THE JOURNAL OF THE COMMITTEE ON MONETARY AND ECONOMIC REFORM

COMER

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Summary of Federal Court Hearing, December 7, 2016

On December 7, 2016, the Federal Court of Appeal heard the appeal from Justice Russell's second decision, ruling to strike COMER's statement of claim.

The Federal Court of Appeal, in its terse and non-responsive reasons, dismissed the appeal.

In dismissing the appeal, the Federal Court of Appeal simply:

1. Re-cited the judicial history of the case, namely:

(a) The initial decision from Prothonotary Aalto striking the claim;

(b) The first decision of Justice Russell (on appeal from Prothonotary Aalto) overturning the striking of the claim;

(c) The first decision of the Federal Court of Appeal dismissing both COMER's appeal as to the damages portion of the claim, as well as the government's cross-appeal on the main, declaratory aspects of the claim; and

(d) Justice Russell's second decision on the amended statement of claim, which struck the claim.

2. The Court of Appeal then simply endorsed the conclusion of Justice Russell, without analysis, and without response to argument made by COMER, with respect to Justice Russell's 69-page decision.

COMER is therefore filing an application for leave (permission) to the Supreme Court of Canada to appeal the decision of the Federal Court of Appeal.

It goes without saying that COMER views the Federal Court of Appeal decision as wrong in law, for many reasons, the same reasons as Justice Russell's decision which it echoes without analysis nor response to compelling arguments, which is in effect a "passing of the buck" by the Federal Court of Appeal.

Our Comment

As other items in this edition of the COMER journal indicate, support for monetary reform is growing steadily stronger – largely, as a result of what the Great Financial Crisis (GFC) has made clear. It's exciting that our lawsuit has brought us – at this time – to the level of the Supreme Court of Canada.

Ann Emmett

Transformative Change in 2017 Starts with Community

By Murray Dobbin, murraydobbin.ca, January 6, 2017

As has been pointed out by too many people, 2016 was a devastating year for progressives (a homely term for all those who are want equality, democracy and ecological sanity). There is no need to repeat the list of atrocities, failures and disappointments, as we all have them indelibly marked on our psyches. One result of the *annus horribilis* is that activists everywhere have pledged to try harder – at what is clearly not working. There is even a sense of optimism rooted in the old left-wing shibboleth that "the worse things get, the better" – meaning, of course that if things get really, really bad, people will rise up (and overthrow the 1%).

But the truth is much simpler if less optimistic: the worse things get, the worse they are. There is no measure of misery beyond which revolution pops up out the

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Change *from page 1*

ground. And if there is any popping to be done it is clearly not guaranteed, nor even these days remotely likely that it will be socialist. The victory of Donald Trump and the rise of right-wing parties across Europe demonstrate how much easier it is to play to fear, insecurity, hatred and retribution than it is to attract people to competing visions of the good life, rooted in science and delivered by the state – a state that has been openly complicit in making things worse for two generations.

It's not that there is no good news on the social change front. Jeremy Corbyn's and Bernie Sanders' unexpected successes were exhilarating. But the context in which they shone – political "leadership" in traditional party politics in the US and Britain – severely limits the potential for future growth of broad-based movements. Why? Because beyond making activists feel temporarily less powerless and marginalized, they are still examples of why dependence on leaders is a barrier to the possibility of transformational change.

And let's be clear. Today anything less than transformational change is simply not good enough.

Peter Block in his insightful 2008 book, *Community: The Structure of Belonging*, dissects the preoccupation of citizens with leaders and leadership:

"It is this love of leaders that limits our capacity to create an alternative future. It proposes that the only real accountability in the world is at the top.... The effect of buying into this is that it lets citizens off the hook and breeds citizen dependency and entitlement."

When citizens don't feel accountable, they increasingly act as consumers. Beyond neoliberalism's obvious imperatives such as free trade, privatization, tax breaks for the wealthy, etc., its most pernicious impact on society is the destruction of community. The greatest weapon the 1% has is our isolation from each other. And all efforts to defeat neoliberalism, no matter how valiant, inspired, smart or sustained, will fail unless they somehow ultimately contribute to the rebuilding of community. Unless and until that process begins in earnest, the systematic isolation of individuals and families from each other and from community will make garnering significant citizen power impossible.

Not difficult: impossible.

After 40 years of neoliberal social (and economic) engineering, we are at a stage where as consumers we have virtually endless choices – a mind-numbing variety of choices streamed at us at a speed and volume that leaves us stupefied – shell-shocked by choice, diverted from our possible lives by shopping. But our choices as citizens are now so constrained by the erosion and corruption of democracy and the endless promotion of small government that our citizenship has atrophied.

The dominant form of politics in fact reduces most people to passive consumers of politics just as they are consumers of goods. As consumers of politics rather than intentional citizens, we simultaneously abdicate responsibility and end up indulging in the culture of complaint. Says Block, "Consumers give up their power. They believe that their own needs can best be satisfied by the actions of others...," whether they be public service providers, elected officials or store managers.

The State of Activism

For activists facing this entrenched political culture there is enormous temptation to sink into a nearly pathological attachment to failure – what Block calls "the joy of complaint, of being right." The more powerless we feel, the more satisfaction we get from observing the next corporate or government outrage against the public good. It justifies our political stance and our critiques. How many dinner parties have lefties gone to where the whole evening is spent out-doing each other with stories that demonstrate things are actually worse than we thought they were.

It is hard to imagine how activists, who know people's daily reality, can actually believe that scaring the bejesus out of people about the dozen tsunamis about to engulf them will actually motivate people to act. But we do. The new people the left wants to engage are apolitical for good reasons – they are bombarded by a media utterly complicit in designing their misery and their consciousness, they are cynical about the idea that government will ever provide for them, meetings about the latest crisis are depressing, and most people are working so hard as part of the precariate that asking them to come to a meeting is asking them to sacrifice the only two hours they would otherwise have with their families.

At a certain point, warning disengaged Canadians about the "fearful" consequences of doing nothing about climate change isn't much different psychologically than the right telling them to fear crime and immigration. We can argue, of course, that our intentions are pure. But no one cares.

Block spends a lot of time repeating the core message of his book: that we have to radically shift the way we engage people and move away from presenting them with problems to talking about possibilities. Talking about possibilities is "strengthening interdependence and a sense of belonging." It's not about a vision of the future delivered whole cloth from above, but about transforming "self-interest, isolation and feelings of being an outsider to connectedness and caring for the whole." It is not blind optimism but it is hopeful, emphasizing the assets, gifts and strengths of the community rather than the same old problems.

I confess I am a bit hesitant to recommend Block's book given that it diverges so dramatically from my usual prescriptions. He eschews mega-analysis and even class analysis. He has nothing to say about neoliberalism. He mistakenly proclaims that government can't be a force for good. But when it comes to shining a light on the critical issue of agency – of how transformative change will actually begin – his insights are invaluable.

