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COMER

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The Government's Proposed Infrastructure Bank: A 21st Century Trojan Horse

By Joyce Nelson, May 2016

In mid-April, Bank of Canada (BOC) governor Stephen Poloz surprised many Canadians when he stated that the Federal Finance Minister "is not my boss," while insisting that the Bank of Canada "is a fully independent policymaker."

In reporting this, the *Financial Post* (April 13) also quoted a UK-based economist who said, "Technically, the bank is a Crown corporation and the shares are owned by the Minister of Finance. So as the main shareholder, it could force some decision…. But in real life, central banks have fought for their independence, which is widely recognized as sound policy and means that the finance minister does not interfere in the bank's affairs and allows the bank to be independent."[1]

But according to members of the Toronto-based Committee on Monetary and Economic Reform (COMER), the *Bank of Canada Act* is clear about just who is Poloz's "boss." Article 14:2 of the *Bank of Canada Act* states that in any difference of opinion between the Governor and the Finance Minister regarding monetary policy, the Minister may "give to the Governor a written directive…and the Bank shall comply with that directive," which would then have to be published in the Canada Gazette and presented to Parliament.

Who's the Boss?

COMER Chair Ann Emmett told me by phone that Poloz's statement is apparently based in the belief or theory that

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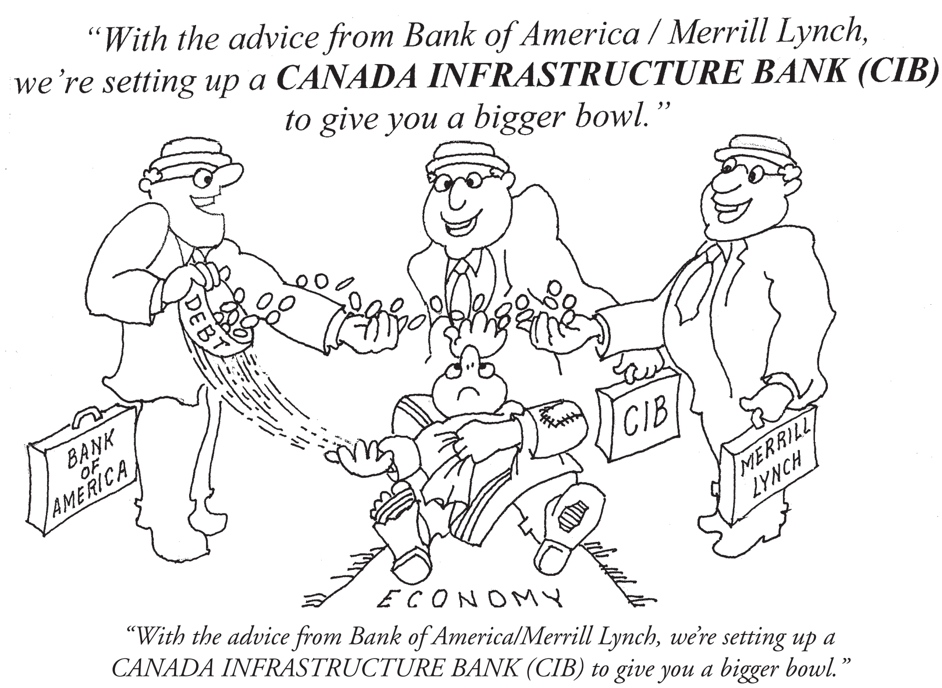

"With the advice from Bank of America/Merrill Lynch, we're setting up a CANADA INFRASTRUCTURE BANK (CIB) to give you a bigger bowl."

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Bank *from page 1*

there should be an arms-length relationship between the BOC and the federal government, but "that doesn't mean the Bank of Canada is 'fully independent.'" Moreover, the BOC "isn't like other central banks" because the Bank of Canada is "still a publicly-owned bank," and the sole shareholder is actually the people of Canada.

COMER is proceeding with its 2011 lawsuit to return the Bank of Canada to its pre-1974 mandate and practice of lending money at near-zero interest to federal, provincial, and (potentially) municipal governments for infrastructure and healthcare spending.

Since 1974, when the governing Pierre Trudeau Liberals quietly bowed to the wishes of the private Swiss-based Bank for International Settlements, Canadian governments have instead been borrowing from private and foreign lenders at market interest rates – resulting in hugely escalating deficits and debts.

Just paying off the accumulated compound interest – called "servicing the debt" – is a significant part of every provincial and federal annual budget, amounting to some $60 billion per year.

Renowned constitutional lawyer Rocco Galati has taken on the case for COMER and is prepared to take it all the way to the Supreme Court.

In what appears to be a way to side-step the COMER lawsuit and the Bank of Canada, (and the *Bank of Canada Act?*), the Liberal government of Justin Trudeau is moving forward with its plan – vaguely mentioned during the 2015 election campaign – for a new Canada Infrastructure Bank (CIB) to finance $120 billion in infrastructure spending over the next ten years. The CIB would apparently be the middleman between private investors and local governments (municipal and provincial) looking to fund infrastructure.

While the Trudeau government hasn't said whether the new CIB would be a Crown corporation or how exactly it would function, some important details have recently emerged.

The Advisors

Just before the March release of the Federal Budget (which didn't directly mention the CIB), the *Ottawa Citizen*'s Jason Fekete reported: "Ottawa has already taken steps to move the CIB project forward. It has recruited a Canadian investment banker working at Bank of America Merrill Lynch in the US to help design the CIB and advise Infrastructure Minister Amarjeet Sohi on the project."[2]

Working voluntarily out of Sohi's office until late September, this Bank of America Merrill Lynch banker "will also work with large pension funds in Canada as part of the Liberal government's efforts to persuade them to invest in Canadian infrastructure such as transit projects."

Fekete added that "the government has also created a new, executive group position of Chief, Infrastructure at Finance Canada to advise Finance Minister Bill Morneau on the development of the Infrastructure Bank, the plans and priorities of the Infrastructure minister, and the Finance Department's relationship with PPP Canada, a Crown corporation that delivers public infrastructure through public-private partnerships (P3s)."

As far as I can determine, by the end of April the names of these advisors have not been published in the press or on government websites – raising the question of why the secrecy?

Merrill Lynch and the Bank of America (which merged in 2008) were both involved in the massive Wall Street mishandling of asset-backed securities and investments that led to the 2008 Great Recession and the bank bailouts – which shook the world's financial stability, with repercussions that have continued ever since.

It's been reported that "backdoor bailouts" for Merrill Lynch and Bank of America reached "a combined $11.5 billion" in taxpayer monies.[3]

So why would the Trudeau government choose someone from Bank of America Merrill Lynch to advise them on setting up a CIB?

One possible answer comes if we look at the single biggest shareholder in Bank of America – a little-known company called BlackRock (no space between words).[4]

World's Biggest Investor

According to *The Economist* (December 7, 2013), this company (that nobody's heard of) turns out to be the world's biggest investor, with more than $4 trillion in assets under management, and another $15 trillion that it manages (under something called the Aladdin risk-management platform) for investors worldwide.[5]

So influential is BlackRock that, according to *The Economist*, the company advised governments in the US, Greece and Britain on what to do with toxic assets from crashing banks, with co-founder, Chair and CEO

Larry Fink becoming a Washington insider.[6]

These governments sought Fink's advice, despite the fact that (as *Fortune* reported in 2008) BlackRock's Larry Fink "was an early and vigorous promoter" of "the same mortgage-backed securities" responsible for the crisis. "Now his firm is making millions cleaning up these toxic assets," *Fortune* noted.[7]

Besides being Bank of America's biggest shareholder, BlackRock owns part of Merrill Lynch and in 2009 BlackRock snapped up Barclays' asset-management business, thereby boosting the assets under its control well into the trillions.

The current Board of Directors for BlackRock (blackrock.com) has some interesting people and corporate connections, including one Canadian – Gordon Nixon, the former President and CEO of the Royal Bank of Canada who retired in 2014 and was appointed to the BlackRock Board in July 2015.[8]

In its extensive 2013 coverage on BlackRock, *The Economist* focused on the company's risk-management platform called Aladdin – a massive data centre that "single-handedly manages almost as much money as all the world's private equity and hedge funds," while advising thousands of investors worldwide on where and how to invest.[9]

Calling Aladdin's "prognostications" somewhat "discomfiting," *The Economist* noted: "Buyers, sellers and regulators may all be relying on the same assumptions, simply because they are all consulting Aladdin. In a panic, this could increase the risk of all of them wanting to jump the same way, making things worse."[10]

With BlackRock advising on $15 trillion worth of investments globally, it wasn't just *The Economist* that was worried. As *The Wall Street Journal* reported, the US Treasury Department's Office of Financial Research issued a 2013 report which "concluded that asset-management firms [like BlackRock] and the funds they run were 'vulnerable to shocks' and may engage in 'herding' behaviour that could amplify a shock to the financial system."[11]

But BlackRock lobbied hard against such a view, and in April 2016 avoided greater oversight from regulators in the US.[12]

"Herding" Behaviour

Regardless of just who has been doing the "herding," it's obvious that, over the past two decades and increasingly since 2008, big investors like Bank of America, JP Morgan, Goldman Sachs, and Morgan Stanley have been buying up and gaining control over what's known as "the real economy" – the already-built airports, toll roads, sea ports, electricity production and transmission systems, water and wastewater systems, etc., across much of the developed world. These investments provide them with long-term, steady profits from tolls and rents increasing shareholder value that previously went to the public owners of the infrastructure.

As *Web of Debt* author Ellen Brown warned in 2013, such a trend represents "a return to a feudal landlord economy of unearned profits from rent-seeking."[13]

The *Toronto Star* recently explained that such investments are "low-risk" and "with a predictable, long-term return" for the investor, which is why the Canadian Pension Plan Investment Board (CPPIB) – the investment arm of the CPP – in 2015 bought "a one-third stake in Associated British Ports, which owns 21 ports in the UK, for $2.4 billion," and a 25% stake ($500 million) in one road in Sydney, Australia.[14]

Mark Wiseman, the CEO of the CPPIB (with $283 billion in assets), recently told Bloomberg News that the CPPIB is looking for "projects of scale" – airports, toll roads, ports, etc. "Canada Pension, like many other large global investors, would rather acquire mature infrastructure assets than finance new projects because they're safer, Wiseman said. He encouraged the [Canadian] federal government to look to places like Australia or the UK as examples of how Ottawa could utilize the capital of these global funds to meet its own infrastructure needs."[15]

The Australian Model

In 2013, the right-wing Australian government established its "Asset Recycling Initiative" – a program by which states and territorial governments decide which infrastructure assets to sell to the private sector, while the federal government grants 15 percent of the sale price to the states/territories. The federal funds and proceeds from the sales are then used to fund new infrastructure projects.[16]

Australian critics of "asset recycling" say it is basically "selling a hospital to build a road," with the federal government bribing local governments with incentive payments in order to sell off public assets.[17]

Canada's CUPE (Canadian Union of Public Employees) calls "asset recycling" basically "a new way to privatize all or part of a public asset such as a hydro utility or a government building" by selling or borrowing against physical assets to generate money for new investment. The Ontario government of Kathleen Wynne is engaging in "asset recycling" by selling off a majority stake in Hydro One (an electricity distribution system) in order to finance public transit – selling off transmission lines in order to pay for transit lines – thereby "sacrificing billions of dollars in future revenues from the crown corporation for a one-time payment."[18]

The Royal Bank of Canada and the Bank of Nova Scotia acted as underwriters in Hydro One's initial sell-off of 81.1 million shares in November 2015, with both banks holding an "option to purchase an additional 8.15 million shares."[19]

The C.D. Howe Institute is recommending that other local governments in Canada imitate what Ontario is doing.

In its January 2016 brief about infrastructure financing, the right-wing think tank stated, "Canadian cities should first look to emulate Ontario's provincial policy of selling underutilized assets – such as electricity distribution companies – to generate funding for infrastructure that governments necessarily must own."[20]

(Not everyone considers electricity distribution systems to be an "underutilized asset." In 2014, Warren Buffett snapped up AltaLink in Alberta for a mere $3.2 billion, after taxpayers had poured $16 billion into building the electricity transmission infrastructure serving four-fifths of the province.)[21]

Although the Trudeau Liberals' March budget did not mention an infrastructure bank, it did refer to "asset recycling" in one sentence: "Where it is in the public interest, engage public pension plans and other innovative sources of funding – such as demand management initiatives and asset recycling – to increase the long-term affordability and sustainability of infrastructure in Canada."

