: http://bit.ly/1rqvLxQ

Mr MacNeil:

To quote Harry S. Truman, the worst thing about economists is that they always say, "On the other hand." The hon. Gentleman talks about limiting and regulating how much money is to be sucked in by the economy, but who would decide that? The difficulty is that although the economy might be overheating in a certain part of the country, such as the south-east of England, it could be very cool in others, such as the north of Scotland. What might be the geographical effects of limiting the money going into the economic bloodstream if some parts of the plant – I am extending his metaphor – need the nutrients while other parts are getting too much?

Austin Mitchell:

The hon. Gentleman often asks tricky questions, but this one is perfectly clear-cut. The credit supply for the peripheral and old industrial parts of the economy, which include Scotland, but also Grimsby, has been totally inadequate, and the banks have been totally reluctant to invest there. I once argued for helicopter money, as Simon Jenkins has proposed, whereby we stimulate the economy by putting money into helicopters and dropping it all over the country so that people will spend it. I would agree to that, provided that the helicopters hover over Grimsby, but I would have them go to Scotland as well, because it certainly deserves its share, as does the north of England. However, I do not want to get involved in a geographical dispute over where credit should be created.

The only long-term plan has been that of the Bank of England, which has kept interest rates flat to the floor for six years or so – an economy in that situation is bound to grow – and has supplemented that with quantitative easing. We have created £375 billion of money through quantitative easing. It has been stashed away in the banks, unfortunately, so it has served no great useful purpose. If that supply of money can be created for the purpose of saving the banks and building up their reserve ratios, it can be used for more important purposes – the development of investment and expansion in the economy. This is literally about printing money. Those of us with a glimmering of social credit in our economics have been told for decades, "You can't print money – it would be terrible. It would be disastrous for the economy to print money because it leads to inflation." Well, we have printed £375 billion of money, and it has not produced inflation. Inflation is falling.

Steve Baker

rose –

Austin Mitchell:

I am sorry – I am mid-diatribe and do not want to be interrupted.

It has proved possible to print money. The Americans have done it – there has been well over $1 trillion of quantitative easing in the United States. The European Central Bank is now contemplating it, as Mr Draghi casts around for desperate solutions to the stagnation that has hit the eurozone. The Japanese, surprisingly, did it only last week. If all can do it, and if it has been successful here and has not led to inflation, we should be able to use it for more useful and productive economic purposes than shoring up the banks.

If we go on creating more money through quantitative easing, we should channel it through a national investment bank into productive investment such as contracts for house building and new town generation. Through massive infrastructure work – although I would not include HS2 in that – we can stimulate the economy, stimulate growth, and achieve useful purposes that we have not been able to achieve. This is a solution to a lot of the problems that have bedevilled the Labour party. How do we get investment without the private finance initiative and the heavy burden that that imposes on health services, schools, and all kinds of activities? Why not, through quantitative easing, create contracts for housing or other infrastructure work that have a payoff point and produce assets for the state?

I mentioned the article in which Martin Wolf advocates the approach of the Monetary Policy Committee. That is how we should approach this. I welcome this debate because it has to be the beginning of a wider debate in which we open our minds to the possibilities of managing credit more effectively for the better building of the strength of the British economy.

12.44 pm

Zac Goldsmith (Richmond Park) (Con):

I want to put on record my gratitude to my hon. Friend the Member for Wycombe (Steve Baker) for having initiated this debate, and to his supporters from various parties. Having heard his speech – or most of it; I apologise for being late – I am even more satisfied that it was right to cast my vote for him to join the Treasury Committee.

My hon. Friend has introduced an incredibly important debate. As we have heard, this issue has not been debated here for well over a century. We would not be having it were it not for the fact that we are still in the midst of tumultuous times. We had the banking crash and the corresponding crash in confidence in the banking system and in the wider economy, and now, partly as a consequence, we have the problem of under-lending, particularly to small and medium-sized businesses. This subject could not be more important.

The right hon. Member for Oldham West and Royton (Mr Meacher) – I will call him my right hon. Friend because we work together on many issues – pointed out at the beginning of his speech that this issue is not well understood by members of the public. As I think he said later – if not, I will add it – it is also not well understood by Members of Parliament. I would include myself in that. I suspect that most people here would be humble enough to recognise that the banking wizardry we are discussing is such a complex issue that very few people properly understand it.