Our Comment

For decades, activists have concentrated on the consequences of bad policies without taking on the root cause.

One example of trying harder without success is acknowledged in the Ontario Health Coalition's presentation to the Ontario Legislature's Standing Committee on Finance and Economic Affairs. For the better part of a decade, they point out, they have detailed for such committees "devastating hospital service cuts" and their impact on our health care service.

While they deplore the pattern of underfunding, they do not *challenge* the rationale behind what they do identify as "planned and purposeful." They don't *question* the purpose.

Until they do, they simply *reinforce* the "democratic facade" that the process is designed to portray. They *promote* the notion that all that can be done is being done.

Whatever the focus of our particular cause – education, public health care, the environment…we are all strapped to spokes on the same wheel. At the hub of that wheel, causing it to spin faster and faster, is *the money system*. Until we deal with that, we can't solve any of these problems: we'll continue to speed along our present course of corporate globalization. Our trajectory is over the cliff.

The excuse for policies like cuts to health care is that we can't *afford* better.

When people understand the truth about money, they *know* better. They're able to move past the deceptions and the diversions and to pursue the possibilities with *hope*. This creates a confidence and a sense of common purpose that will inspire common action.

Élan

The Italian Banking Crisis: No Free Lunch — Or Is There?

By Ellen Brown, Global Research, December 22, 2016

It has been called "a bigger risk than Brexit"– the Italian banking crisis that could take down the eurozone. Handwringing officials say "there is no free lunch" and "no magic bullet." But UK Prof. Richard Werner says the magic bullet is just being ignored.

On December 4, 2016, Italian voters rejected a referendum to amend their constitution to give the government more power, and the Italian prime minister resigned. The resulting chaos has pushed Italy's already-troubled banks into bankruptcy. First on the chopping block is the 500 year old Banca Monte dei Paschi di Siena SpA (BMP), the oldest surviving bank in the world and the third largest bank in Italy. The concern is that its loss could trigger the collapse of other banks and even of the eurozone itself.

There seems little doubt that BMP and other insolvent banks will be rescued. The biggest banks are always rescued, no matter how negligent or corrupt, because in our existing system, banks create the money we use in trade. Virtually the entire money supply is now created by banks when they make loans, as the Bank of England has acknowledged. When the banks collapse, economies collapse, because bank-created money is the grease that oils the wheels of production.

So the Italian banks will no doubt be rescued. The question is, how? Normally, distressed banks can raise cash by selling their non-performing loans (NPLs) to other investors at a discount; but recovery on the mountain of Italian bad debts is so doubtful that foreign investors are unlikely to bite. In the past, bankrupt too-big-to-fail banks have sometimes been nationalized. That discourages "moral hazard" – rewarding banks for bad behavior – but it's at the cost of imposing the bad debts on the government. Further, new EU rules require a "bail in" before a government bailout, something the Italian government is desperate to avoid. As explained on a European website called Social Europe:

"The EU's banking union, which came into force in January 2016, prescribes that when a bank runs into trouble, existing stakeholders – namely, shareholders, junior creditors and, sometimes, even senior creditors and depositors with deposits in excess of the guaranteed amount of €100,000 – are required to take a loss before public funds can be used….

"[The problem is that] the subordinated bonds that would take a hit are not simply owned by well-off families and other banks: as much as half of the €60 billion of subordinated bonds are estimated to be owned by around 600,000 small savers, who in many cases were fraudulently mis-sold these bonds by the banks as being risk-free (as good as deposits basically)."

The government got a taste of the potential backlash a year ago, when it forced losses onto the bondholders of four small banks. One victim made headlines when he hung himself and left a note blaming his bank, which had taken his entire €100,000 savings.

Goldman Sachs Weighs In

It is not just the small savers that are at risk. According to a July 2016 article titled "Look Who's Frantically Demanding That Taxpayers Stop Italy's Bank Meltdown":

"The total exposure of French banks and private investors alone to Italian government debt exceeds €250 billion. Germany holds €83.2 billion worth of Italian bonds. Deutsche bank alone has nearly €12 billion worth of Italian bonds on its books. The other banking sectors most at risk of contagion are Spain (€44.6 billion), the US (€42.3 billion) the UK (€29.8 billion) and Japan (€27.6 billion)….

All of which helps to explain why banks and their representatives at the IMF and the ECB are frantically demanding a no-expenses-spared taxpayer-funded rescue of Italy's banking system."

It could also explain why Goldman Sachs took it upon itself to propose a way out of this dilemma: instead of buying

Italian government bonds in their quantitative easing program, the ECB and the central bank of Italy could buy the insolvent banks' nonperforming loans. As observed in a July 2016 article in *The Financial Times* titled "Goldman: Italy's Bank Saga – Not Such a Big Deal," Italy's NPLs then stood at €210bn, and the ECB was buying €120bn per year of outstanding Italian government bonds as part of its quantitative easing (QE) scheme. The author quoted Goldman's Francesco Garzarelli, who said, "by the time QE is over – not sooner than end 2017, on our baseline scenario – around a fifth of Italy's public debt will be sitting on the Bank of Italy's balance sheet." Bringing the entire net stock of bad loans onto the government's balance sheet, he said, would be equivalent to just nine months' worth of Italian government bond purchases by the ECB.

Buying bank debt with money generated by the central bank would rescue the banks without cost to the taxpayers, the bondholders or the government. So why hasn't this option been pursued?

The Inflation Objection

Perhaps the concern is that it would be inflationary. But UK Prof. Richard Werner, who invented the term "quantitative easing" when he was advising the Japanese in the 1990s, says inflation would not result. In 2012, he proposed a similar solution to the European banking crisis, citing three successful historical precedents.

One was the US Federal Reserve's quantitative easing program, in which it bought $1.7 trillion in mortgage-backed securities from the banks. These securities were widely understood to be "toxic" – Wall Street's own burden of NPLs. The move was highly controversial, but it worked for its intended purpose: the banks did not collapse, the economy got back on its feet, and the much-feared inflation did not result. Werner says this was because no new money entered the non-bank economy. The QE was just an accounting maneuver, an asset swap in the reserve accounts of the banks themselves.

His second example was in Britain in 1914, when the British banking sector collapsed after the government declared war on Germany. This was not a good time for a banking crisis, so the Bank of England simply bought the banks' NPLs. "There was no credit crunch," wrote Werner, "and no recession. The problem was solved at zero cost to the tax payer."

For a third example, he cited the Japanese banking crisis of 1945. The banks had totally collapsed, with NPLs that amounted to virtually 100 percent of their assets: "But in 1945 the Bank of Japan had no interest in creating a banking crisis and a credit crunch recession. Instead it wanted to ensure that bank credit would flow again, delivering economic growth. So the Bank of Japan bought the non-performing assets from the banks – not at market value (close to zero), but significantly above market value."