As first reported by the Canadian Press's Andy Blatchford, "The federal government has identified a potential source of cash to help pay for Canada's mounting infrastructure costs – and it could involve leasing or selling stakes in major public assets such as highways, rail lines, and ports. A line [mentioning asset recycling] tucked into last month's federal budget reveals the Liberals are considering making public assets available to non-government investors, like public pension funds…. Asset recycling is gaining an increasing amount of international attention and one of the best-known, large-scale examples is found in Australia."[22]

Blatchford further reported: “Australia’s asset recycling model has been praised by influential Canadians such as Mark Wiseman, president and CEO of the Canadian Pension Plan Investment Board. ‘With growing infrastructure deficits worldwide…we often reference this model with our own government and others as one to follow to incent and attract long-term capital,’ Wiseman said in prepared remarks of a September speech [entitled “Building the Case for a Long-Term Perspective”] in Sydney to the Canadian Australian Chamber of Commerce.”[23]

Tangled Web

In her series about the CPP and the CPPIB published by the *Huffington Post* in January 2013, Amy MacPherson revealed the “dramatic changes” made to the CPP by the Harper government when first elected.

MacPherson wrote: “In 2007, new legislation altered CPP practices through measures contained in Bill C-36. By April 2007, all CPP assets were transferred to control of the investment board…and in 2012 they changed from passive management to active management techniques. Aggressive trading requires a team of involved experts and staff at the CPP ballooned from 70 to 811 in the same short period. They’ve opened offices in Hong Kong and London, took on riskier markets, decreased Canadian equities in favour of foreign projects, hedged currency and shifted public holdings to private interests.”[24]

Overseeing the CPPIB’s “active management techniques” is a high-powered board of directors that includes Heather Munroe-Blum (director of the C.D. Howe Institute and the Royal Bank of Canada, and a member of the Trilateral Commission); Douglas W. Mahaffy (former Managing Director and Head of Investment Banking Ontario of Merrill Lynch Canada Inc.); and Kathleen Taylor (Chair of the Royal Bank of Canada).

With two Royal Bank of Canada directors on the CPPIB, this brings us back to Gordon Nixon, the former head of the Royal Bank of Canada and now a board member of Larry Fink’s BlackRock – the top shareholder in Bank of America Merrill Lynch and also the world’s largest investment company, which may have been “herding” investors in worrying ways.

As it turns out, BlackRock’s Larry Fink is also involved with CPPIB’s Mark Wiseman in a venture called Focusing Capital on the Long Term (FCLT), apparently a think-tank with both men on the Advisory Board. The mission statement (fclt.org) reads: “In 2013, CPPIB and McKinsey & Company co-founded Focusing Capital on the Long Term to develop practical structures, metrics, and approaches for longer-term behaviours in the investment and business worlds.”

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

In addition to the 10 Advisory Members in FCLT, there are 12 Members – most of them people who oversee pension funds, including Michael Sabia, President and CEO of the Caisse de depot et placement du Quebec, and Wayne Kozun of the Ontario Teachers’ Pension Plan.

So the Canada Pension Plan Investment Board, the Caisse de depot et placement du Quebec, and the Ontario Teachers’ Pension Plan are directly involved with Larry Fink, co-founder and CEO of BlackRock, the biggest shareholder in Bank of America Merrill Lynch.

This may seem to be a tangled web, but arguably now we know better why the Canadian federal government has asked a Bank of America Merrill Lynch banker to advise on the proposed Canada Infrastructure_Bank.

PR Firms’ Involvement

In the globalized economy, giant investors expect to be able to pry open and seize the public assets of any country, including those in the developed world. Moreover, “asset recycling” sounds so much nicer than “structural adjustment program.”

According to speaking notes, CPPIB’s Mark Wiseman told the Canadian Australian Chamber of Commerce last September, “We have almost A$7 billion invested here in Australia, or about A$1.5 billion more than the last time I spoke here” in 2013.[25]

The “asset recycling” concept has first been applied in Australia, and it looks like the same team is hoping to apply it across Canada next.

As well, a major PR firm appears to be involved in the effort. One of the Members of the FCLT think-tank is Richard Edelman, President and CEO of Edelman – one of the world’s largest PR firms, with 67 offices worldwide. (This is the same PR firm that was let go by TransCanada Corporation in 2014 after leaked documents revealed shady tactics for dealing with opposition to the Energy East tarsands pipeline.)[26] An Edelman office is the media-contact for inquiries about FCLT.

In addition, CPPIB director Michael Goldberg is also_a director of B.C.-based Resource Works, which (according to its website) promotes “fact-based dialogue on responsible resource development in British Columbia.” Critics say Resource Works is a collection of PR flacks working especially for the oil and gas industry.[27]

Resource Works is currently promoting the export of Site C dam-generated electricity (scheduled to be online as of 2024) to power tar sands development in Alberta, enabling (as their website puts it) the “expansion of the oil sands powered by clean energy to avoid climate change.” The BC Christy Clark government (which has ties to Resource Works) is lobbying for federal “green infrastructure” cash to build this grid to Alberta, while the two provinces are discussing the possibility of a pipeline-for-electricity swap, in which Alberta would agree to buy BC electricity in exchange for BC’s permission for a tar sands export pipeline – Kinder Morgan’s proposed Trans Mountain expansion and/or Enbridge’s Northern Gateway – to the West Coast.[28]

As reported in 2013, BlackRock is the biggest shareholder in ExxonMobil (owner of Imperial Oil) and Shell Oil[29], two of the tarsands producers pushing for pipeline access to tidewater on Canada’s coasts.

Struggling Local Governments

Provinces and municipalities across Canada are struggling financially, as neoliberal federal governments since the mid-1990s have cut transfer payments and further downloaded costs onto local governments (which have the least ability to raise revenues, basically through property taxes and user fees).

Many governments have tried P3s, often with disastrous results. In December 2014, Ontario's Auditor General Bonnie Lysyk blasted the Liberals' use of private money to finance new hospitals and transit, revealing that Infrastructure Ontario's use of P3s had cost $8 billion more taxpayer dollars than traditional public financing would have.[30]

Lysyk also criticized a "high-risk" $224 million government loan to keep afloat the biotech MaRS office tower in Toronto, at the time mostly vacant. As the *Toronto Star* reported, "Four years ago [2010], the Liberals approved a rule change allowing the MaRS loan to go ahead after a US developer partnering on the project failed to fill the building [with tenants]…. Gord Nixon, chair of the MaRS board, said the non-profit organization is in 'advanced negotiations' that could lift the white elephant to 95 percent occupancy. 'I'm confident that we will be able to lease up the building and get this project back on track,' said Nixon, the former chair of the Royal Bank of Canada."[31]

Many Ontarians certainly remember the Auditor General's remarks about $8 billion in P3 cost overruns.

More recently, Lysyk revealed Ontario's mismanagement of the electricity system through vastly overpaying IPPs (independent power producers). The Auditor General determined that because of the terms for this partial privatization of electricity production, between 2008 and 2014 Ontarians overpaid for electricity by as much as $37 billion.[32]

So with P3s and partial privatizations now considered somewhat "toxic" by much of the taxpaying public, it appears that a new euphemism of "asset recycling" has been created, along with a new strategy of selling off assets in order to build new ones. Conveniently enough, all this is happening at the same time that rates for borrowing from private lenders are low.

The growing hype about "asset recycling" might well appeal to politicians, unless the public catches on and understands what's happening.

Pension managers team up with private investors to take stakes in big assets, such as Australia's Port of Melbourne – the country's largest container terminal and the so-called "jewel in the crown" – which the government is hoping will sell/lease for $6 billion in order to finance other works.[33]

Needlessly starved for capital, governments are doing everything but take back their own monetary powers.

Hidden History

For decades (1938 to 1974), the publicly owned Bank of Canada funded a wide range of public infrastructure projects – the Trans-Canada Highway, the St. Lawrence Seaway, airports, hospitals, universities, etc. – by providing near-zero interest loans to provincial governments. None of these infrastructure projects caused inflationary problems in the economy, and none caused our governments to become indebted to private and foreign lenders.[34] That hidden history is now emerging, thanks to the efforts of many.

By contrast, the proposed Canada Infrastructure Bank looks like a Trojan Horse that could usher in more indebtedness to private lenders and more corporate control – as neofeudal landlords – over necessary infrastructure such as water and wastewater systems, electricity systems, etc.

The founding members of COMER have long questioned neoliberalism's economic model based on exponential growth, with escalating private profits considered supreme.

As COMER Vice-chair Herb Wiseman told me by email, "P3s are not really about government financing because of scarce money, but another con job by the corporations to expand their operations in order to enhance shareholder value. It is made to look like governments are asking for this form of help when in fact it serves the corporate interests for never-ending growth on a finite planet."

Globe and Mail columnist Konrad Yakabuski has urged "sober second thought" about infrastructure spending, citing examples in Spain, Greece and Japan (seduced by low borrowing rates from private lenders) where massive spending has created "money pit" infrastructure that nobody uses.[35]

Yakabuski noted, "If government spending on superlatively smooth highways, sleek subways and far-stretching fast trains was the ticket to success, Japan, Spain and Greece would lead the global economy. Instead, infrastructure spending has been a major source of their debt-induced woes."[36] Yakabuski refers to "our infrastructure envy," suggesting that Canada is being herded down a path that other governments have already followed into further massive debt to private lenders.

Renowned economist Michael Hudson (author of *Killing the Host*) bluntly warns that this path is "the road to debt serfdom," with a rising financial oligarchy "impoverishing the 99%."[37]

The Trudeau government's appointment of a banker from Bank of America Merrill Lynch to advise on creating a new infrastructure bank is the most politicized appointment possible, aside from appointing BlackRock's Larry Fink himself.

We'll know more about what this proposed Trojan Horse looks like when (and if) the advisor's report is released in the next few months.

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

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Our Comment

We are living in a remarkable age of transformation – perhaps even a defining moment in the course of human evolution. We face serious choices; we need to know what our options are. And we need to act on them.

A separate bill, Bill 143, the *Municipal Improvements Assistance Act*, proved for loans to municipalities. "an act to assist municipalities by making self-liquidating improvements," Bill 143 was passed in 1938. It was rescinded in 1975.

In *The Public Bank Solution,* chapter 17, Ellen Brown traces the "Canadian Movement for Monetary Sovereignty: Rise and Fall." She points out that, "For over three decades, "The Bank of Canada used its lucrative credit-creating tools for the benefit of the public. The Canadian Government funded *infrastructure* and social programs simply by advancing the credit needed to accomplish them."

She goes on to explain that this ended after Canada joined the Basel Committee of the Bank for International Settlements (BIS), in 1974, and that Committee discouraged governments from borrowing from their own central banks interest-free, and encouraged them to borrow instead from private creditors, including large *international* (my emphasis) *banks*.

"By 2012," she adds, "The Government had paid C$1 trillion in interest – twice its national debt."

That debt has been used to justify an austerity program ever since.

Joyce Nelson's wonderfully informative article raises many important questions and concerns.

What is the job description for the Chief of Infrastructure? What is his status – his role – that he should be *advising* the Finance Minister on such matters? Why involve P3s? Why is that worrisome? Why do we put up with the influence of lobbies and the shortcomings of "regulation"? Why should we sacrifice the commons to build and maintain infrastructure, or forever pay tolls for the use of infrastructure we'll probably never get to own?

Why does the endorsement of Australia's Asset Recycling Model by the President and CEO of the Canadian Pension Plan Investment Board remind me of Aesop's Fable of the fox who, catching sight of his reflection in the river he was crossing, lost his bone when he opened his mouth to go after the one he saw in the water?

Somehow, ideas like engaging public pensions in "Aggressive trading" and "Riskier Markets," and of "[shifting] public holdings to private interests" suggest that all too constant pattern where "*they*" play, and, when things go wrong, "*we*" pay!

Wonder what the new bank might cost us? A "free lunch?" For whom?

What we *do* know about this proposed bank is troublesome. What about what we *don't* know:

Lest, dear, patient reader, you may by now, be thinking me a bit too cynical, please consider the following points and pertinent comments.

The extent to which the monopoly of money has blunted and blocked human progress – has stunted and corrupted the human potential – is inestimable

Surely, given the truth about money and power, it's time to recognize that money is a commons, and that *everyone* has a right to adequate purchasing power. This is no "pipe dream." It makes a lot more sense than killing the host.