Bob Stewart:

I totally associate myself with my hon. Friend's comments about ignorance and include myself in that. It seems to me that the system is broken. The banks will not lend money because the Government have told them that they have to keep reserves. We do not like quantitative easing because that means that the banks are not lending. There is something very wrong with the system. It is not a case of "if the system isn't broke, don't fix it," but "the system is broke, and someone's got to fix it."

Zac Goldsmith:

My hon. Friend makes a valuable point

that I will come to later.

If Members of Parliament do not really understand how money is created – I believe that that is the majority position, based on discussions that I have been having – how on earth can we be confident that the reforms that we have brought in over the past few years are going to work in preventing repeated collapses of the sort that we saw before the last election? In my view, we cannot be confident of that. The problem is the impulsive position taken by ignorant Members. I do not intend to be rude; as I said, I include myself in that bracket. For too many people, the impulse has been simply to call for more regulation, as though that is going to magic away these problems. As my hon. Friend the Member for Wycombe said, there are 8,000 pages of guidance in relation to one aspect of banking that he discussed. The problem is not a lack of regulation; it is the fact that the existing regulations miss the goal in so many respects. Banking has become so complex and convoluted that we need an entirely different approach.

When we talk to people outside Parliament about banking, the majority have a fairly simple view – the bank takes deposits and then lends, and that is the way it has always been. Of course, there is an element of truth in that, but it is so far removed from where we are today that it is only a very tiny element.

Steve Baker:

My hon. Friend mentions the idea of straightforward, carry-through lending. When people talk about shadow banking, they are usually talking about asset managers who are lending and are passing funds straight through – similarly with peer-to-peer lenders. I am encouraged by the fact that when people are freely choosing to get involved with lending, they are not using the expansionary process but lending directly. Whereas the banks are seen simultaneously to fail savers and borrowers, things like peer-to-peer lending are simultaneously serving them both.

Zac Goldsmith:

That is a really important point. There is a move towards such lending, but unfortunately it is only a fringe move that we see in the credit unions, for example. It is much closer to what original banking – pure banking or traditional banking – might have looked like. We even see it in some of the new start-ups such as Metro bank; I hesitate to call it a start-up because it is appearing on every high street. Those banks have much more conservative policies than the household-name banks that we have been discussing.

Most people understand the concept of fractional reserve banking even if they do not know the term – it is the idea that banks lend more than they can back up with the reserves they hold.

Guy Opperman (Hexham) (Con):

My hon. Friend mentioned Metro, whose founder is setting up a bank – in which I should declare an interest – called Atom in the north-east. It is one of some 22 challenger banks of which Metro was the first. I missed the opening of the debate, so I have not heard everything that has been said, but I do not accept that it is all doom and gloom in banking. Does he agree that these new developments are proof that the banking system is changing and the old big banks are being replaced with the increased competition that we all need?

Zac Goldsmith:

I certainly agree with the sentiment expressed. I am excited by the challengers, but I do not believe that it is enough. Competition has to be good because it minimises risk. I know that my hon. Friend the Economic Secretary has dwelt on and looked at this issue in great detail.

Even fractional reserve banking is only the start of the story. I will not repeat in detail what we have already heard, but banks themselves create money. They do so by making advances, and with every advance they make a deposit. That is very poorly understood by people outside and inside the House. It has conferred extraordinary power on the banks. Necessarily, naturally and understandably, banks will use and have used that power in their own interests. It has also created extraordinary risk and, unfortunately, because of the size and interconnectedness of the banks, the risk is on us. That is why I am so excited by the challengers that my hon. Friend has just described. As I have said, that is happening on the fringe: it is right on the edge. It is extraordinary to imagine that at the height of the collapse the banks held just £1.25 for every £100 they had lent out. We are in a very precarious situation.

When I was much younger, I listened to a discussion, most of which I did not understand, between my father and people who were asking for his advice. He was a man with a pretty good track record on anticipating turbulence in the world economy. He was asked when the next crash would happen, and he said, “The last person you should ask is an economist or a business man. You need to ask a psychiatrist, because so much of it involves confidence.” The point was proven just a few years ago.