In each of these cases, Werner wrote: "The operations were a complete success. No inflation resulted. The currency did not weaken. Despite massive non-performing assets wiping out the solvency and equity of the banking sector, the banks' health was quickly restored. In the UK and Japanese case, bank credit started to recover quickly, so that there was virtually no recession at all as a result."

For Italy and other "peripheral" eurozone countries, Werner suggests a two-pronged approach: (1) the central bank should buy the distressed banks' NPLs with QE, and (2) the government should borrow from the banks rather than from bondholders. Borrowing in the bond market fattens the underwriters but creates no new money in the form of bank credit for the economy. Borrowing from banks does create new money as bank credit. (See my earlier article here.)

Clearly, when central banks want to save the banking system without cost to the government or the people, they know how to do it. So the question remains, why hasn't the ECB followed the Federal Reserve's lead and pursued this option?

The Moral Hazard Objection

Perhaps it is because banks that know they will be rescued from their bad loans will keep making bad loans. But the same moral hazard would ensue from a bailout or a bail-in, which virtually all interested parties seem to be advocating. And as was observed in an article titled "Italy: Banking Crisis or Euro Crisis?," the cause of the banks' insolvency in this case was actually something beyond the banks' control – the longest and deepest recession in Italy's history.

Werner argues that the moral hazard argument should instead be applied to the central bank, which actually was responsible for the recession due to the massive credit bubbles its policies allowed and encouraged. Rather than being punished for these policies, however, the ECB has been rewarded with even more power and control. Werner writes: "There is thus a form of regulatory moral hazard in place: regulators that obtain more powers after crises may not have sufficient incentives to avoid such crises."

What May Really Be Going On

Werner and other observers suspect that saving the economies of the peripheral eurozone countries is not the real goal of ECB policy. Rather, the ECB and the European Commission are working to force a political union on the eurozone countries, one controlled by unelected bureaucrats in the service of a few very large corporations and banks. Werner quotes David Shipley on Bloomberg: "Central bank officials may be hoping that by keeping the threat of financial Armageddon alive, they can coerce the region's people and governments into moving toward the deeper union that the euro's creators envisioned."

ECB and EC officials claim that "there is no free lunch" and "no alternative," says Werner. But there is an alternative, one that is cost-free to the people and the government. The European banks could be rescued by the central bank, just as US banks were rescued by the Federal Reserve.

To avoid the moral hazard of bank malfeasance in the future, the banks could then be regulated so that they were harnessed to serve the public interest, or they could be nationalized. This could be done without cost to the government, since the NPLs would have been erased from the books.

For a long-term solution, the money that is now created by banks in pursuit of their own profit either needs to be issued by governments (as has been done quite successfully in the past, going back to the American colonies) or it needs to be created by banks that are required to serve the public interest. And for that to happen, the banks need to be made public utilities.

Ellen Brown is an attorney and author of twelve books, including the best-selling Web of Debt*. Her latest book,* The Public Bank Solution*, explores successful public banking models historically and globally. Her 300+ blog articles are at EllenBrown.com. She can be heard biweekly on "It's Our Money with Ellen Brown" on PRN.FM. The source of this article is* Web of Debt.

Our Comment

Good for Italian voters!

What more do we need to know about money and banks to save ourselves, than what is explained and validated in this article? We have the truth about money creation "straight from the horse's mouth." The role of money and the reason economies collapse is made clear. We know what's at stake and who's on the hook in this particular breakdown. We are reminded of the traditional "no-expenses-spared taxpayer-funded rescue" solution. Most importantly, the point is made that "buying bank debt with money generated by the central bank would rescue the banks without cost to taxpayers, the bondholders or the government."

"So why," indeed, "hasn't this option been pursued?"

The old inflation bogeyman excuse has been thoroughly discredited time and again – notably in a recent study by the Levy Institute, and refuted throughout history – nowhere more thoroughly than in Canada.

The suspicion that, in this instant, the real intention is "to force a political union on the eurozone countries, one controlled by unelected bureaucrats in the service of a few very large corporations and banks" – "the deeper union that the euro's creators envisioned" – is borne out in Joseph Stiglitz's recently published book, *The Euro,* whose central thesis, he says, "is that certain ideas – certain economic models – shaped the construction of the eurozone; these ideas are at best questionable, at worst, wrong."

The eurozone is a global test case. At the root of the eurozone crisis is a political economy that is not working in the best interest of all its members.

As long as money creation favours private profit over the public interest, the social convergence that is the objective of true union is highly unlikely.

Élan

Why Wall Street Won First Round and How We Might Win Next

By Walden Bello, www.occupy.com, January 30, 2016

This is an abridged version of an essay, "Tyranny of Global Finance," co-published with the Transnational Institute, appeared in the *State of Power 2016* report.

When the ground from under Wall Street opened up in autumn 2008, there was much talk of letting the banks get their just desserts, jailing the "banksters," and imposing draconian regulation. The newly elected Barack Obama came to power promising banking reform, warning Wall Street, "My administration is the only thing that stands between you and the pitchforks."

Yet nearly eight years after the outbreak of the global financial crisis, it is evident that those who were responsible for bringing it about have managed to go completely scot-free. Not only that, they have been able to get governments to stick the costs of the crisis and the burden of the recovery on their victims.

How Wall Street Won

How did they succeed? The first line of defense for the banks was to get the government to rescue the banks from the financial mess they had created. The banks flatly refused Washington's pressure on them to mount a collective defense with their own resources. Using the massive collapse of stock prices triggered by Lehman Brothers going under, finance capital's representatives were able to blackmail both liberals and the far-right in Congress to approve the $700 billion Troubled Asset Relief Program (TARP). Nationalization of the banks was dismissed as being inconsistent with "American" values.

Then by engaging in the defensive anti-regulatory war that they had mastered in Congress over decades, the banks were able, in 2009 and 2010, to gut the *Dodd–Frank Wall Street Reform and Consumer Protection Act* of three key items that were seen as necessary for genuine reform: downsizing the banks; institutionally separating commercial from investment banking; and banning most derivatives and effectively regulating the so-called "shadow banking system" that had brought on the crisis.

They did this by using what Cornelia Woll termed finance capital's "structural power." One dimension of this power was the $344 million the industry spent lobbying the US Congress in the first nine months of 2009, when legislators were taking up financial reform. Senator Chris Dodd, the chairman of the Senate Banking Committee, alone received $2.8 million in contributions from Wall Street in 2007–2008. But perhaps equally powerful as Wall Street's entrenched congressional lobby were powerful voices in the new Obama Administration who were sympathetic to the bankers, notably Treasury Secretary Tim Geithner and Council of Economic Advisors' head Larry Summers, both of whom had served as close associates of Robert Rubin, who had successive incarnations as co-chairman of Goldman Sachs, Bill Clinton's Treasury chief, and chairman and senior counsellor of Citigroup.