By the same token, money must serve life, and the common good.

Debt is hardly a new problem; but the extraordinary need to put it in its place is.

In *Debt, the IMF, and the World Bank,* Éric Toussaint and Damien Millet have chronicled the use of *debt* – which they describe as a "mechanism of dominance" – to gain control over developing nations. They predicted that the same treatment would come to the rest of us. It has.

John Perkins, in *New Confessions of An Economic Hit Man* (Berrett Koehler, 2016) recounts his involvement in the same tactic. His job description says it all: "Claudine told me that there was two primary objectives of my work. First, I was to justify huge international loans that would funnel money back to MAIN and other US companies (such as Bechtel, Haliburton, Stone & Webster, and Brown & Root) through massive engineering and construction projects. Second, I would work to bankrupt the countries that received those loans (after they had paid Main and the other US contractors, of course), so that they would be forever beholden to their creditors and would present easy targets when we needed favours, such as military bases, UN votes, or access to oil and other natural resources."

One of several recommendations that Perkins makes is to: "Demand responsible investments. Insist that your pension funds, mutual funds, and other investments be dedicated to serving the public interest and creating an environmentally sustainable, resource-regenerative, socially just world. Let the funds and corporations where you own stock know that you want them to be successful, and that this means participating in the creation of a life economy."

In *Killing the Host*, the eminent economist, Michael Hudson, comments: "From Greece and Rome to today's world, the driving force in the transition from democracy to oligarchy has been the fight by creditors against debtors. From the United States to Europe, creditors are taking over government agencies to control public policy and the tax system to undermine debtor rights, privatize public property in their own hands and impose the modern equivalent of debt serfdom….

"In this way, the controls over state power are subtly maneuvered from democratic means to the demands of the oligarchs. The state will remain in financial hands until the power of oligarchs to control government fiscal and monetary policy is checked, along with their rhetorical deception as to how economies work….

"Financial tacticians start by limiting the sphere over which democratic choice is allowed. Control over the Executive Branch of government is shifted to central banks and treasuries staffed by bank apparatchiks. The cover story for this regulatory capture is that central bank "independence" from partisan politics is a "hallmark of democracy" – as if making financial policy independent from oversight by elected legislators is democratic!…

"The neo-*rentier* objective is three-fold: to reduce economies to debt dependency, to transfer public utilities into creditor hands, and then to create a rent-extracting tollbooth economy. The financial objective is to block governments from writing down debts when bankers and bondholders overlent. Taken together, these policies create a one-sided freedom for *rentiers* to create a travesty of the classical 'Adam Smith' view of free markets. It is a freedom to reduce the indebted majority to a state of deepening dependency, and to gain wealth by stripping public assets built up over the centuries….

"The path of least resistance to a financial oligarchy is to create global authorities to override governments. (Like the BIS!)"

Mindful of Santayana's warning that those who fail to remember their history are doomed to repeat it, let's recall what Canadians learned from the Great Depression, and give thanks for the straight thinking that gave us then a central bank – a central bank that is uncharacteristically – *public*. And let's honour that legacy and put it to work for us in *our* phase of the same struggle that created it. Let's not follow the CIB bait into the trap of perpetual debt!

Let's not wait until the CIB is a fait accompli! Let's make sure our MPs know that we already have an Infrastructure bank tried and true, and that we want them to use it – as Canadian governments used it to our advantage between 1938 and 1974 – for its intended purpose.

Let's share the good news, confirmed by the Bank of Canada's first governor, Graham Towers, that:

Anything physically possible and desirable can be made financially possible!

Élan

Critics Slam Secrecy Around Bank Fine

By Sunny Freeman, Toronto Star, April 7, 2016

Financial institution fined $1.1M by money-laundering watchdog should be named, group says.

That's what a wide-ranging group of critics – from lawyers to investor advocates to companies whose infractions have been made public – want to know about the first penalty against a bank by the Financial Transactions and Reports Analysis Centre of Canada.

The terrorism and money-laundering watchdog, known as Fintrac, announced Tuesday that it has issued a $1.1-million fine against an undisclosed financial institution for failing to report a suspicious transaction and various other infractions.

"Our criminal and administrative law regime is based on disclosure of wrongdoing, not on secrecy of wrongdoing," said Christine Duhaime, a lawyer who specializes in anti money-laundering law.

"Joe Average who is fined for any administrative infraction is not afforded secrecy in this way and the rules should apply to all Canadians, legal and natural personals, equally, from banks to Joe Average."

Fintrac said Tuesday's announcement is meant to deter others from failing to report.

But the bank's name was not added to a list of violators published on the agency's website. The home page shows the name of many smaller companies, such as jewelry stores, independent securities dealers and real estate brokerages.

Fintrac collects millions of pieces of data from 31,000 businesses every year and analyzes them for suspicious activity. Those businesses are legally required to report certain financial activities – anything from cash transactions of more than $10,000 to a disguised customer.

The centre has legal power to use its discretion on whether to publicly name companies it has fined. The recent unnamed financial institution isn't the only case where it has taken exception – the companies involved in 34 of the 74 monetary penalties the agency has levied since 2008 have not been disclosed, said spokesman Darren Gibb.

In the case of the bank, the agency decided it was in the public interest to publish the details of the penalty to "send a strong message of deterrence" in a timely manner rather than name the institution after a potentially lengthy appeal process. The financial institution has already paid the $1.1-million penalty.

Companies have the right to appeal an imposed penalty – which can include a fine amount and a public notice – to Fintrac's director Gerald Cossette, who is ultimately responsible for any decision.

Gibb said there are legal reasons why he cannot comment on Fintrac's decision to withhold the name, but added that neither the types nor the sizes of institutions are factors in whether to disclose a name.

"We've named the sector, we've named the violations and we think it's better to send a strong message of deterrence right across the regime than to wait potentially years and years for a review and appeal process to unfold."

Michael Baumbach is director of Toronto-based Diamond Exchange Toronto Inc. which was fined $12,750 and named by Fintrac in March. He says the agency is unfairly punishing smaller firms like his jewelry business, which is trying hard to comply, while letting bigger players with deeper pockets off the hook.

He believes the bank's name was kept secret because it has resources at its disposal to give Fintrac a legal headache. Meanwhile, he feels powerless when trying to get answers about why it fined his company, which now faces bankruptcy over what he says is an unjust fine.

"The banks are not just going to sit back and have their names slipped, but a small company – we can't do anything," he said. "All they're doing is putting the smaller businesses out of business and the bigger businesses who have the legal clout to contest it, obviously they're not naming names because of the fact that these companies will do something."

The first Canadian bank penalty has come to light amid heightened awareness about money laundering in the wake of the so-called Panama Papers, which implicate numerous Canadians in dubious banking practices around the world.

The name of the violating bank should be disclosed because shareholders should be entitled to know whether they are investing in a company that is violating financial disclosure standards, said Neil Gross, executive director of the Canadian Foundation for Advancement of Investor Rights.

"For the bank in question, shareholders would have a legitimate interest in knowing that the bank management have taken steps to ensure that there is future compliance of Fintrac requirements," he said.

Fintrac's Gibb said the legislation is not meant to be punitive, but aimed at changing non-compliant behaviour.

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Our Comment. What good are watchdogs who, should one of the children slip downstairs to the cookie jar during the night, wake up the whole household – yet, won't bark when they detect an armed and hooded stranger in the house? *Élan*

The Lies of Neoliberal Economics (or How America Became a Nation of Sharecroppers)

By Chris Hedges and Michael Hudson, CounterPunch, April 1, 2016

This is an edited transcript of part two of Chris Hedge's Days of Revolt interview with Michael Hudson.

CHRIS HEDGES: *So, we spoke in previously about the parasitic quality of the banks, hedge funds and the speculative class that has in essence cannibalized the country – including, interestingly, industry itself, and forced down the throats of the American public an unsustainable debt peonage, whether that's through student loans, predatory credit card interest rates where it's that bait and switch – where you get zero percent interest and next thing you know, you're paying as high as 26 percent, 23 percent….*

MICHAEL HUDSON: If you miss a payment.

HEDGES: *If you miss a payment. Mortgages, with many houses now underwater because of 2008. I want to look first at the self-identified liberal class within the Democratic Party, including Barack Obama. It often uses the language of economic justice, and will even chastise Wall Street rhetorically, but has been as committed to this neoliberal project as the Republicans.*

HUDSON: The key of demagogic politics is to realize that the people who are really backing you are your campaign funders. Your job as a politician is to say, "I can deliver this constituency to your backers." Obama was a genius at doing what Donald Trump is trying to do today: taking a constituency. That's his column A: a focus group listing everything the constituency wants. They want debt relief. They want better jobs. They want higher minimum wage.

HEDGES: *And not trade agreements like NAFTA and…*

HUDSON: Right. And then column B, that he didn't tell them, was what the campaign backers on Wall Street want. Obama was picked essentially by Robert Rubin, who then became head of Citibank after having come out of the Goldman Sachs. Obama was picked by Rubin of Wall Street to promise was he was going to really do. It was what any president today is going to do: A politician's job is to deliver whoever voted for you to your backers, who are on Wall Street. Whether you are a Republican or a Democrat, but especially if you are a Democrat – that's really the Wall Street wing of the American political system. The Republicans are for the corporate monopoly, oil and gas wing of it.

As soon as Obama got in, Hank Paulson – the Republican Treasury Secretary – was talking to Barney Frank and said, you know, we were supposed to, under TARP, have some of the money to go for debt writedown.

HEDGES: *Explain TARP.*

HUDSON: TARP was Troubled Asset Relief Program. It was supposed to treat banks as if they were troubled. If you're a criminal and you're stealing from people, that was called "troubled." There's a lawsuit recently in in the news about a rich boy drove his car and killed four people. His defense was, "It's not my fault, I have affluenza. I'm so rich that I don't have a social sense. So of course I drove away. But I'm innocent, because I'm rich. What do you expect?"

Essentially that's the Goldman Sachs view of the economy. You cause collateral damage all over, but that's what Wall Street does. You can't punish them for it. They're just doing what a predatory financial institution does. So Obama said "No, I'm not going to do that," [meaning write down the mortgage debts as he had promised voters in Column A]. He came in and appointed Wall Street's main lobbyist, Tim Geithner, as Treasury Secretary.

HEDGES: *You spend a lot of time in your book,* Killing the Host*, on him.*

HUDSON: That's right. Geithner appears in almost every dirty dealing episode of the book. He was the bagman. He was the person who [Sheila Baoir] accused of blocking the FDIC when it wanted to take over Citibank, which not only was broke but was a criminalized organization.

HEDGES: *Explain just quickly why it was criminalized.*

HUDSON: Citibank, along with Countrywide Financial, was making junk mortgages. These were mortgages called NINJA. They were called liars' loans, to people with no income, no jobs and no assets. You had this movie, *The Big Short*, as if some genius on Wall Street discovered that the mortgages were all going to go down. And you have the stories of Queen Elizabeth going to the economist…

HEDGES: *"How come none of you knew?"*

HUDSON: Right. The fact is, if everybody on Wall Street called these mortgages liars' loans, if they knew that they're made for NINJAs, for people who can't pay, all of Wall Street knew that it was fraud.

The key is that if you're a really *smart* criminal, you have to plan to get caught. The plan is how to beat the rap. On Wall Street, if you buy garbage assets, how do you make the government bail you out? That was what the president of the United States is for, whether it was Obama or whether it would have been John McCain….

HEDGES: *Or Bush.*

HUDSON: Or whether it would be Hillary today, or Trump. Their job is to bail out Wall Street and make the people pay, not Wall Street. Because Wall Street is "the people" who select the politicians – who know where their money is coming from. If you have a campaign contributor, no matter whether it's Wall Street, or locally if it's a real estate developer, you all know who your backers are.

The talent you need to have as a politician is to make the voters think that you're going to be supporting their interests…

HEDGES: *And what's that great Groucho Marx quote?*

HUDSON: The secret of success is sincerity. If you can fake that, you've got it made.