The banking system and the wider economy have become extraordinarily unhinged or detached from reality. I would like to elaborate on the extraordinary situation in which it is possible to imagine economic growth even as the last of the world’s great ecosystems or the last of the great forests are coming down. The economy is no longer linked to the reality of the natural world from which all goods originally derive. That is probably a debate for another time, however, so I will not dwell on it.

Mr MacNeil:

The hon. Gentleman is making a good point that we should remember. It was brought home to me by Icelandic publisher Bjorn Jonasson, who pointed out that we are not in a situation where volcanoes have blown up or there have been huge national disasters, famines or catastrophes brought on by war; as a couple of the hon. Gentleman’s colleagues have said, this is about a system failure within the rules, and it is worth keeping that in mind. Although there is much gloom in relation to the banking system, in many ways that should at the same time give us some hope.

Zac Goldsmith:

The hon. Gentleman is right, but a growing number of commentators and voices are anticipating a much larger crash than anything we have seen in the past few years. I will not add to or detract from the credence of such statements, but it is possible to imagine how such a collapse might happen, certainly in the ecological system. We are talking about the banking system, but the two systems are not entirely separate.

We had a wake-up call before the election just a few years ago. My concern is that we have not actually woken up. It seems to me that we have not introduced any significant or meaningful reforms that go to the heart of the problems we are discussing. We have been tinkering on the edges. I do not believe that Parliament has been as closely involved in the process as it should be, partly because of the ignorance that I described at the beginning of my speech.

I want to put on the record my support for the establishment of a meaningful monetary commission or some equivalent in which we can examine the pros and cons of shifting from a fractional reserve banking system to something closer to a full reserve banking system, as some hon. Members have said. We need to understand the pros and cons of such a move, how possible it is, and who wins and who loses. I do not think that many people fully know the answers.

We need to look at quantitative easing. I think that hon. Members on both sides of the House have accepted that it is not objective. Some believe that it is good and others believe that it is bad, but no one believes that it is objective. If the majority view is that quantitative easing is necessary, we need to ask this question: why not inject those funds into the real economy – into housing and energy projects of the kind that Opposition Members have spoken about – rather than using the mechanism in a way that clearly benefits only very few people within the world of financial and banking wizardry that we are discussing?

The issues need to be explored. The time has come to establish a monetary commission and for Parliament to become much more engaged. This debate is a very small step in that direction, and I am very grateful to its sponsors. I wish more Members were in the Chamber – I had intended to listen, not to speak – but, unfortunately, there have not been many speakers. This is a beginning, however, and I hope that we will have many more such debates.

Mark Durkan (Foyle) (SDLP):

I rise to endorse the very significant points made by hon. Members. In particular, I pay tribute to the hon. Member for Wycombe (Steve Baker) for securing the debate and for opening it so strongly. From hearing him speak in Public Bill Committees on banking reform and related questions, I know that he is dubious about our having almost feng shui arguments on the regulatory furniture when there are fundamental questions to be asked about the very foundations of the system. He amplified that point in his speech.

My right hon. Friend the Member for Oldham West and Royton (Mr Meacher) made the point that the whole approach to quantitative easing – several Members have questioned it at a number of levels – proves that the underlying logic of sovereign money creation is feasible and workable. It is strange that some of the people who would dispute or refute the case for sovereign money creation sometimes defend quantitative easing in its existing form and with its current features.

In many ways, quantitative easing has shown that if we are to use the facility of the state – in this situation, the state's main tool is the Bank of England – to alter or prime the money supply in a particular way, we could choose a much better way of doing so than through quantitative easing. It is meant to have increased the money supply, but where have people felt that in terms of business credit, wages or the stimulus that consumer power can provide?

When we look back at the financial crash and its aftermath, we can see evidence – not just in the UK, but in Ireland and elsewhere – showing that much of what we were told about the worth or the wealth of various sectors in the economy up until the crash has turned out to be vacuous, while the poverty lying in its trail has been vicious. The worth or the wealth was not real, but the poverty is real. People in organisations such as Positive Money in the UK or Sensible Money in Ireland are therefore saying, rightly, that politics – those of us charged with overseeing public policy as it affects the economy – need to have more of a basic look at how we treat the banking system and at the very nature of money creation.