Finally, the finance sector succeeded by wielding their ideological power, or perhaps more accurately, hitching their defense to the dominant neoliberal ideology. Wall Street was able to change the narrative about the causes of the financial crisis, throwing the blame entirely on the state.

This is best illustrated in the case of Europe. As in the US, the financial crisis in Europe was a supply-driven crisis, as the big European banks sought high-profit, quick-return substitutes for the low returns on investment in industry and agriculture, such as real-estate lending and speculation in financial derivatives, or placed their surplus funds in high-yield bonds sold by governments. Indeed, in their drive to raise more and more profits from lending to governments, local banks, and property developers, Europe's banks poured $2.5 trillion into Ireland, Greece, Portugal and Spain.

The result was that Greek's debt-to-GDP ratio rose to 148% in 2010, bringing the country to the brink of a sovereign debt crisis. Focused on protecting the banks, the European authorities' approach to stabilizing Greece's finances was not to penalize the creditors for irresponsible lending but to get citizens to shoulder all the costs of adjustment.

The changed narrative, focusing on the "profligate state" rather than unregulated private finance as the cause of the financial crisis, quickly made its way to the US, where it was used not only to derail real banking reform but also to prevent the enactment of an effective stimulus program in 2010. Christina Romer, the head of Barack Obama's Council of Economic Advisors, estimated that it would take a $1.8 trillion to reverse the recession. Obama approved only less than half, or $787 billion, placating the Republican opposition but preventing an early recovery. Thus the cost of the follies of Wall Street fell not on banks but on ordinary Americans, with the unemployed reaching nearly 10% of the workforce in 2011 and youth unemployment reaching over 20%.

Big Finance's Victory in the US and Europe

The triumph of Wall Street in reversing the popular surge against it following the outbreak of the financial crisis was evident in the run-up to the 2016 presidential elections. The US statistics were clear: 95% of income gains from 2009 to 2012 went to the top 1%; median income was $4,000 lower in 2014 than in 2000; concentration of financial assets increased after 2009, with the four largest banks owning assets that came to nearly 50% of GDP. Yet regulating Wall Street has not been an issue in the Republican primary debates while in the Democratic debates, it was a side issue, despite the efforts of candidate Bernie Sanders to make it the centre-piece.

The political institutions of one of the world's most advanced liberal democracies were no match for the structural power and ideological resources of the financial establishment. As Cornelia Woll writes, "For the administration and Congress, the main lesson from the financial crisis in 2008 and 2009 was that they had only very limited means to pressure the financial industry into behavior that appeared urgently necessary for the survival of the entire sector and the economy as a whole."

In Greece, the austerity policies provoked a popular revolt – expressed in the June 2015 referendum on the bailout in which over 60% of the Greek people rejected the deal – but in the end their will was trampled on as the German government forced Tsipras into a humiliating surrender. It is clear that the key motives were to save the European financial elite from the consequences of their irresponsible policies, enforcing the iron principle of full debt repayment, and crucifying Greece to dissuade others, such as the Spaniards, Irish, and Portuguese, from revolting against debt slavery. As Karl Otto Pöhl, a former head of Germany's Bundesbank, admitted some time back, the draconian exercise in Greece was about "protecting German banks, but especially the French banks, from debt write-offs."

Pyrrhic Victory

Yet, the victory of the banks is likely in the end to be pyrrhic. The combination of deep austerity-induced recession or stagnation that grips much of Europe and the US and the absence of financial reform is deadly. The resulting prolonged stagnation and the prospect of deflation have discouraged investment in the real economy to expand goods and services.

About Our Commenter

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

Meanwhile with the move to reregulate finance halted, the financial institutions have all the more reason to do what they did prior to 2008 that triggered the current crisis: engage in intense speculative operations designed to make super-profits from the difference between the inflated price of assets and derivatives based on assets and the real value of these assets before the law of gravity causes the inevitable crash.

The non-transparent derivatives market is now estimated to total $707 trillion, or significantly higher than the $548 billion in 2008, according to analyst Jenny Walsh. "The market has grown so unfathomably vast, the global economy is at risk of massive damage should even a small percentage of contracts go sour. Its size and potential influence are difficult just to comprehend, let alone assess."

Former US Securities and Exchange Commission Chairman Arthur Levitt, the former chairman of the SEC, agreed, telling one writer that none of the post-2008 reforms has "significantly diminished the likelihood of financial crises."

The question then is not if another bubble will burst but when.

Winning the Next Round

Then the next question is, will it take this coming crisis to finally achieve what the reaction of the 2008 financial crisis failed to do – place finance capital under restraints? In his classic book *The Great Transformation*, Karl Polanyi talked about the "double movement" whereby the excesses of capital create a counter-movement among the people, which forces the state to restrain and regulate it.

In this we can learn from Iceland's unique experience. In October 2015, Iceland's judicial system sent the heads of the country's biggest banks to jail, along with 23 of their lieutenants. The sentencing was the culmination of a process in which Iceland took a different course from the US and the rest of Europe. It let the banks go under instead of bailing them out as "too big to fail." It did engage in bailout operations but these were to rescue ordinary citizens rather than bankers, forgiving mortgage debts that went above 110% of the actual value of the home linked to the loan.

The economy of Iceland did not collapse when its biggest banks were allowed to fail. As one article pointed out,

"Iceland returned to economic growth much faster than skeptics expected after breaking from the conciliatory approach toward financial industry actors that most countries took in the wake of the global collapse. The tiny economy's growth rate outpaced the average for European countries in 2012. It halved its unemployment rate since the peak of the crisis."

That the country was able to tame the finance industry was perhaps due to several factors. One was the relatively small scale of its democracy.

With a population of only 329,000 people, most of them in the capital city, Reykjavik, Iceland's elected officials were susceptible to very direct pressure from the electorate, many of whom had suffered massive losses. Another is that with finance having emerged relatively recently as the main driver of the economy, the financial elite had not achieved the massive structural and ideological power that finance capital had achieved in the US, the UK and the rest of Europe.

Iceland may have been the exception to the rule, but it shows that democratic control of the banks is possible.

To avoid further crises with huge tragic social costs, we have an urgent task to bring finance back under democratic control, to reconfigure society's relation to finance capital, indeed, to Capital itself.

Our Comment

It would be interesting to compare the "American" *values* "inconsistent with nationalization of the banks," with those behind finance capital's "structural power."

What "American" *values*, I wonder equipped the banks to beat up Congress in the anti-regulating war, and to gut the *Dodd-Frank Wall Street Reform and the Consumer Protection Act?*

What "American" *values* passed the bill for "the follies of Wall Street" onto ordinary Americans?