HEDGES: *Well, and that's kind of it. You know, there's Ron Suskind in his book, what's it called?*

HUDSON: *Confidence Men.*

HEDGES: *Confidence Men. He interviews someone on Wall Street, and asks why they're so hostile to Obama when he's so protective of Wall Street. And the answer is, because if we keep being publicly hostile, he can always do what we want.*

HUDSON: This is like Uncle Remus and the Briar Patch, when Br'er Rabbit keeps saying, don't throw me into the briar patch. And finally the fox throws him into the briar patch, and the rabbit runs away, singing "Born and bred in the briar patch." He runs away and is happy. The moral is that there's a pretense that if a politician talks against Wall Street and can vocalize people's resentment, that he must understand them and thus will support them.

HEDGES: *Well, that's what Hillary Clinton's doing in spades.*

HUDSON: Yes, exactly. There's a movie, *La dolce vita*, by Fellini, with Anita Ekberg. You have the Italian reporter Marcello go after Ekberg, and then her boyfriend comes up to him and says, "I can understand you." Then whomp, he hits him right in the face. That basically is what we have here. The politician says to the voters, "I feel your pain. I can understand you." And they think oh, he understands it. Then the politician hits them in the face and backs Wall Street, and tries to privatize pension funds, privatize Social Security. And doesn't send a single banker to jail, by appointing Justice Department people who are vetted by Wall Street and treat them simply a "troubled" rich.

So essentially Wall Street campaign contributors have a veto over who you're going to appoint as Secretary of the Treasury. They want the…

HEDGES: *Attorney General.*

HUDSON: Yeah, Attorney General, to make sure that nobody has to pay the price for financial crime. Then the Council of Economic Advisors comes to assure people that Wall Street really is adding to the economy, and if you can only do what the Federal Reserve is doing. So Janet Yellen says, let's give the banks more money, and the economy can borrow its way out of debt…if only we can have enough quantitative easing.

So the Federal Reserve has given Wall Street $4.5 trillion. That $4.5 trillion could have been used to write down the debt. And then we wouldn't have a problem. Then everybody would have a lower costs of living. The $4.5 trillion could have been spent into the economy.

HEDGES: *We could have saved people from being foreclosed and driven from their homes.*

HUDSON: Yes. But that wasn't what Obama did.

HEDGES: *Even though he promised that he would. And then he turned around, he earmarked some money to save people who were being pushed out of their homes. And then he never spent it.*

HUDSON: That's right. It wasn't spent. That's what Niel Barofsky, the SIGTARP head – Special Inspector General for TARP – found out. He said, wait a minute, they're not spending any of it. It's a fraud. And he wrote a whole book, *Bailout*, describing the lies Geithner told. Then, when Geithner came out with his own autobiography, Barofsky reviewed it and exposed him as a liar who should go to jail.

Geithner was suitably rewarded by getting a rich job on Wall Street. The Japanese call that "descent from heaven." When you take your rewards, having sold out the economy to your backers, you get a nice job and end up rich for life.

HEDGES: *So, let's talk a bit about what this means for the future, because there's been no brakes put on this kind of criminal and fraudulent behavior on the part of the speculative class. Bubbles have been re-inflated with public funds. I think you had written an article in Harper's magazine before 2008 saying this – we're all going to have a big car wreck. Since we're playing the game again, what's going to happen? Are they going to be able to go back and loot the US Treasury the way they did before?*

HUDSON: What's ahead first of all is that the economy hasn't recovered since 2008. People talk about that there's been a recovery, but the recovery has only been for the One Percent. The 99 Percent know they haven't recovered. That's why they're voting for Trump, and that's why they're voting for Sanders. But they're blaming themselves. There's a tendency of victims to blame themselves. And the other part of that…

HEDGES: *But let's be clear: The media doesn't explain the economic reality at all. They're always talking about the recovery.*

HUDSON: That's the point. The result of the media telling people that is to create a Stockholm syndrome: The victim, the kidnap victim, identifies with the victimizer. The thinking is that if only we can give more money to Wall Street, it will save us. So if the Federal Reserve can only pump more money into the economy….

They talk about the Federal Reserve creating money with a helicopter. But the Federal Reserve's helicopter only drops money over Wall Street. It doesn't drop money over the economy. People don't get it. The Fed doesn't say, "We're going to add $200 to everybody's checking account so they can have more money and pay their debts." It's only lending money to Wall Street.

And what does Wall Street do? It lends out money. So the solution to the debt problem that we're in – debt deflation – is to lend even more money.

That's what makes the economy a Ponzi scheme, as you mentioned at the beginning of the first half of this interview. In a Ponzi scheme, people seem to make a lot of money, but that's because you're really not making profits. You're just getting more and more people convinced that you're making money. And you're paying the early entrants out of the money from new subscribers. That's what Bernie Madoff did. The whole economy has become a Madoff scheme.

HEDGES: *And largely through real estate, right?*

HUDSON: Largely through real estate, because that's the largest asset.

HEDGES: *So the worth of your house ostensibly rises and rises and rises, and you believe that you have created it – that this is a form of wealth creation.*

HUDSON: Here's the problem that existed in 2008. Either Obama could have saved the economy, or he could have saved Wall Street. He chose to save Wall Street. And the only way to save Wall Street, if banks have made a lot of bad loans, is to help them not go bankrupt. So what do you do? You give them more money.

The theory, the pretense in the media, is that banks will make money by lending to industry to build more factories and hire people.

HEDGES: *And credit dried up for small businesses and consumers.*

HUDSON: That's right. Wall Street knew that the real estate market was already loaned up. In other words, the game was over. Nobody could pay any more of their income for rent or for mortgages. Banks couldn't even make more credit card loans. So they began to cancel their credit card exposure. What they did was they gamble on foreign currency.

HEDGES: *And student debt.*

HUDSON: And student debt.

HEDGES: *Because it's guaranteed.*

HUDSON: That's right. They make, the government…

HEDGES: *I mean, the government guaranteed them.*

HUDSON: Since the 2008 crash the government has guaranteed almost all new mortgage loans. Up to 43% of the borrower's income, that was guaranteed. Student loans, all guaranteed. But basically the banks made money abroad. If you could borrow at one-tenth of a percent from the Federal Reserve, you could buy Brazilian loans, bonds paying 9% or more. You could gamble on writing default swaps in Greece.

And when Greece had real problems, the fact that the German and French banks had made too many loans to it, the IMF was going to write down the Greek debt. But then Geithner got on the phone with Europe, and Obama went to the G20 meetings and said, "Look, you can't write off the Greek debt, because the American banks have essentially turned into horse race betters. We have casino capitalism. They have bet and promised to guarantee, the Greek bonds. If the Greek bonds are written down, the American banks will go under. And if we go under, we promise we're going to bring you down too. We're going to bring down the European banks. Do you really want that to happen?"

So the gambles made by Wall Street ended up almost driving Greece out of the European Union. Wall Street was willing to tear Europe apart politically just for the Wall Street investment banks – basically four banks – to make gains by insuring the Greek debt, by treating the financial market like a horse race.

That's where we are now. It's not really about imperialism draining foreign economies. It's Wall Street making bets. And essentially it's by Wall Street running the European Central Bank. Just like Europe has to do burden sharing in NATO, the financial ministries have to do burden sharing with the US Treasury.

HEDGES: *So let's talk a bit about what this means, where we're headed.*

HUDSON: It means that markets are not growing, because the American consumer has to spend so much money paying the banks and paying taxes that they don't have enough money to buy more goods and services.

HEDGES: *One of the things you pointed*

BOOK REVIEW

"Dark Money" by Jane Mayer

This is a must read for anyone who wants to understand the reality of US politics today. Big money has always played a significant role, but the Supreme Court rulings in Citizens United and Speech Now has made it the dominant factor. In Mayer's well documented book, the US has become a de facto oligarchy.

The prime organizing force behind this trend is the Koch brothers. Immensely wealthy ($41 billion), they, along with their billionaire allies control a cast network of "philanthropic" institutions, think tanks, lobbyists, and superpacs. This "Kochtopus" promotes minimal government, low taxes, the "free market," deregulation, privatization and cuts to welfare, social security and Medicare. They reject the science of climate warming and oppose all environmental regulations, unions, minimum wages and food stamps. But they demand, and receive, vast subsidies and tax breaks for themselves. The Kochs have been convicted many times of violations of environmental laws, but have been let off with fines. Many of their allies have been convicted of tax evasion, insider trading and many other crimes, but never imprisoned.

The Koch campaign began a generation ago as an effort to change the conversation by setting up 'foundations' and think tanks to subsidize supportive writers and publishers, fund chairs at universities and push their message among the intellectual elite. Then, because of the regulatory threat to their business, they moved to lobbying and direct involvement in state and national campaigns. Their interventions led to the defeat of several Democratic incumbents and the elections of otherwise obscure Republicans, such as Scott Walker in Wisconsin. He proceeded to follow the script to the letter, trashing the public service unions and attacking public education.

The rise of the Tea Party after Obama's election in 2008 was widely heralded as a populist reaction to Wall Street and corrupt elites. However with the backing of the Kochtopus, it was soon transformed into an anti-government, right wing movement which was used to divert anger away from the banks and towards government, unions and the unemployed. This strategy was very successful in the 2010 elections, which produced Republican gains in Congress and in many states. The victories in the states allowed Republicans to control the 2011 redistricting process and to make voting more difficult for minorities and the poor. In states like Texas, Ohio, Florida, North Carolina and more, they were able to gerrymander electoral districts to ensure Republican wins. In several state elections, for example, the Democrats won the popular vote, but the Republicans won the most seats.

The Kochtopus has succeeded in making the GOP the party of the very wealthy. Candidates are asked to take the 'no tax increase, no environmental regulations' pledge in order to receive Koch funds. Moderates are denied money and forced out. John Boehner, majority leader of the House of Representatives, was displaced when he wouldn't bow to the extremists. Governor John Kasich of Ohio criticized the Koch opposition to Obamacare, in April 2014, and was ostracized. His campaign for president was denied funds and has withered. It is remarkable that Trump's campaign also had no backing from the Kochtopus and has flourished so far. Whether it will ultimately succeed remains to be seen.

The Democratic party is not immune to the influence of Big Money, although most of their backers, such as George Soros, have a more progressive agenda. Obama's dependence on Wall Street money led to his administration's weak response to the 2008 financial collapse. The result is a very un-virtuous circle. The more influence Big Money acquires, the more public policy is altered to allow them to make even more profits, which in turn gives them more influence. The result is rising inequality – "a system controlled by a handful of ultra-wealthy people who got rich from the system."

Donald Trump has made a point of refusing Kochtopus money for his campaign. He claims his own wealth gives him immunity from the influence of corporate money. Hence he is anathema to the Republican establishment, but it remains to be seen if his opposition to free trade, Wall Street and corporate welfare is genuine.

By contrast, Bernie Sander's campaign is an inspiration. His program directly confronts that of the Kochs and there is no doubt of his authenticity. His phenomenal fundraising ability (average donation $27) reflects his widespread support, especially among the young. Clinton, on the other hand, is beholden to Wall Street and big Democratic money. While Sanders is unlikely to win the presidency, his campaign shows that resistance is still possible.

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Our Comment. Dave Gracey is the retired principal of an alternative school in downtown Toronto. He is a long-time member of COMER whose extensive contribution has included many excellent articles in COMER journals. This review of *Dark Money* is a welcome introduction to an invaluable resource! *Élan* *out in your book, which I didn't know, is that when we measure the economy we actually count the paying off of debt, credit card debt, whatever it is, as a form of savings.*

HUDSON: That's right. After 2008 the savings rate jumped way up. But the saving isn't available. But to an accountant, if you owe less money, then actually you've done the same as paying it out of saving. So we're in a savings economy. The savings rate in 2008 was zero. Actually, it was minus 2% when you take into account borrowing from foreigners. The whole economy was essentially consumers maintaining their living standards by running up their credit card debt, and by taking out what Alan Greenspan called cashing out on your house's rising value, by taking out an equity mortgage loan. But that's not really cash. That's taking on more debt.

So you had an inside-out vocabulary. America was going into debt thinking it would get rich, and all of a sudden it finds, it's in a state of what you said, debt peonage, where the wage workers and others have to pay any increase in wages they get; it goes to pay down…

HEDGES: *Because you're spending all of your income to service the interest rather than paying off the principal. And that's why wages have been suppressed since the '70s. The speculative class on Wall Street does not want people to be able to pay off their debt.*

HUDSON: This was the one thing that Alan Greenspan contributed to economic theory: the Traumatized Worker Syndrome. He said, the reason you've had this huge productivity gain without any wage increase is workers are afraid to go on strike, or even to complain about working conditions, because they're just one paycheck away from homelessness.