As someone who grew up in Northern Ireland, I am very used to the idea of having different banknotes – banks issuing their own money – but we do not think much about that, because we think that all that happens in the Bank of England or under its licence. As a member of the Financial Services Public Bill Committee and the Financial Services (Banking Reform) Public Bill Committee, it seems to me that although it has been recognised that some regulatory powers should go back to the Bank of England, the arrangements for regulation and the Bank of England's role are still very cluttered.

In fact, in trying to correct the regulatory deficiencies that existed before the crash, there is a risk that we have perhaps created too many conflicting and confusing roles for the Bank of England. Given the various personages, different roles and job descriptions that attach to some of those committees, it seems to me that there is potential for clutter in the Treasury. The common denominator and reference point in the range of different committees and bodies and the things they do, is the Treasury. When the Treasury exercises its powers, influences judgments, and informs the criteria and considerations of those different committees under the Bank of England, there is not enough scrutiny or back play through Parliament.

I endorse the points made by other hon. Members about ensuring more accountability, whether through more formal reference to the Treasury Committee or some other hybrid, as suggested in an intervention on the right hon. Member for Oldham West and Royton. There should be more parliamentary insight – and definitely parliamentary oversight – on these matters. We cannot suddenly be shocked that all the confidence in various regulatory systems turned out to have been badly placed. That was our experience the last time, when people who now criticise the previous Government for not having had enough regulation were saying that there was too much regulation and calling for more deregulation.

If we in this Parliament have produced a new regulatory order, we must be prepared to face and follow through the questions that arise. It is not good enough to ensure that the issue returns to Parliament only the next time there is a crisis, when we will have to legislate again. We should do more to be on our watch. The hon. Member for Wycombe and other hon. Members who secured this debate have done us a service. We want more of a parliamentary watch window on these issues.

There is a necessary role for banks in the creation of money and quantitative easing, but we must entrust them with the right role and with the appropriate controls and disciplines. That is fundamental. It is not good or strong enough that we leave it to the whims of the banks and their lending – supposedly reinforced and stimulated by quantitative easing – to profile the performance of the economy.

If quantitative easing works on the basis of the Bank of England, through the asset purchase facility, essentially using money that it creates under quantitative easing to buy gilts from a pension fund whose bank account is with RBS – which in essence is owned by the Bank of England – then RBS's bank account with the Bank of England goes up by the value of that gilt purchase. Simultaneously, the bank account of the pension fund goes up by that amount, and we are told that the UK money supply has increased. Yes, in theory the pension fund can purchase other assets – is that what is happening? – but while 1% of the big money holders and players appear to have been advantaged through quantitative easing, where is the trickledown to the rest of the economy? It is not there.

The sovereign money creation model seems to be primed much more specifically on a view of the total economy and providing a broad, stable and more balanced approach to stimulus and economic performance. We have had the slowest recovery coming out of a recession with quantitative easing. I do not say that to get some voice-activated reaction from the Government about how good the recovery and performance is, but in broader historical terms it is the slowest recovery, which also leaves questions about quantitative easing.

We heard from the Prime Minister about red warning lights on the dashboard of the world economy, and I wonder whether he would ever say that, to his mind, those warning lights include the degree to which global banks are now playing heavily in derivatives again, and there needs to be more action. That raises issues not just of regulation at national level, but at international level.

Catherine McKinnell (Newcastle upon Tyne North) (Lab):

I congratulate the hon. Member for Wycombe (Steve Baker) on his thoughtful and thorough opening speech, as well as my right hon. Friend the Member for Oldham West and Royton (Mr Meacher) on his remarks. In their absence I also congratulate the hon. Members for Brighton, Pavilion (Caroline Lucas) and for Clacton (Douglas Carswell) on securing today's important debate.

This debate follows a significant campaign by Positive Money, which has raised important issues about how we ensure financial stability, and how we as parliamentarians and members of the public can gain a greater understanding of the way our economy works, in particular how money is supplied not just in this country but around the world.

Some important questions have been highlighted in the debate, although not all have been answered. There are questions about how money is created, how money or credit is used by banks and others, how our financial system can be more transparent and accountable, and particularly how it can benefit the country as a whole. That latter point is something that Labour Members have been acutely focused on. How do we re-work our economy, whether in banking or in relation to jobs and wages, so that it works for the country as a whole?