What "American" *value* is there to support [placing] financial capital under restraints?

Perhaps, some Icelandic values might yet be helpful in avoiding further global crises?

Élan

Ontario Health Coalition Presentation to the Ontario Legislature's Standing Committee on Finance and Economic Affairs

Ontario Pre-Budget Hearings, December 8, 2016, presented by Natalie Mehra, Executive Director, OHC

This summer my mother (whom I have brought with me today) and I, had the experience of going to the emergency department at the Smiths Falls hospitals after a nasty run in with razor sharp zebra mussels while swimming. We arrived at 3 pm. We saw the triage nurse after almost 2 hours. We saw the doctor at 8:30 pm, five and half hours after arriving. According to Ontario's Auditor General – as revealed in her recent report – we were lucky.

For the better part of a decade, the Ontario Health Coalition and local health coalitions have given testimony at these Pre-Budget Hearings each year, detailing the devastating hospital service cuts that have resulted from real-dollar funding cuts to Ontario's public hospitals year after year. We have documented for the Members of this Standing Committee, Ontario's descent to the bottom of the country on key capacity indicators in our hospitals:

- Ontario has the fewest beds per person left in the country;
- Ontario has the fewest nurses per patient in Canada (both RN and RPN);
- Ontario is in the bottom rungs for funding of our public hospitals by every reasonable way of measuring funding (by population, as percentage of GDP).

Today, we want to bring you up to date on the state of our province's public hospitals and the impact of the government's fiscal (budget) policy on them. Due to time constraints, we will focus our testimony on public hospitals where the majority of cuts are happening. We will include other health sectors in our written report.

This year, though we are finally seeing some real movement, public hospitals are still being cut.

The Bottom Line: Public Hospital Funding in the 2016 Ontario Budget

Across the board, their global funding increase this year, as announced in the 2016 Ontario Budget is less than 1 percent. This is far below the consumer rate of inflation which is reported as 2.1 percent for October 2015 – October 2016 by Stats Canada. (Source: Statistics Canada, CANSIM, table 326-0020 and Catalogue nos. 62-001-X and 62-010-X. Last modified: 2016-11-18.)

This follows four years of 0 percent funding increases.

It is the ninth consecutive year of real-dollar hospital cuts, meaning that hospital global funding increases have not even met the rate of inflation for almost a decade. The planned and purposeful underfunding forces local hospitals to cut ever more services.

Despite government claims that make it look like all hospitals are getting an overall 2 percent increase, the fact is that only a minority of hospitals – usually larger hospitals and those in high growth areas and those that have highly specialized services like provincial childrens' hospitals or those that do organ transplants – got the 2.1 percent funding increase in this year's budget. Even so, this rate is not enough to meet their population growth and inflationary costs.

At the same time as implementing a decade of real-dollar funding cuts, Ontario's government has changed the hospital funding formula. As a proportion of total hospital funding, global funding (which covers overhead costs and general hospital operational costs) has been shrinking. Today, global funding is only one-third of hospital budgets. The hospital global funding crunch accounts for a great deal of the hospital cuts that we are seeing across Ontario.

The funding formula changes have forced the dismantling of community hospitals as we know them, forcing specialization and centralization of care into fewer locations with patients forced to travel further for services.

Extra Money Announced in the Fall Economic Statement: Funding Now Meets General Inflation — But Not Population Growth and Aging

In the economic statement this fall, the government announced an additional $140 million for public hospitals. According to the government, this increases hospital funding by 3 percent this year.

However, as in the 2016 Budget announcement of 2.1%, only a minority of hospitals with the specialized services that are being funded through special envelopes will get the full 3 percent rate or more. Most of Ontario's hospitals will get 2 percent or less.

While we are extremely pleased to see that the government is moving away from the years of real-dollar cuts that have been so devastating to community hospitals all across the province, still, it is important to note that this funding level simply meets the basic rate of consumer inflation but is not sufficient to meet population growth and aging. There is an almost-total consensus among health policy experts and economists that aging adds 1 percent in costs. Ontario's current population growth rate is 1.2%. (Ontario Ministry of Finance: *Ontario Population Projections Update*, 2015–2041 Spring 2016.)

The Financial Accountability Office of Ontario has calculated that to meet inflation, aging and population growth, health spending requires a 5.2% escalator.

"Assuming that the quality and type of health care services provided in 2015 remains the same over the outlook, the FAO estimates that population growth and aging would contribute 2.2 percentage points per year on average to the growth in health spending. A stronger economy, which leads to higher incomes and price inflation would contribute a further 3.0 percentage points. Combined, these factors would lead to 5.2 percent annual growth in health spending." (Source: Financial Accountability Office, Ontario Legislature, Spring 2016.)

Given the losses over the last decade and the deep hole that many hospitals now find themselves in, Ontario needs a real plan to restore financial stability and reasonable and safe levels of service in our public hospitals.

Ontario's Large Hospitals are in a State of Dangerous Overcrowding with Lengthy, Sometimes Catastrophic, Waits for Needed Care: Findings of the Ontario's Auditor General

Ontario's Auditor General describes the situation in Ontario's large community hospitals in her report released just last week. Her findings support the evidence that we have brought this Standing Committee and government officials year after year after year. This is what the Auditor General relayed in her November 30 report on Large Community Hospitals:

(Page references for the 2016 Ontario Auditor General's Report [were] are included here.)

• The audit team describes a state of severe overcrowding in the hospitals they visited. Patients are waiting on stretchers or gurneys in hallways and other public areas, sometimes for days (page 446).

• Bed occupancy rates of greater than 85 percent are unsafe and contribute to infections (beds are too crowded and turn over is too fast). During 2015, 60 percent of all medicine wards in Ontario's large community hospitals have occupancy rates of greater than 85 percent (page 431). This means that the majority of large community hospitals are running at dangerous rates of overcrowding.

• The Canadian Institute for Health Information reports that Ontario hospital patients have the second highest rate of potentially fatal sepsis infections in Canada (page 431).

The Auditor General describes the consequences of chronic underfunding and the failure to plan to meet population need for care:

• 1 in 10 patients requiring admission to hospital are waiting too long in emergency departments. The provincial government's target is 8 hours from triage (90 percent of patients are supposed to be transferred to a bed within 8 hours). But in the hospitals the audit team visited it took 23 hours for 90 percent of the patients to be transferred to the ICU and 37 hours for transfers to other acute care wards (page 429).

• The audit team described a situation across Ontario's large community hospitals in which there are frequent and planned operating room closures. 45 percent of large hospitals have one or more OR closed due to funding constraints (page 450).

• There has been no improvement in wait lists for elective surgeries for the 5 years leading into this audit (pages 430-431).

• 58 percent of hospitals ran out of money for some types of surgeries and had to defer them to the next fiscal year (page 444).