HEDGES: *Which is true.*

HUDSON: And if they miss a credit card payment, all of a sudden their credit card fee escalates to 29%. Even if they're late on a utility bill, the bank will raise the fee.

HEDGES: *So what does this mean? I mean, what's going to happen?*

HUDSON: It means a slow crash. It means what was…

HEDGES: *Which we've already begun, haven't we?*

HUDSON: Yes. we're in a slow crash now. All this was analyzed in the 1930s when it was called debt deflation by Irving Fisher. But debt doesn't appear in the textbooks. They talk about saving, but not debt. The fact is, all money is debt of one form or another. The cash in your pocket is a government debt, technically. It's on the liabilities side of the balance sheet. What people thought was an asset turns out to kept afloat by debt. But rather than the rising tide of debt raising all boats, it raises the yachts, but the rest of the economy is underwater, to make a metaphor.

HEDGES: *So, spell it out for people. What's going to – I mean, we've lost control of this predatory or parasitic force.*

HUDSON: Well, you can look at the future as what's happening in Greece, what happened in Russia after their traumatic shock therapy. America's in for shock therapy, no matter who wins the presidential…

HEDGES: *So play it out for me. What's it going to look like?*

HUDSON: Well, more people are going to have higher and higher charges for what they spend for medical care. More for schooling. More just to break even. And they're going to have to draw down their existing savings, or they're going to have to downsize, or they're going to have to default. The rate of default is still rising very sharply on student loans. And these are loans you can't wipe out in bankruptcy.

HEDGES: *Not unless you're dead. And it'll go to your parents, if they're still around.*

HUDSON: That's the point. The parents have countersigned. Meanwhile, the students who have taken out these loans are having to live at home with the parents. They can't afford to buy a house. And if you can't buy a house it's really hard to get married. I was in China recently, and my translator there said that women in China are looking for a husband who can get his own house, because you need a house to have children. All that has stopped here.

When you have this phenomenon in Greece, Russia or other places, you have shrinking birth rates, rising mortality rates and disease rates, shorter life spans. Latvia followed this policy and lost 20% of its population since the late 1990s. You have a huge emigration from Iceland, from Greece. There's nowhere for Americans to emigrate to.

HEDGES: *Right. And you say in the book that really, the only option left is a form of debt slavery or revolt.*

HUDSON: That's exactly it. But the enzymes that the parasite have inculcated via the control of the media tell people it's not Wall Street's fault, it's not the parasite's fault, it's your fault. The victims haven't been able to make enough money to pay the One Percent, the victimizers. That's financial affluenza after kills an economy.

HEDGES: *But is it working? I don't think the lie of neoliberal economics is being swallowed by larger segments of the population, including the people gathered around Trump.*

HUDSON: That's right. They know that something's wrong, but they don't know what it is, because nobody's spelling out how the economy actually works. That's why I wrote my book, to say here's what's happening. The reason I was able to warn about the crisis a year before it happened was that I had the charts that were published in Harper's. My charts were cited in the *Financial Times* as the only charts by those who did foresee the crisis and said just how and why it would happen.

Anyone who does Wall Street charts about the ability to pay sees that this is what happened in the 1920s. Anybody who did charts like that can tell that there's an intersection, a breaking point, and there's a crisis. America now is having the same crisis that Argentina had, that Greece had, that Latvia had, that Russia had. These economies are our future. And it's going to go down and down in a slow crash.

HEDGES: *But could it go down and down, and what we end up with is a form of neofeudalism, a rapaciously wealthy, oligarchic elite with a kind of horrifying police state to keep us all in order?*

HUDSON: This is exactly what happened in the Roman Empire.

HEDGES: *Yes, it did.*

HUDSON: You had the great Roman historians, Livy and Plutarch – all blamed the decline of the Roman empire on the creditor class being predatory, and the latifundia. The creditors took all money, and would just buy more and more land, displacing the other people. The result in Rome was a Dark Age, and that can last a very long time. The Dark Age is what happens when the *rentiers* take over.

If you look back in the 1930s, Leon Trotsky said that fascism was the inability of the socialist parties to come forth with an alternative. If the socialist parties and media don't come forth with an alternative to this neofeudalism, you're going to have a rollback to feudalism. But instead of the military taking over the land, as occurred with the Norman conquest, you take over the land financially. Finance has become the new mode of warfare. Not militarily – except in Europe, of course – but simply financially. You can achieve the takeover of land and the takeover of companies by corporate raids.

Continued on page 16

Why Public Debt Is a Good Thing

By Lars Syll, Real-World Economics Review Blog, March 28, 2016

"…The US economy has, on the whole, done pretty well these past 180 years, suggesting that having the government owe the private sector money might not be all that bad a thing. The British government, by the way, has been in debt for more than three centuries, an era spanning the Industrial Revolution, victory over Napoleon, and more.

"But is the point simply that public debt isn't as bad as legend has it? Or can government debt actually be a good thing?

"Believe it or not, many economists argue that the economy needs a sufficient amount of public debt out there to function well. And how much is sufficient? Maybe more than we currently have. That is, there's a reasonable argument to be made that part of what ails the world economy right now is that governments aren't deep enough in debt." – *Paul Krugman*

Indeed.

Krugman is absolutely right. Why?

Through history public debts have gone up and down, often expanding in periods of war or large changes in basic infrastructure and technologies, and then going down in periods when things have settled down.

The pros and cons of public debt have been put forward for as long as the phenomenon itself has existed, but it has, notwithstanding that, not been possible to reach anything close to consensus on the issue – at least not in a long time-horizon perspective. One has as a rule not even been able to agree on whether public debt is a problem, and if – when it is or how to best tackle it. Some of the more prominent reasons for this non-consensus are the complexity of the issue, the mingling of vested interests, ideology, psychological fears, the uncertainty of calculating ad estimating inter-generational effects, etc., etc.

In classical economics – following in the footsteps of David Hume – especially Adam Smith, David Ricardo, and Jean-Baptiste Say put forward views on public debt that was as a rule negative. The good budget was a balanced budget. If government borrowed money to finance its activities, it would only give birth to "crowding out" private enterprise and investments. The state was generally considered incapable if paying its debts, and the real burden would therefor essentially fall on the taxpayers that ultimately had to pay for the irresponsibility of government. The moral character of the argumentation was a salient feature – according to Hume, "either the nation must destroy public credit, or the public credit will destroy the nation."

Later on in the 20th century economists like John Maynard Keynes, Abba Lerner and Alvin Hansen would hold a more positive view on public debt. Public debt was normally nothing to fear, especially if it was financed within the country itself (but even foreign loans could be beneficient for the economy if invested in the right way). Some members of society would hold bonds and earn interest on them, while others would have to pay the taxes that ultimately paid the interest on the debt. But the debt was not considered a net burden for society as a whole, since the debt cancelled itself out between the two groups. If the state could issue bonds at a low interest rate, unemployment could be reduced without necessarily resulting in strong inflationary pressure. And the inter-generational burden was no real burden according to this group of economists, since – if used in a suitable way – the debt would, through its effects on investments and employment, actually be net winners. There could, of course, be unwanted negative distributional side effects, for the future generation, but that was mostly considered a minor problem since, as Lerner put it,"if our children or grandchildren repay some of the national debt these payments will be made to our children and grandchildren and to nobody else."

Central to the Keynesian influenced view is the fundamental difference between private and public debt. Conflating the one with the other is an example of the atomistic fallacy, which is basically a variation on Keynes' savings paradox. If an individual tries to save and cut down on debts, that may be fine and rational, but if everyone tries to do it, the result would be lower aggregate demand and increasing unemployment for the economy as a whole.

An individual always have to pay his debts. But a government can always pay back old debts with new, through the issue of new bonds. The state is not like an individual. Public debt is not like private debt. Government debt is essentially a debt to itself, its citizens. Interest paid on the debt is paid by the taxpayers on the one hand, but on the other hand, interest on the bonds that finance the debts goes to those who lend out the money.

To both Keynes and Lerner it was evident that the state had the ability to promote full employment and a stable price level – and that it should use its powers to do so. If that meant that it had to take on a debt and (more or less temporarily) underbalance its budget – so let it be! Public debt is neither good nor bad. It is a means to achieving two over-arching macroeconomic goals – full employment and price stability. What is sacred is not to have a balanced budget or running down public debt per se, regardless of the effects on the macroeconomic goals. If "sound finance," austerity and a balanced budgets means increased unemployment and destabilizing prices, they have to be abandoned.

Now against this reasoning, exponents of the thesis of Ricardian equivalence, have maintained that whether the public sector finances its expenditures through taxes or by issuing bonds is inconsequential, since bonds must sooner or later be repaid by raising taxes in the future.

In the 1970s Robert Barro attempted to give the proposition a firm theoretical foundation, arguing that the substitution of a budget deficit for current taxes has no impact on aggregate demand and so budget deficits and taxation have equivalent effects on the economy.

The Ricardo-Barro hypothesis, with its view of public debt incurring a burden for future generations, is the dominant view among mainstream economists and politicians today. The rational people making up the actors in the model are assumed to know that today's debts are tomorrow's taxes. But – one of the main problems with this standard neoclassical theory is, however, that it doesn't fit the facts.

From a more theoretical point of view, one may also strongly criticize the Ricardo-Barro model and its concomitant crowding out assumption, since perfect capital markets do not exist and repayments of public debt can take place far into the future and it's dubious if we really care for generations 300 years from now.

Today there seems to be a rather widespread consensus of public debt being acceptable as long as it doesn't increase too

About Our Commenters

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

Herb Wiseman is a long-time member of COMER who has, for some time, served as COMER's information officer. He is currently also co-chair on the COMER Executive. He is a highly knowledgable and experienced political activist with a life-long interest in matters of political economy.

much and too fast. If the public debt-GDP ratio becomes higher than X % the likelihood of debt crisis and/or lower growth increases.

But in discussing within which margins public debt is feasible, the focus, however, is solely on the upper limit of indebtedness, and very few asks the question if maybe there is also a problem if public debt becomes too low.

The government's ability to conduct an "optimal" public debt policy may be negatively affected if public debt becomes too small. To guarantee a well-functioning secondary market in bonds it is essential that the government has access to a functioning market. If turnover and liquidity in the secondary market becomes too small, increased volatility and uncertainty will in the long run lead to an increase in borrowing costs. Ultimately there's even a risk that market makers would disappear, leaving bond market trading to be operated solely through brokered deals. As a kind of precautionary measure against this eventuality it may be argued – especially in times of financial turmoil and crises – that it is necessary to increase government borrowing and debt to ensure – in a longer run – good borrowing preparedness and a sustained (government) bond market.

The question if public debt is good and that we may actually have to little of it is one of our time's biggest questions. Giving the wrong answer to it – as Krugman notices – will be costly:

The great debt panic that warped the US political scene from 2010 to 2012, and still dominates economic discussion in Britain and the eurozone, was even more wrongheaded than those of us in the anti-austerity camp realized.

Continued on page 17

The Panama Papers, Bail-Ins and the Push to Go Cashless

By Ellen Brown, The Web of Debt Blog, April 12, 2016

Exposing tax dodgers is a worthy endeavor, but the "limited hangout" of the Panama Papers may have less noble ends, dovetailing with the War on Cash and the imminent threat of massive bail-ins of depositor funds.

The bombshell publication of the "Panama Papers," leaked from a Panama law firm specializing in shell companies, has triggered both outrage and skepticism. In an April 3 article titled "Corporate Media Gatekeepers Protect Western 1% From Panama Leak," UK blogger Craig Murray writes that the whistleblower no doubt had good intentions; but he made the mistake of leaking his 11.5 million documents to the corporate-controlled Western media, which released only those few documents incriminating opponents of Western financial interests. Murray writes: "Do not expect a genuine expose of western capitalism. The dirty secrets of western corporations will remain unpublished. Expect hits at Russia, Iran and Syria and some tiny "balancing" western country like Iceland."

Iceland, of course, was the only country to refuse to bail out its banks, instead throwing its offending bankers in jail.

Pepe Escobar calls the released Panama Papers a "limited hangout." The leak dovetails with the attempt of Transparency International to create a Global Public Beneficial Ownership Registry, which can collect ownership information from governments around the world; and with UK Prime Minister David Cameron's global anti-corruption summit next month. According to *The Economist*, "The Panama papers give him just the platform he needs to persuade other governments, and his own, to turn their tough talk of recent years into action."