It is worth reflecting on our current system and what it means for money creation. As the hon. Member for Wycombe set out eloquently in his opening speech, we know that currency is created in the conventional sense of being printed by the Bank of England, but commercial banks can create money through account holders depositing money in their accounts, or by issuing loans to borrowers. That obviously increases the amount of money available to borrowers and within the wider economy. As the Bank of England made clear in an article accompanying its first quarterly bulletin in 2014:

"When a bank makes a loan to one of its customers it simply credits the customer's account with a higher deposit balance. At that instant, new money is created."

Bank loans and deposits are essentially IOUs from banks, and therefore a form of money creation.

Commercial banks do not have unlimited ability to create money, and monetary policy, financial stability and regulation all influence the amount of money they can create. In that sense, banks are regulated by the Prudential Regulation Authority, part of the Bank of England, and the Financial Conduct Authority. Those regulators, some of which are – rightly – independent, are the stewards of "safety and soundness" in financial institutions, especially regarding banks' money-creating practices.

Banks are compelled to manage the liabilities on their balance sheets to ensure that they have capital and longer-term liabilities precisely to mitigate risks and prevent them from effectively having a licence to print money. Banks must adhere to a leverage ratio – the limit on their balance sheets, compared with the actual equity or capital they hold – and we strongly support that. Limiting a bank's balance sheet limits the amount of money it can create through lending or deposits. There are a series of checks and balances in place when it comes to creating money, some of which the Opposition strongly supported when we debated legislative changes in recent years. It remains our view that the central issue, the instability of money supply within the banking system, is less to do with the powers banks hold and how they create money than with how they conduct themselves and whether they act in the public interest in other ways too.

We believe the issues relate to the incentives in place for banks to ensure that loans and debts are repaid, and granted only when there is a strong likelihood of repayment. When the money supply increases rapidly with no certainty of repayment, that is when real risks emerge in the economy. Those issues were debated at great length when the *Financial Services [Banking Reform] Act* 2013 made its way through Parliament, following recommendations from Sir John Vickers' Independent Commission on Banking and the Parliamentary Commission on Banking Standards, which considered professional standards and culture in the industry. The 2013 Act created the Prudential Regulation Authority and gives regulators the power to split up banks to safeguard their future, to name just two examples of changes that were made. However, we feel that it did not go far enough.

The Opposition's concern is that the Government's actions to date in this area have fallen short of the mark. They have failed to boost sufficient competition in the banking industry to raise those standards and to create public confidence in the sector. As hon. Members with an interest in this area know, we tabled a number of amendments to try to strengthen the Bill, and to prevent banks from overreaching themselves and taking greater risks, by ensuring that the leverage ratio is effective. That goes to the heart of many of the issues we are debating today. The Government rejected our proposals to impose on all those working in the banking industry a duty of care to customers. That would help to reform banking so that it works in the interests of customers and the economy, and not solely those of the banks. Those are the areas on which we still feel that reform is needed in the sector.

It is clear from this debate that there is a whole range of issues to consider, but our focus is that the banks need to be tightly and correctly regulated to ensure that they work for the whole economy, including individuals and small and large businesses. That is the key issue that we face at present. Only when the banks operate in that way and work in the interests of the whole economy will we find our way out of the cost of living crisis that so many people are facing.

I thank hon. Members for securing this very important debate and for the very interesting contributions that have been made from all sides of the House. I am pretty certain that this is not the end of the conversation. The debate will go on.

The Economic Secretary to the Treasury (Andrea Leadsom):

I too congratulate hon. Members on securing this fascinating debate. It is long overdue and has allowed us to consider not just what more we can do to improve what we have but whether we should be throwing it away and starting again. I genuinely welcome the debate and hope that many more will follow. In particular, I pay tribute to my hon. Friend the Member for Wycombe (Steve Baker), who now sits on the Treasury Committee on which I had the great honour to serve for four years. I am sure that his challenge to orthodoxy will have been extremely welcomed by the Committee and by many others. I wish him good luck on that.

Steve Baker:

May I just say how much I am enjoying my hon. Friend's place on the Committee? I congratulate her on her promotion once again.