• Patients with traumatic brain injury and acute appendicitis are waiting 20 hours or more for emergency surgery (page 430).

• Wait time targets are not being met for the following types of surgeries: neurosurgery, oral and dental, thoracic, vascular, orthopedic, gynecologic, ophthalmic, cancer (page 451).

Imagine waiting 20 hours or more, in agony, for emergency appendicitis surgery.

The situation described by the Auditor General is a crisis brought on by a decade of planned and purposeful funding constraints, geared toward making local hospitals cut services.

We know what the Ministry of Health does not track. It does not track the cuts and closures that are a result of its government's fiscal (budgetary) policy. The Ministry of Health does not track restructuring costs that are resulting from the forced cuts. Though it keeps a record of hospital occupancy rates (that is, how full each hospital is – a measure of overcrowding) the Ministry of Health does not plan or require that hospitals run at safe levels of crowding. The bottom line is this: the government has abandoned normal public hospital system planning and has instead planned to continually ration care with little concern for the consequences.

Getting Funding to Care: Restructuring, P3 Privatization, and the Siphoning of Public Money Away from Care

Not only are funding levels an issue for the province's public hospitals, but getting funding to go to actual care and vital patient support services is also a priority recommendation of the Ontario Health Coalition and something that we hear everywhere as a priority for Ontarians.

Unfortunately, the trend is going in the opposite direction. Unsupported by any evidence, and without sound population-based health care planning, a new wave of mega-mergers, service consolidations and closures of local hospitals is spreading across Ontario. Each of these projects costs hundreds of millions in new capital costs, and at least tens of millions in restructuring costs.

Right now we are seeing the forced mega-merger of the Durham and Scarborough Hospitals. Recently we saw three entire hospitals closed across the north and east of Toronto and replaced with one new P3 hospital at Hwy 400 (this is the Humber River Regional Hospital). In that consolidation, the government closed a hospital in one of the poorest Toronto neighbourhoods – Jane and Finch – and moved services further away for those residents. Now they are planning to close 5 entire hospitals in Niagara and replace with one. A new plan proposes to close 2 entire hospitals in Hamilton and replace with one, and potentially reduce the services in Grimsby – where the hospital is already running at more than 100 percent capacity all the time. In Windsor they are planning to close all the hospitals and consolidate them into one.

These are mergers upon mergers, service consolidations on top of service consolidations. All the hospitals involved have already been merged once in the previous round of restructuring. Always, in these plans, the new hospital is a giant P3, privately-financed at an extremely high price. The new hospitals generally have fewer beds than the hospitals they replace. The irony of this plan is that the public is being asked to pay billions to downsize, close and privatize their local hospitals.

The costs of hospital restructuring of this sort are extraordinary. Inexplicably, the Ministry of Health does not track restructuring costs, not even those ordered by the Minister. The current policy is that hospitals have to pay for the restructuring out of their operating budgets. The reality is that hospitals in dire working capital positions are required to fund tens of millions of dollars to pay for mergers. In the Scarborough – Durham merger alone, costs are almost $50 million. Millions are allocated to advertising and PR to sell the merger to the public. Further millions are allotted to new "merger management teams" in each of the hospitals. Sadly, millions are planned to lay off staff and cut services. The rest is allocated to merging telephone, email and information systems.

It should go without saying that this kind of use of $50 million in public funds runs completely against public priorities and values.

To put the $50 million for this single hospital merger into context, in 2013, the Scarborough Hospital was forced to cut $17 million due to funding shortfall from the Ontario government. That cut amounted to a loss of more than 200 full-time nurses, health professionals and patient support staff; closures of outpatient clinics; closure of 2 operating rooms, closure of 20 surgical beds and cuts across 22 departments – virtually every department of the hospital. Imagine what a cut of $50 million to the operational budgets of local hospitals would mean.

In the last major round of hospital restructuring, the government did actually track and fund restructuring costs. In 1999 and 2001, the reports of the Provincial Auditor revealed the costs of hospital restructuring under the Harris government. While estimated costs for hospital restructuring under the Health Services Restructuring Commission (HSRC) were originally set at $2.1 billion. The auditor revealed that costs had reached $3.9 billion; an increase of $1.8 billion over expectations. In total, over the four-year period between 1997-98 and 2000-01, the province spent $1.9 billion dollars on costs associated with hospital closures.

Many Ontarians lived through the last round of restructuring and know clearly what the consequences have been. We saw our local hospitals cut. Dozens were closed entirely. We saw continual erosion of local services in smaller towns and increasingly overcrowded hospitals in larger towns. Patients, many of them elderly, all of them sick, are forced to drive from town-to-town to access care. This is neither in keeping with the values and priorities of Ontarians, nor is there any evidence that it is cheaper. Indeed, the increasing body of international literature in the field suggests that mergers cost more and reduce quality of care, particularly mergers of the size that are being contemplated in our province today. In Ontario's history, the evidence shows that the costs of restructuring have never been recouped, and local services have continued to be dangerously eroded.

For most communities, a new hospital will be built only once in almost a hundred years. For most communities, people have been fundraising, donating and volunteering in an effort to bring services closer to home, for almost a century or longer. It is imperative that a real democratic process be created so that the people of Ontario – who fund our public hospitals and rely on them from birth to death – have meaningful input on the future of our vital local hospital services before more communities lose services that it took generations to build.

Our Comment

That annual reports of this nature have "for the better part of a decade" simply met with more of the same, supports the charge that "underfunding is planned and purposeful."

The term "restructuring" is clearly defined in the course of this testimony. It is an excellent example of Orwellianesque "cheatspeak."

The failure of successive Canadian governments to maintain "financial stability and reasonable and safe levels of service in public hospitals" indicates, at best, incompetence and, worst criminal negligence.

The decline of the public health care service, of course, strengthens the case of those who clamour for private health care.

The grand plan for a public infrastructure bank further suggests that underfunding could be a deliberate policy to promote privatization.

The use of "public funds to thwart public priorities and values" is an infamous betrayal.

While such information may not have moved governments, "for the better part of a decade," to protect and promote our public health care service, the facts presented here should be enough to galvanize most of the rest of us into whatever action it may take to recover what we *know* is our right and what we *know* we can afford.

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

Élan

Which Past Forward?

Book Review: "Beyond Banksters" by Joyce Nelson

By Ed Finn, The Independent.ca, January 6, 2017

Beyond Banksters: Resisting the New Feudalism by Joyce Nelson, Watershed Sentinel Books 164 pages, $20

Joyce Nelson's *Beyond Banksters* is an eye-opening, must-read exposé of a ravenous financial system.

Over the course of my 70-plus years as a journalist, I've reviewed hundreds of books, many of them informative and educational. But Joyce Nelson's *Beyond Banksters,* which I've just finished reading, is not only the most enlightening book I've ever reviewed, but by far the most challenging.