The Daily Bell suspects a coordinated global effort linked to the push to go cashless. It's all about knowing where the money is and who owns it, in order to tax it, regulate it, "sanction" it, or confiscate it:

"Without privacy, authoritarianism flourishes because it is impossible to build and expand private networks that would act as a deterrent…. A worldwide transparency regime virtually guarantees abuses and corruption from those in power.

"This is a reason why the "cashless society" idea is such a bad one. When no one is able to use cash, financial histories will be easily available via electronic bank records."

Michael Snyder of InvestmentWatchBlog.com also links the Panama Papers with the push to go cashless:

"…[W]ith this Panama Paper leak and all its pre-conditioning against tax havens, people aren't realizing yet that very soon, once Negative Interest Rates and Bail-Ins are being openly discussed and prepared for implementation, the whole tax haven or tax dodger discussion in the media will quickly switch from talking about corrupt billionaires and shell companies half way around the world, and instead will be talking about something much closer to home….

"In my strong opinion this whole thing is all part of the coming capital control war, which ties directly in with the coming transition to a biometric digital currency, the implementation of Negative Interest Rates, the rollout of large scale systemic bail-ins, and the demonization and eventual criminalization of physical assets that are outside of direct taxation control (which again would be done using the pre-conditioned guise of 'tax havens,' with physical precious metals and physical cash being the main targets)."

War on Corruption or War on Savers?

What we may be witnessing here is the 1% going after the 10% of people who, according to German researcher Margrit Kennedy, do not need to borrow but are "net savers." Today the remaining 90% are "all borrowed up." Either they are unwilling to borrow more or the banks are unwilling to lend to them, since they are poor credit risks. Who, then, is left to feed the machine that feeds the 1%, and more specifically the 0.001%? The power brokers at the top seem to want it all, and today that means going after those just below them on the financial food chain. The challenge is in squeezing money from people who don't need to borrow. How to legally confiscate their savings?

Enter bail-ins, negative interest, all-digital currencies, and the elimination of "tax havens."

Bail-ins allow the largest banks to gamble with impunity with their depositors' money. If the banks make bad bets and become insolvent, they can legally confiscate the deposits to balance their books, through an "orderly resolution" scheme of the sort mandated in the *Dodd-Frank Act*.

Negative interest is a fee or private tax on holding funds in the bank.

Eliminating cash prevents the bank runs that these assaults on people's savings would otherwise trigger. Money that exists only as digital entries cannot be withdrawn and stored under a mattress.

Exposing tax havens shows the predators where the money is and who has title to it, facilitating its confiscation and preventing the funding of massive rebellions against confiscation.

Orchestrated at Davos

That could help explain those coordinated developments we've been seeing across the central-bank-controlled world, proliferating particularly after the January summit of the World Economic Forum in Davos, Switzerland, where the global elite gather to discuss the hot economic issues of the day.

According to one Morgan Stanley attendee, a notable topic this year was the need for "a rapid introduction of a cashless society so that even more negative deposit interest rates could be introduced in Europe to offset likely secular stagnation." With the use of physical cash curtailed, JP Morgan estimates the European Central Bank could ultimately bring interest rates as low as *negative 4.5%.*

"Secular stagnation," the official justification for negative interest, means a chronic shortfall in demand: not enough money chasing goods and services. Today virtually all money is created by banks when they make loans; and when old loans are paid off, new ones must be taken out to maintain the money supply. Central banks have traditionally dropped interest rates to stimulate this continual borrowing, but interest rates have now effectively been pushed to zero. The argument is that they can be pushed *below* zero – but only if cash withdrawals, and hence bank runs, are not an option.

That is the argument; but as Paul Craig Roberts, former Assistant Secretary of the Treasury for Economic Policy, observes: "The notion is that the economy's poor economic performance is not due to the failure of economic policy but to people hoarding their money. The Federal Reserve and its coterie of economists and presstitutes maintain the fiction of too much savings despite the publication of the Federal Reserve's own report that 52% of Americans cannot raise $400 without selling personal possessions or borrowing the money."

In an article titled "Exposing the Hidden Agenda of Davos 2016," Zerohedge reports on a flurry of activity during and after Davos related to the push to go cashless. But stimulating demand may just be the cover story for something darker behind this orchestrated effort.

Rescuing the Economy or the Banks?

Of greater concern at Davos than "secular stagnation" was the imminent insolvency of some major banks. Ambrose Evans-Pritchard, writing in January from Davos, quoted William White, former chief economist of the Bank for International Settlements, who warned:

"The situation is worse than it was in 2007. Our macroeconomic ammunition to fight downturns is essentially all used up….

"European banks have already admitted to $1 trillion of non-performing loans: they are heavily exposed to emerging markets and are almost certainly rolling over further bad debts that have never been disclosed.

"The European banking system may have to be recapitalized on a scale yet unimagined, and new "bail-in" rules mean that any deposit holder above the guarantee of €100,000 will have to help pay for it." [Emphasis added.]

It seems the War on Cash is being waged, not to stimulate the economy, but to save the lucrative private banking scheme at all costs. Quelling the riots likely to result from the mass confiscation of deposits could also underlie the heightened push for a global "security state" and for those "anti-corruption" measures designed to determine where the money is and who owns it.

Postscript: Bail-ins under the new 2016 European Recovery and Resolution Directive began officially today, April 10, in Austria. Ominously, it was in Austria that a major bank bankruptcy triggered the Great Depression in 1931.

Ellen Brown is an attorney, president of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. *In* The Public Bank Solution*, her latest book, she explores successful public banking models historically and globally. Her websites are Web of Debt, Public Bank Solution, and Public Banking Institute.*

Our Comment

The course of economic policy over the past three or four decades reads like a catalogue of desperate measures to freeze history – to control humanity, in an unsustainable, increasingly corrupt and inequitable political economy.

The breathtaking success of these measures is rooted in what people are prevented from knowing.

There is an imperative need to share the information and insights available to us through alternative media like the Web of Debt Blog and to develop a vibrant habit of discourse around what really matters.

We need to set up opportunities in whatever circles we move, to consider together what is going on around us, and what we need to do, to move forward.

One of the ideas we had better look into is that of the cashless society, in terms of its police-state implications and its potential for complete control of our money system.

No doubt, it will be presented to us as a blessed way to deal with "treasure islands." To see the whole thing as "all part of the coming capital control war" is to add 2 + 2 and get 4.

Money is power. Why wouldn't "the power brokers at the top… want it all"?

This coordinated tactic reflects how critically ill the system has become. It depends on exploitation. And as most of us have now been exploited to the full – "secular stagnation" is driving the 1% to exploit the 10% left who can still be made to cough up what it takes "to feed the machine that feeds the 1%"!

Surely the rest of us, meanwhile, have a roll to play that we had better identify and to which we would do well to measure up!

Élan

Bob Campbell

SADLY, COMER has lost another colleague. Bob Campbell died, in his 100th year, at Sunnybrook Veterans' Residence, in February.

Bob was born in Glasgow, Scotland. His family immigrated to Canada in 1922. He attended the University of Toronto, and Osgoode Hall Law School. He served in the RCAF, in England and Europe, during WWII.

We were one of many organizations lucky enough to benefit from Bob's many outstanding qualities and abilities, and his deep commitment to justice.

We were privileged to know him, and to call him friend.

Socialism in America Is Closer Than You Think

By Gar Alperovitz, The Nation, February 11, 2016

Experiments with public ownership are thriving across the country. The challenge is to link them and scale them up.

In 1970, the great liberal economist John Kenneth Galbraith declared that the "Democratic Party must henceforth use the word 'socialism.' It describes what is needed." Like many others, however, Galbraith largely dropped the subject in subsequent years. The response to Bernie Sanders's insurgent presidential campaign, along with polls showing that large numbers of young people and minorities in America have a positive view of socialism, suggest that this once-forbidden concept may no longer be taboo.

More than 40 percent of Americans under the age of 30 view socialism favorably, according to the most recent YouGov poll. Positive responses among black Americans have ranged between 29 and 41 percent in recent surveys. A 2011 Pew Research Center poll that omitted the "undecided" option found that 49 percent of its young participants viewed socialism favorably.

The most obvious source of this sea change is the failure of traditional approaches to address the nation's most pressing problems: growing inequality, poverty, economic insecurity, global warming, perpetual war, and the decay and violence visited on black communities. Side by side with the increasing concentration of wealth has been the ever more blatant exploitation of the political power that wealth confers on elites and major corporations, most obviously by the Koch brothers and their right-wing allies.

Widespread dissatisfaction with the status quo creates a climate receptive to sweeping change. But such a climate can also devolve into indifference or cynicism if clear alternatives are not presented. With that in mind, how might a practical and politically viable alternative to our current system actually be constructed? What would socialism look like in 21st-century America?

At the core of the traditional socialist argument has always been the judgment that democratic ownership of the nation's wealth – and especially what Marx called the "means of production" – is essential. The question of ownership, however, has rarely been mentioned in conventional political debate. The traditional socialist idea of "nationalized industry" is beyond the pale, and the vast majority of progressives have so far avoided discussing alternatives to the statist socialist model.

Despite his self-definition as a democratic socialist, Sanders has offered what is essentially a strong liberal or social-democratic program of progressive taxation, financial regulation, single-payer healthcare, increased Social Security and income-support programs, and environmental regulation. Although he backs worker-owned companies, Sanders explicitly disavowed government ownership of businesses in his major theme-setting speech at Georgetown University last November.

The general argument for democratized ownership has always been much broader than simply capturing profits for social use.

At the same time, new resources have become available to support the construction of a serious alternative system – one that is "socialist" in content and vision, but also highly democratic and accountable in structure. It is a system that could become increasingly viable as Americans' disillusionment with traditional strategies continues to grow.

In recent years, there has been a steady buildup of interest in new forms of democratized ownership. Worker-owned cooperatives, neighborhood land trusts, and municipal corporations all democratize ownership in one way or another, but they do so in decentralized rather than statist fashion. The trajectory of change is impressive. Examples of successful worker ownership range from Cooperative Home Care Associates in New York City to the Evergreen complex of solar, greenhouse, and laundry cooperatives in Cleveland. Mayors and city councils in places like Austin, Texas; Madison, Wisconsin; Richmond, California; and New York City have started to provide direct financial or technical support for these developments, suggesting a new nexus of political power.

Older forms of worker ownership – most notably employee stock-ownership plans, or ESOPs – leave much to be desired, but they nonetheless offer a similar sense of what a more expansive buildup in democratized ownership might look like. Approximately 7,000 ESOP enterprises exist nationwide, largely owned by about 13.9 million workers (roughly 3.3 million of whom are no longer active). A number of these companies have attempted to combine unions with ESOP ownership. A related approach is being tested in new union/co-op efforts backed by the United Steelworkers.

Cities have also begun to support other forms of public ownership. Communities as diverse as Philadelphia, Pittsburgh, and Santa Fe, New Mexico, are working to establish municipally owned banks. In Boulder, Colorado, climate-change activists have triumphed over intense corporate opposition in two major referendum battles to municipalize the local utility. More than 250 community land trusts – a model of city and neighborhood development in which land is socialized to prevent gentrification – have been set up across the country, building on the foundational work done by the Champlain Housing Trust in Burlington, Vermont.

Some 450 communities have also established municipally owned Internet systems, commonly against powerful corporate opposition. In recent years, legislators in 17 states have introduced bills to create state-owned public banks like the nearly century-old Bank of North Dakota. Roughly the same number of states have considered legislation to establish single-payer healthcare programs. In 2016, voters in Colorado will decide via referendum on the single-payer ColoradoCare initiative.

None of these efforts have had a major impact yet, but they all offer blueprints for the development of a larger platform – along with concrete and actionable examples of what a radically new economy would look like at the level of enterprise, neighborhood, municipality, and state. Importantly, many "nonpolitical" Americans – some of whom even identify as conservatives (as opposed to right-wing ideologues) – support such efforts. Rhetoric aside, these conservative Americans also commonly oppose big government, big banks, and big corporations, and are often open to alternatives.

During the 1930s, strategies based on the seemingly modest efforts developed by the states in their "laboratories of democracy" became the basis for key elements of the New Deal – including labor law, Social Security, and a range of other programs. Modern experiments with socialized ownership suggest a trajectory with similarly far-ranging implications. This will remain true no matter who wins the 2016 presidential race.