Andrea Leadsom:

I am grateful to my hon. Friend.

My right hon. Friend the Member for Hitchin and Harpenden (Mr Lilley) gave a fantastic explanation that I would commend to anybody who wants to understand how money is created. He might consider delivering it under the financial education curriculum in schools. It was very enlightening, not least because it highlighted the appalling failure of regulation in the run-up to the financial crisis that is still reverberating in our economy today. All hon. Members made interesting points on what we can do better and whether we should be thinking again. I pay tribute to the right hon. Member for Oldham West and Royton (Mr Meacher) for his good explanation of the Positive Money agenda, which is certainly an idea worthy of thought and I will come on to it.

Money creation is an important and complex aspect of our economy that I agree is often misunderstood. I would therefore like quickly to set out how the system works. The money held by households and companies takes two forms: currency, which is banknotes and coins, and bank deposits. The vast majority, as my hon. Friend pointed out, is in the form of bank deposits. He is absolutely right to say that bank deposits are primarily created by commercial banks themselves each time they make a loan. Whenever a bank makes a loan, it credits the borrower's bank account with a new deposit and that creates "new money." However, there are limits to how much new money is created at any point in time. When a bank makes a loan, it does so in the expectation that the loan will be repaid in the future – households repay their mortgages out of their salaries; businesses repay their loans out of income from their investments. In other words, banks will not create new money unless they think that new value will also in due course be created, enabling that loan to be paid back.

Ultimately, money creation depends on the policies of the Bank of England. Changes to the bank rate affect market interest rates and, in turn, the saving and borrowing decisions of households and businesses. Prudential regulation is used if excessive risk-taking or asset price bubbles are creating excessive lending. Those checks and balances are an integral part of the system.

I agree fully that the regulatory system was totally unfit in the run-up to the financial crisis. We saw risky behaviour, excessive lending and a general lack of restraint on all sides. The key problem was that the buck did not stop anywhere. When there were problems in the banking system, regulators looked at each other for who was responsible. We all know that the outcome was the financial crisis of 2008. I, too, see the financial crisis as a prime example of why we need not just change but a better banking culture: a culture where people do not spend their time thinking about how to get around the rules; a culture where there is no tension between what is good for the firm and what is good for the customer; and a culture where infringements of the rules are properly and seriously dealt with.

I will touch on what we are doing to change the regulations and the culture, but first I will set out why we do not believe that the right solution is the wholesale replacement of the current system by something else, such as a sovereign monetary system. Under a sovereign monetary system, it would be the state, not banks, that creates new money. The central bank, via a committee, would decide how much money is created and this money would mostly be transferred to the Government. Lending would come from the pool of customers' investment account deposits held by commercial banks.

Such a system would raise a number of very important questions. How would that committee assess how much money should be created to meet the inflation target and support the economy? If the central bank had the power to finance the Government's policies, what would the implications be for the credibility of the fiscal framework and the Government's ability to borrow from the market if they needed to? What would be the impact on the availability of credit for businesses and households? Would not credit become pro-cyclical? Would we not incentivise financing households over businesses, because for businesses, banks would presumably expect the state to step in? Would we not be encouraging the emergence of an unregulated set of new shadow banks? Would not the introduction of a totally new system, untested across modern advanced economies, create unnecessary risk at a time when people need stability?

Steve Baker:

I do not actually support Positive Money's proposals, although I am glad to work with it because I support its diagnosis of the problem. Of course, this argument could have been advanced in 1844 and it was not. I have not proposed throwing away the system and doing something radically new; I have proposed getting rid of all the obstacles to the free market creating alternative currencies.

Andrea Leadsom:

I am grateful to my hon. Friend for pointing that out. I must confess that before the debate I was puzzled that such an intelligent and extremely sensible person should be making the case for a sovereign monetary system, which I would consider to be an extraordinarily state-interventionist proposal. I am glad to hear that is not the case. In addition, of course, bearing in mind our current set of regulators, presumably we would then be looking at a committee of middle-aged, white men deciding what the economy needs, which would also be of significant concern to me.

To be continued. The debate can be seen online at www.youtube.com/watch?v+EBSlSUIT-KM and read at http://bit.ly/1rqvLxQ.