It's not that it's difficult to read. Far from it. Joyce is renowned for both the clarity of her prose and for her meticulous research, both of which are on display in this, her latest blockbuster. The challenge it poses to a prospective reviewer is that its succinct 164 pages are jam-packed with vital facts, figures, insights and revelations. So many that it's impossible to adequately summarize it in a standard book review.

To do justice to *Beyond Banksters* would require a separate review of each of its 16 chapters.

That problem hasn't deterred previous reviewers, who have managed at least to define and praise its shocking revelations. Author Gordon Laxer calls the book "a hard-hitting, well-researched, fast-paced exposure of the usually hidden world of Canadian and international banks." Former federal cabinet minister Paul Hellyer says "it sheds new light on what is really going on in the financial world." Author John Stauber lauds Joyce for exposing "the hidden-in-plain-view takeover of Canada by a global élite and their banksters – a wakeup call that reads like a spy thriller…but is a reality that politicians and mainstream media spin and hide." Joel Bakan, a law professor at the University of British Columbia, says *Beyond Banksters* is "a powerful and chilling investigation into an emerging global oligarchy of banks and corporations," and that, "[w] ritten with wit and clarity, [it] is not only informative, but a pleasure to read." And Duncan Cameron, professor of political economy at Simon Fraser University, urges everyone concerned about corporate rule to "read *Beyond Banksters* and get your MP to read it."

While I was reading it, I stuck post-it notes on the pages that contained sentences and paragraphs that particularly impressed me. On all the previous books I had to review, these notes would number no more than a dozen, but in *Beyond Banksters* I wound up with 97 of them – and in only 164 pages. The book looked like a literary porcupine.

I could attempt to encapsulate all or most of these insightful references in a traditional review, but I think it would be better to just provide my readers with salient passages from some of the 16 chapters. Because of space limits, some of the excerpts are not in the same form or sequence as in the book, but they all factually reflect some of the highlights. So here goes:

Chapter 1

"One of the most important legal cases in Canadian history is slowly inching its way towards trial. Launched by the Committee on Monetary and Economic Reform (COMER), the lawsuit would require the publicly-owned Bank of Canada to return to its pre-1974 practice of lending nearly interest-free money to federal, provincial, and (potentially) municipal governments for infrastructure and health care spending.

"Created during the Great Depression, the Bank of Canada funded a wide range of public infrastructure projects from 1938 to 1974, without our governments incurring debts to private lenders. Projects like the Trans-Canada Highway, the St. Lawrence Seaway, universities, hospitals, seaports and airports were all financed by interest-free loans from the Bank of Canada. In addition, universal Medicare, old age pensions, and tuition-free postsecondary education were all made possible by Bank of Canada funding.

"But in 1974…the Bank of Canada stopped lending to federal and provincial governments, forcing them to borrow from private (banks) and foreign lenders at compound interest rates – resulting in huge deficits and debts ever since."

Chapter 2

"Unlike other developed countries in the G-7, Canada still has a publicly-owned central bank. That is why COMER launched its lawsuit: it is still possible to return the Bank of Canada to its original mandate.

"The newly elected government of Justin Trudeau, however, seems intent on bypassing the COMER lawsuit by instituting an entirely different (partly private) bank for building infrastructure – one that will further indebt the country."

Chapter 3

"In the globalized economy, giant investors expect to be able to pry open and seize the public assets of any country…. Over the past two decades, and increasingly since 2008, big investors like Bank of America, JP Morgan Chase, Goldman Sachs, and Morgan Stanley have been buying up and gaining control over what's known as 'the real economy' – the already-built airports, seaports, roads, electricity production and transmission systems, water and wastewater systems, utilities, etc. – across much of the developed world. These investments provide shareholders with increasingly long-term, steady profits from tolls and rents 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 the feudal landlord economy of unearned profits from rent-seeking.'"

Chapter 4

"Last August the *Toronto Star* reported that Justin Trudeau 'spent part of the summer courting BlackRock, the world's largest investment manager, a $5 billion juggernaut with headquarters in New York. Trudeau hopes some of that worldwide torrent of money can be diverted towards infrastructure projects in Canada.'

"Dominic Barton, who has become Canada's 'new Economy Czar,' has been appointed chair of the federal Advisory Council on Economic Growth. Barton is also the global managing director of consulting giant McKinsey & Co. His 14-member team on the Advisory Council includes Elyse Allan, vice-president of General Electric Canada; Brian Ferguson, president and CEO of Cenovus Energy Inc., and Christopher Ragan, research fellow of the C.D. Howe Institute.

"Barton's plans reportedly include 'enticing huge investors from here and abroad to pour cash into major infrastructure projects' and 'finding cash in places outside the public treasury and even beyond Canada's borders.'"

Chapter 7

"The first years of the Great Recession can be characterized as a Great Race, with the banks and their supporters working mightily to spin the events on Wall Street in their own way, and others working just as feverishly to understand and explain what the hell had happened.

"This Great Race was a classic example of what Naomi Klein's bestseller *The Shock Doctrine* had delineated: how "disaster capital" works during chaos to seize the advantage.

"Then, in late September 2011, an independent market trader named Alessio Rastani appeared on the BBC and bluntly told the host of the show, 'Governments don't rule the world. Goldman Sachs rules the world. We traders don't really care that much how they are going to fix the economy. Our job is to make money from it.'"

Chapter 8

"Although the federal debt had reached $581 billion by 2011, readers of *The Globe and Mail* were told on budget day that there were only three ways to reduce the debt: raise taxes, slash public programs, or sell off public assets. The possibility of borrowing from the government's own Bank of Canada (as had been the practice prior to 1974) was overlooked once again.

"The loss of public memory has been brutal. As economist Michael Hudson recently recalled, 'The private banks (since 1974) have had a huge lobbying power over governments.' That lobbying power apparently hasn't diminished at all over the decades. The Justin Trudeau Liberals are now embracing trade deals like CETA and the TPP which, if ratified, will prevent banking and monetary reform – not just in Canada, but across the planet.

Chapter 10

"The Canada-EU trade deal (CETA) will allow for dozens more corporate lawsuits to be filed each year against the Canadian government under its draconian investor-state dispute settlement mechanism. The ISDS – first introduced in NAFTA – allows foreign multinational corporations to sue elected governments for laws or policies that they feel would decrease their future profits.

"As of January 2015, there had been 37 known ISDS claims against Canada under NAFTA, with settled awards to corporations amounting to about US$341 million. An additional $65 million was spent in court costs and legal fees, and the federal government still faces over $2.6 billion in pending claims.