A new politics could infuse local examples of public ownership with fresh energy, and perhaps scale them up.

The great 20th-century conservative economist Joseph Schumpeter once said that the left had missed the boat in its arguments for systemic change. "If radicals were not so fond of chivying the bourgeois," he declared, they would have realized that not having to depend on taxes was "one of the most significant titles to superiority" they could have advanced in favor of their vision. Indeed, a number of states have gained a great deal of experience owning and managing land, real estate, and mineral rights – and many use the proceeds to fund social services and reduce taxes, although this fact hasn't received much attention.

Almost 150 years ago, for instance, Texas's Permanent School Fund took control of about half the land and associated mineral rights in the public domain. In 1953, the state added coastal "submerged lands" to the portfolio after the federal government relinquished them. Each year, distributions from the earnings support education in every county of Texas ($838.7 million in fiscal year 2015 alone). Another fund, the Permanent University Fund, owns more than 2 million acres of land and helps underwrite the state's public-university system. In these and other cases, social ownership supports public education in ways that also significantly reduce the tax burden.

Similar sovereign-wealth funds exist in Louisiana, New Mexico, Wyoming, and North Dakota. Alaska, of course, famously collects and invests revenue from extraction of the state's oil and minerals. Dividends are paid out annually to state residents as a matter of legal "right" – the only practical model in the United States of publicly supported income with no additional work requirement. In 2008, under the governorship of Tea Party favorite Sarah Palin, each resident received $2,069 – over $10,000 for a family of five – from these "socialized" funds. That year, Palin also signed into law a bill that gave every resident an extra $1,200 from the state's natural-resource revenues.

The general argument for public ownership has always been much broader than simply capturing profits for social use. For one thing, unlike private corporations, publicly owned enterprises are not required to grow to meet Wall Street's demand for ever-increasing profits – a critical consideration in any serious effort to move beyond our current "growth at all costs" system toward a more sustainable model. Public forms of enterprise can also be made far more transparent than private firms, and they're more open to regulation, especially concerning climate change. And, critically, they can be excluded from funding political campaigns.

An obvious question is what to do about large-scale industry – a subject that many have simply avoided, preferring instead to focus on local strategies. Yet even the economist and self-proclaimed socialist E.F. Schumacher, author of the classic *Small Is Beautiful,* judged that "the idea of private ownership becomes an absurdity" on a larger scale. Americans witnessed this during the most recent financial crisis, when the federal government de facto nationalized several banks, two auto companies, and the insurance giant AIG. The government gave them back once the crisis was over, but when the next crisis hits, a future progressive govern-

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Sharecroppers *from page 11*

The Wall Street vocabulary is one of conquest and wiping out. You're having a replay in the financial sphere of what feudalism was in the military sphere.

HEDGES: *And in essence, we become a kind of nation of sharecroppers.*

HUDSON: That's exactly right, having to shop at the company store.

HEDGES: *At the company store.*

HUDSON: Yes.

HEDGES: *Well, that lays it out. I think it illustrates the point that we need a vision to counter the vision of predatory, parasitic capitalism. If we don't get a vision very soon, we're in for a dark age.*

HUDSON: And the job of the politician is to promise the nice vision, and then double-cross the constituents.

HEDGES: *Well, so far, unfortunately, they've done it very well.*

Michael Hudson's new book, Killing the Host, *is published in e-format by CounterPunch Books and in print by Islet. He can be reached via his website, mh@michael-hudson.com. Chris Hedges's latest book is* Days of Destruction, Days of Revolt*, illustrated by Joe Sacco.*

Our Comment

Debt, the IMF, and the World Bank: Sixty Questions, Sixty Answers by Éric Toussaint and Damien Millet cataloged the use of debt as a "mechanism of dominance." They traced its destructive path throughout developing countries and predicted that the rest of us would soon learn all about it – first-hand.

John Perkins has spelled out that strategy, step by step as it played out in the developing world where he plied his talents an Economic Hit Man (EHM).

His work had two primary objectives. The first was "to justify huge international loans that would funnel money back to Main, the corporation for which he worked…through massive engineering and construction projects." The second, was to "work to bankrupt the countries that received these loans…so that they would be forever beholden to their creditors and would present easy targets when [the US] needed favours, such as military bases, UN votes, or access to oil and other natural resources."

It was pointed out to him that he would be well paid "to cheat countries around the globe out of billions of dollars," and that "a large part of his job [was] to encourage world leaders to become part of a vast network that promotes US commercial interests and that, in the end, those leaders become ensnared in a web of debt that ensures their loyalty." He goes on to point out that "a symbiotic relationship developed between governments, corporations, and multinational organizations.

Today, he asserts, "the same old tools…are applied at the highest levels of business and government. EHMs are ubiquitous. They stroll from the corridors of the White House through the US Congress, along Wall Street, and into the boardrooms of every major company. Corruption at the top has become legitimized because corporate EHMs draft the laws and finance the politicians who pass them."

As I read Michael Hudson's *Killing the Host,* I recognize the same "MO" now burning its way throughout the developed world.

In addition to such obviously needed changes as ending private funding of campaigns, promoting an educated electorate, and effecting further electoral reform, all this brings to mind our present government's proposal for a new infrastructure bank.

Aside from the fact that we already have an infrastructure bank, why on earth would we look to Merrill Lynch and the Bank of America for advice on how we Canadians can best fund our badly neglected infrastructure?

Why do I find the very suggestion somehow ominous?!

Élan

ment might well turn them into publicly owned features of a new system. (Breaking up the banks, as some have proposed, would likely produce a subsequent reconsolidation of power – as AT&T and Standard Oil showed after they were broken up.)

A major problem involves the inevitable institutional power that comes with such large scale. During the 1960s and '70s, the pathbreaking radical historian William Appleman Williams suggested that one way for socialists to deal with this challenge was to focus on regions rather than the national system as a whole – especially in a country the size of the United States.

Modern innovators are bringing a similar idea to life as they experiment with regional models. "Bio-regional" efforts that anchor economic, social, and environmental development in natural regions can be found in places as diverse as the Connecticut Valley and the Ozark Mountains. The Kansas Area Watershed Council, for example, supports sustainable development in the prairie region through a range of projects and community-building events, and the Salmon Nation project is bringing a similar perspective to the Pacific Northwest. Nine states, mainly in New England, have formed the Regional Greenhouse Gas Initiative to reduce emissions. Another effort, Food Solutions New England, has put forward a comprehensive plan to develop a robust, collaborative, sustainable, and equitable regional food system by 2060.

The most important precedent for a long-term regional plan is the Tennessee Valley Authority. Established by the New Deal, this public-energy corporation currently serves 9 million people in seven states. At one point in the 1930s, Franklin Roosevelt supported legislation that would have created seven "little TVAs" as a step toward a much more expansive economic-development plan. "If we are successful here," he argued, "we can march on, step by step; in a like development of other great natural territorial units within our borders."

Although many mid-century theorists and planners believed in the promise of such regional proposals, the development of a more expansive, democratic, and ecologically sustainable regionalist vision was hampered by the centralizing thrust of the New Deal and then cut short by World War II. The TVA itself lost direction and largely succumbed to bureaucratic and other corrosive pressures.

Nevertheless, as today's regional efforts show, the concept has endured. It's also worth noting that conservative support for decentralized forms of public ownership may not be totally foreclosed. In 2013, President Obama proposed privatizing the TVA in his annual budget, but a group of Republican legislators, concerned with higher prices for consumers and less money for their states, vigorously (and successfully) opposed the idea. A new and more radical regionalism might also draw some lessons from the conservative Appalachian Regional Commission (ARC), which has recently funded innovative efforts to help move the area away from a coal economy. One such effort is Kentucky's Shaping Our Appalachian Region (SOAR), which is working to develop local food systems, broadband Internet infrastructure, new businesses, youth engagement, and a stronger cultural identity. The Chesapeake Bay Commission, which includes Maryland, Pennsylvania, and Virginia, has brought together a broad coalition to deal with the pollution that threatens the ecological health of a shared regional resource.

California – itself equivalent in scale to a sizable region (and appropriately understood as such) – is a national leader in developing regional climate-change solutions. In October 2015, Governor Jerry Brown signed the most comprehensive and far-reaching climate-change bill that any state has enacted since California first passed landmark climate-change legislation in 2006. The new law requires state utilities to purchase 50 percent of their power from renewable sources by 2030; it also doubles the energy-efficiency requirements of buildings and provides incentives for creating the charging stations needed by electric vehicles.

Another promising strategy is to combine elements of these various approaches. There is no reason that large-scale enterprises couldn't be structured as joint ventures that would include worker, community, and regional institutions. Many states and localities across the country collaborate to manage, regulate, and share the benefits of publicly owned electric utilities. Roughly 25 percent of the nation's electricity is, in fact, supplied by publicly owned firms and co-ops. In conservative Nebraska, every resident and business gets its electricity from a local public utility or cooperative. In both liberal and conservative states, examples of public ownership – municipally owned hospitals, hotels, convention centers, transit systems, ports, and airports, among many other services – are ubiquitous. A new politics might one day infuse these local efforts with fresh purpose and energy, and perhaps scale them up to the state or regional level.

Continued on page 19

Public Debt *from page 13*

Not only were governments that listened to the fiscal scolds kicking the economy when it was down, prolonging the slump; not only were they slashing public investment at the very moment bond investors were practically pleading with them to spend more; they may have been setting us up for future crises.

And the ironic thing is that these foolish policies, and all the human suffering they created, were sold with appeals to prudence and fiscal responsibility.

Our Comment

This article ignores the relationship between monetary and fiscal practices and continues the current political obfuscation between the two. Its linear focus on bond markets obscures the feedback systems and non-linear impacts. The issue is to whom the debt is owed not the amount. When public debt, held by the private sector, increases, it puts constraints on the fiscal practices often justifying austerity programmes. In Canada the current level of federal debt service charges (even in the past balanced budget) exceeded all other expenditures except for two – seniors and health care. It even exceeded defence. These huge transfers of tax dollars as interest (debt service charges) to the wealthy money-lenders exacerbate the inequality growing in our society. Public debt is part of the money supply and of course must be managed in the interest of the public. Currently public debt and elements of this article ignore public good.

Simply stated public debt should be balanced between public and private institutions and should be primarily used to fund infrastructure needed by the country. If private pension funds need more stable portions of their portfolio, they should be allowed to purchase government bonds. If citizens are looking for more stable investments for their savings they may be encouraged to buy savings bonds.

To reiterate. It is silly to talk about public debt being too high or too low because it diverts us from looking at who actually holds the debt and its public value. Bring that issue into the discussion and we might get somewhere.

Herb Wiseman

Stakes Are Huge as Liberal Government Moves Forward on Canada Infrastructure Bank

Jason Fekete, Ottawa Citizen, March 18, 2016

As the federal Liberal government prepares to deliver its first budget on Tuesday, behind the scenes it has been slowly laying the groundwork for a mammoth, multibillion-dollar undertaking that could revolutionize how infrastructure projects are planned and funded in Canada.

A federally backed Canada Infrastructure Bank (CIB) that would make it easier and more affordable for municipal and provincial governments to finance capital projects was a key election promise by Prime Minister Justin Trudeau and the Liberals.

While it's expected the budget will address the government's commitment to create the CIB, the exact structure and mandate of the CIB – including how project financing and approval would work and whether it will be a Crown corporation – won't be determined until the coming months.

Municipal and provincial governments, large firms and the broader financial markets are closely watching the government's blueprint for the bank and exactly how it will operate because the stakes are huge: The creation of the CIB could save lower levels of government hundreds of millions of dollars on large capital projects by allowing them to access low-interest financing from the federal government and its top credit rating.

Ottawa has already taken steps to move the CIB project forward.

It has recruited a Canadian investment banker working at Bank of America Merrill Lynch in the US to help design the CIB and advise Infrastructure Minister Amarjeet Sohi on the project.

The adviser will work pro bono as an unpaid volunteer and will be based out of Sohi's office for up to six months, beginning in late March. The individual will also work with large pension funds in Canada as part of the Liberal government's efforts to persuade them to invest in Canadian infrastructure such as transit projects.

Meanwhile, the government has also created a new, executive group position of Chief, Infrastructure at Finance Canada to advise Finance Minister Bill Morneau on the development of the Infrastructure Bank, the plans and priorities of the Infrastructure minister, and the Finance Department's relationship with PPP Canada, a Crown corporation that delivers public infrastructure through public-private partnerships (P3).

The broad structure of the Canada Infrastructure Bank was laid out in the Liberal party's election platform, which said the CIB will "provide low-cost financing for new infrastructure projects."

The bank will offer "loan guarantees and small capital contributions" to provinces and municipalities where a lack of access to capital is a barrier to projects proceeding.

"The federal government can use its strong credit rating and lending authority to make it easier and more affordable for municipalities to build the projects their communities need," the platform says.

"Lending from the CIB will be linked to balance sheet assets, and won't require any increase in the federal government's accumulated deficit."

The Canada Infrastructure Bank also will issue green bonds to fund projects like electric vehicle charging stations and networks, renewable energy transmission lines, and building retrofits, the Liberals have promised.

The Federation of Canadian Municipalities, in its budget submission, recommended the federal government work with the FCM on the design of the Canada Infrastructure Bank to help reduce administrative burdens, ensure both renewal of capital projects and new construction are eligible for funding, and that it allows for maturities exceeding 30 years.

The FCM, which represents nearly 2,000 local governments across the country, also wants affordable housing construction to be eligible for infrastructure bank financing.

A federal infrastructure bank can produce widespread benefits for communities across the country, including more affordable financing for municipalities and provinces, but that's just one component of what should be included in it, says a recently released report from Matti Siemiatycki, an associate professor in the Department of Geography and Planning at the University of Toronto.

The bank could provide low-interest loans directly to governments and private project sponsors to finance infrastructure, his study says.

But it could also offer "credit enhancement" services – such as loan guarantees, a reserve fund to cover lenders in case of borrower default, and loan loss insurance – that improve the chances the loans will be repaid by borrowing municipalities and provinces.

The report notes that, on average, the federal government borrows money at rates approximately 1.25 percentage points lower than large municipalities and around one percentage point lower than provinces that have provincial financing authorities, like Ontario and British Columbia.

If financing through the CIB can shave one percentage point off of the cost of a municipality or province borrowing $500 million, it would save the borrower $100 million in interest payments over a 35-year loan term, the study says.

In his report, titled "Creating An Effective Canadian Infrastructure Bank," Siemiatycki says municipal and provincial government don't have a problem accessing financing, but do have trouble paying it back because of revenue challenges.

However, he believes "the real benefit" would come by creating an infrastructure bank that is a "centre of excellence" in project delivery by providing rigorous project evaluation and procurement expertise, along with the financing component.

The bank must fund "shovel worthy" projects that will realize long-term economic benefits, rather than just "shovel ready" projects that could end up being a drain on public finances.

"We have a chronic history of picking projects that don't deliver on its benefits," Siemiatycki said in an interview.

His report recommends the Canada Infrastructure Bank be capitalized with funds that are on top of – and not a replacement for – existing federal capital grants, and that a primary focus be on lending services for large infrastructure projects worth at least $10 million.

Lending from the CIB will be linked to balance sheet assets, and won't require any increase in the federal government's accumulated deficit.

As well, all projects applying for financial support from the bank should have a credible, independent study of the project's costs and benefits.

There are various forms of infrastructure banks and capital financing authorities scattered across Canada, the US and the world, including:

• In Western Canada, the Municipal Finance Authority of British Columbia provides low-cost financing to municipal governments, while the Alberta Capital Finance Authority finances capital projects for municipalities, school boards and other local entities;

• The Ontario Financing Authority and Infrastructure Ontario provide financing to public sector organizations and municipalities to help finance capital projects like transit, roads and health facilities;

• In the US, Democratic frontrunner Hillary Clinton has promised a $25-billion, government-owned national infrastructure bank as a key plank in her platform, with the hopes it will help unlock hundreds of billions of dollars in private capital for American infrastructure;

• Overseas, the European Investment Bank is owned by the EU's 28 member states and provides financing and advice for infrastructure projects that meet the bloc's policy objectives; In the United Kingdom, the UK Green Investment Bank, which is owned by the British government, invests public funds in green infrastructure projects and mobilizes private sector capital into the green economy; and

• The Beijing-based Asian Infrastructure Investment Bank, which just opened its doors, finances sustainable infrastructure projects in Asia that promote economic development and regional co-operation.

Our Comment

The stakes are indeed huge! Canadians could forfeit their tried and proven *public* central bank! No wonder the government has been laying the groundwork for its successor "*behind* the scenes."

The most revolutionary aspect of this "multibillion-dollar undertaking" will be the self-perpetuating privatization of debt that has characterized Canada's monetary policy since 1974, when the government very *much* "behind the scenes" – chucked the lessons of the Great Depression and ceased using the Bank of Canada, borrowing instead from private banks at compound interest. By 2012, that change of policy had cost Canadian taxpayers 1.1 trillion dollars in unnecessary debt service on the national debt alone.

How will the government raise its share of low-interest financing?

Why on earth would Canada look to Bank of America Merrill Lynch to help design CIB? (Meanwhile, a recent study by the American Levy Institute, cites Canada as an outstanding example of how well a *public* central bank can fund a country's infrastructure needs and serve the common good without undue inflation or debt.)

Pensioners might want to study the pros and cons of investing their funds in infrastructure such as transit projects – especially when such investments are not necessary.

This proposal should be studied in the context of similar enterprises throughout the developing world and the EU.

What could be at stake is national sovereignty and political and economic democracy.

Élan

Socialism *from page 17*

None of this is to suggest that large-scale political change is imminent or inevitable. Social, economic, and environmental conditions – to say nothing of assaults on traditional liberties – are likely to get worse before they get better. For precisely this reason, the systematic development of a practical alternative to the status quo is critically important.

The change we need will not come from the top. As we've seen in countless ways, our current political system limits the potential for traditional progressive strategies. A new vision – one that encompasses fresh political strategies as well as new political-economic content – must be built from the bottom up. The overarching goal must be to develop a set of ideas that challenge the dominant ideologies and move the country in a fundamentally new direction.

The Sanders insurgency, the polling data, and the growing experimentation with a range of alternatives all suggest that we may be on the brink of a new era – an extended and difficult period in which a new economy is slowly forged. Such a system might perhaps be called a "pluralist commonwealth" to reflect its diverse forms of common ownership. But whatever we call it, it is time to start discussing this system more openly and to refine its practical elements. As ever-greater numbers of Americans are forced to ask fundamental questions about where their nation is going, we must start offering the answers.

Comments

In an earlier article I wrote on "Occupy Economics," I referred to Gar Alperovitz's approach to a paradigm shift based on redistribution of wealth as distinguished from reform of the present system or revolution:

"The third process, Evolutionary Reconstructionism, Alperovitz defines as a Third Way wherein, beneath the radar, a new paradigm has been emerging quietly over the past decades. Instead of regulating wealth (reform) or seizing wealth (revolution) he avers that this third option is steadily democratizing wealth over time and creating the underlying institutional blocks of a new system, inserting new institutions into the system, and transforming it piece by piece toward a more equal and democratic society. He provides numbers to show the significant growth in worker co-operatives, coalitions of co-operatives, community development corporations, and community and public sector forms of banking all of which keep money in the local economy or as he calls it democratizing wealth. He also notes that ultimately larger scale institutional changes are also essential especially in regard to the financial, banking and health care systems." https://beyondcollapse.wordpress.com/2012/03/17/occupy-economics-how-the-occupy-movement-has-helped-to-shift-the-economic-paradigm-2

Janet M. Eaton, March 18, 2012

You may recall that Galbraith also pointed out that "the new [was] already with us," and that the first step to the change necessary would be "the emancipation of belief."

What's behind this "sea change" is not a new level of thinking – that's always been there – but a new intensity, a new degree of convergence – a global response to a global corporatocracy that has not only made "the failure of traditional approaches" clear, but has so exacerbated "the nation's most pressing problems" as to perhaps trigger Galbraith's "emancipation of belief."

The wide range of examples cited are particularly encouraging in what they reveal about the "trajectory of change."

The impetus to take back the commons is key in the development of a true alternative.

Alperovitz's "Evolutionary Reconstructionism," is an attractive option. We Canadians have a distinct advantage on this score, in our traditional socialist bent, and in our *public* central bank.

Alas, that advantage is under siege. We have work to do. "From the bottom up"?

Élan

The Decline of Manufacturing and the Rise of Big Banks

By Thom Hartman, Program, February 18, 2016

The big Republican knock against Bernie Sanders – and, to some extent, the knock on Hillary Clinton and any Democrat – is that they want America to be more like Europe, in particular Northern Europe.

Bernie's socialist policies might work fine for Scandinavia, Republicans say, but they're pretty much DOA in the good old US of A.

Marco Rubio even went so far as to joke at a recent debate that Bernie would actually be better off just running for president of Sweden.

Now, Sweden doesn't actually have a president (it's a constitutional monarchy with a king as its head of state and a prime minister as its head of government), but Rubio's point here is still pretty obvious.

Basically, he's saying that even if it were a good idea, Bernie Sanders' Sweden-style socialism would never work in the US because damnit, this is America and we don't like pinko commies here.

Conservative columnist David Brooks gives another version of this argument in his latest op-ed for *The New York Times*.

He writes, "There's nothing wrong with living in Northern Europe. I've lived there myself. It's just not the homeland we've always known. Bernie Sanders' America is starkly different from Alexander Hamilton's or Alexis de Tocqueville's America, or even Bill Clinton's and Barack Obama's America."

But is that really true?

Is Sweden-style social democracy really as alien to the American way of thinking as David Brooks says it is?

Do Americans really prefer our way of doing things to the Scandinavian way of doing things?

Well, contrary to what you might hear on Fox So-Called News, they don't.

Americans actually really like socialism, in particular Swedish-style democratic socialism, the kind Bernie Sanders is promoting as part of his political revolution.

A couple of years ago, Harvard University business professor Michael Norton and Duke University Psychology professor Dan Ariely conducted a study in which they showed Americans three different pie charts.

The first pie chart represented how wealth is distributed here in America, with the richest 20 percent of all Americans controlling 84 percent of all wealth.

The second pie chart represented how wealth is distributed in Sweden, a much more equal society in which the richest 20 percent of the population controlling a much smaller share of all wealth – around 18 percent.

The third chart represented an imaginary society in which wealth was distributed equally among all sectors of the population.

After showing people these three charts, Norton and Ariely then asked them which style of wealth distribution they preferred.

The responses to this question were stunning.

A full 92 percent of people said they preferred a Swedish style of wealth distribution.

77 percent, meanwhile, said they actually preferred a perfectly equal distribution of wealth.

So what's the takeaway from all this?

Easy: Americans overwhelmingly support either pure socialism or at least the next best thing – Swedish-style social democracy.

Which brings us back to Bernie Sanders, Hillary Clinton, and the generally leftward-swing that's sweeping the entire Democratic Party.

Say what you want about the feasibility of his "democratic socialism," but the argument that it's somehow out of step with what the American people want is just flat-out wrong.

Americans do want socialism, even if they've been bludgeoned by decades of Cold War era propaganda into believing that it's an affront to our democracy.

The Republican attacks against progressive ideals will likely continue and will get even harsher as we move into the general election, but as progressives convincingly make their case to the American people that democratic socialism is the way to go, those Republican attacks will fall on deaf ears.

A specter is haunting America, the specter of the death of the middle class, and Americans increasingly believe that European-style Democratic Socialism is the cure. And genuinely progressive candidates across America – who did really well in the past few election cycles – are poised to do better than ever.

Our Comment

"What's in a name? A rose by any other name would smell as sweet" (Shakespeare, *Romeo and Juliet*).

This report on the Harvard study reminds me of TV coverage when public health care was being debated in the US. It featured pictures of hysterical Americans being interviewed on the street, screaming angrily against public health care: "That's socialism!… That's communism!"

The results of this study are most encouraging in that they suggest that people *do know* what's best for them and that – perhaps *most* of them – want what is just and right. They just can't recognize it when they see it, for the bias into which they have been "bludgeoned" – hence, the Pavlovian reaction (Ivan Pavlov, 1849-1936, Russian physiologist, Nobel Prize for medicine, 1904; famous for experimental work on the impact of conditioning on behaviour).

The study also suggests that such "knee-jerk" reactions might be overcome by changing circumstances and by the manner in which alternatives are presented.

I have read studies that indicated that 80% of human behaviour is *learned*.

Élan