"CETA is an even worse deal because it prevents Canadian provinces and municipalities from favouring local contractors. So European companies will be allowed to bid for federal, provincial, and municipal procurement contracts worth more than $100 billion a year – and could sue any government they think has discriminated against them. Legal experts predict that lawsuits over lost contracts will mushroom in Canada."

Chapter 14

"Back in 2009, the Liberal Dalton McGinty government of Ontario paid Goldman Sachs and CIBC World Markets $200,000 to assess the value of the province's Crown assets, including Hydro One's 150,000 kilometres of transmission lines – one of the largest electricity transmission lines in North America.

"The first IPO shares sell-off of Hydro One in November 2015 was handled by a banking syndicate that included RBC, ScotiaBank, TD Bank, Goldman Sachs, Barclays, and Credit Suisse Securities. Collectively, they made more than $29 million handling that sale. A second offering of 72.4 million Hydro One shares was conducted by the same bankers in April 2016, upping their take to nearly $60 million for the partial privatization."

Chapter 15

"Praising the Trudeau Liberals for their support of the TransPacific Partnership, ScotiaBank CEO Brian Porter cautioned that infrastructure projects undertaken should be those that will create jobs. One such project he favoured was the $16 billion Energy East pipeline that would transport tar sands diluted bitumen (dilbit) from Alberta to New Brunswick, where it would be exported to refineries in the US and potentially Europe. He claimed it would create 'tens of thousands of jobs' and generate billions in tax revenues.

"More than 70% of tar sands companies, however, are foreign-owned, as are all the offshore refineries. And, as for those 'tens of thousands of jobs,' the vast majority promised, according to the Council of Canadians, 'would be short-term, in construction and secondary industries,' while a pipeline spill from Energy East would be a major 'job killer.' The pipeline would actually 'cross more than 900 waterways that are used for drinking, fishing, recreation, and sustaining farmland.'

"Most Canadians might be surprised to learn that the Canadian Pension Plan Investment Board has been putting vast amounts of their CPP contributions into tar sands companies. The CCPIB has invested $286 million in TransCanada Corp., $357 million in Enbridge, $294 million in Canadian Natural Resources Ltd., $268 million in Suncor, $86 million in Cenovus, and $34 million in Imperial Oil. More than a dozen foreign oil companies also receive CCPIB investments amounting to about $700 million, including Chevron ($111 million), ExxonMobil ($103 million), and Royal Dutch Shell ($30 million)."

Chapter 16

"When the banks in Iceland collapsed and its economy went belly up in October 2008, 'the Icelanders were in no mood to take a post-meltdown prescription from the same sources that had sickened them in the first place,' Geoff Olson of Common Grounds reported. 'They nationalized one bank, put three others into receivership, and instituted capital controls.' Over the next seven years, they put 26 banksters behind bars, serving terms of two to five years, for crimes including market manipulation, embezzlement, and breach of fiduciary duties.

"Icelanders took to the streets in 2008, banging pots and pans, chanting 'Bailouts no! Jail-ins yes!' They refused to pay for the crimes and corruption of the bankers through tax increases and social program cuts. Instead, they insisted on the arrest and prosecution of dozens of bankers responsible for the financial collapse, forced their entire government to resign, and created a citizens' committee tasked with writing a new constitution protecting the country from corporate greed – all the while actually expanding their social safety services.

"This is what should have happened in Canada and every other country devastated by voracious and irresponsible international banks and investment companies. One of the reasons it didn't, apart from civil passivity, is that the story of the Icelanders' revolt against their financial overlords went virtually unreported in the mainstream media. Most people outside Iceland didn't get to learn about it, except through the social media."

"An Indispensable Source of Knowledge"

This review, although rather longer than usual, should not be considered a substitute for reading the entire contents of the book, which contains a plethora of salient facts, figures, and analysis that I doubt more than one in ten Canadians have seen before. I don't often refer to a book as an urgently "must-read," but this one definitely fits that description.

To be fully informed about "the new feudalism" and how to resist it, *Beyond the Banksters* is an indispensable source of knowledge. As the publishers put it on the back-cover, "From Milton Friedman to Justin Trudeau's Canada Infrastructure Bank, from Blackrock to crappy trade deals to Bilderberg, Nelson exposes the major players privatizing the world and creating a new state of feudalism. Iceland resisted, and so can we."

Beyond Banksters can be ordered directly from Watershed Sentinel Books.

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Our Comment. *Beyond Banksters* is the ultimate handbook on the state of politics and economics in Canada and around the world. It is a stunning wake-up call! *Élan*

Ed Finn reviews *Beyond Banksters* by Joyce Nelson

By Brent Patterson, The Council of Canadians, January 6, 2017

Ed Finn, the longtime editor of the Canadian Centre for Policy Alternatives magazine *The CCPA Monitor*, has written a review on the book *Beyond Banksters: Resisting the New Feudalism* by Joyce Nelson.

Finn writes, "Over the course of my 70-plus years as a journalist, I've reviewed hundreds of books, many of them informative and educational. But Joyce Nelson's *Beyond Banksters*, which I've just finished reading, is not only the most enlightening book I've ever reviewed, but by far the most challenging. It's not that it's difficult to read. Far from it. Joyce is renowned for both the clarity of her prose and for her meticulous research, both of which are on display in this, her latest blockbuster. The challenge it poses to a prospective reviewer is that its succinct 164 pages are jam-packed with vital facts, figures, insights and revelations. So many that it's impossible to adequately summarize it in a standard book review."

In terms of the core issue covered in the book, the CBC has explained, "The Bank of Canada was set up in 1935 in the wake of the Great Depression to provide a means for settling international accounts and to provide interest-free loans to government to finance infrastructure investments. Projects like the St. Lawrence Seaway and the Trans-Canada highway were funded in this way, and the central bank also underwrote Canada's Second World War effort as well as the building of hospitals and universities."

But as the article notes, "In 1974, the central bank stopped providing interest-free loans to government so it could join the Bank for International Settlements (BIS), a kind of central bank of central banks." The *Toronto Star* has reported, "Headquartered in Switzerland, the BIS is an organization that brings together the central banks from 60 countries to co-operate in the promotion of international monetary and financial stability."

Author Murray Dobbins comments, "After nearly 40 years of this incredibly productive use of publicly created credit, unprecedented economic growth and increasing income equality, international finance got its chance to launch the free market counter-revolution against democratic governance…. [Milton] Freidman argued that stagflation was the direct result of irresponsible governments issuing too much money or borrowing recklessly from their central banks and sparking inflation."

Dobbin argues, "The rationale was thin from the start: Central bank borrowing was and is no more inflationary than borrowing through the private banks. [But] the effect of the change was to effectively take

Continued on page 14

Paying for Public Services, in a Monetary Sovereign State

By Steven Hail, erablogdotcom, December 5, 2016

If our national Government was to spend more than the currently budgeted amount on your health care system next year, it would be good to know how they would finance that spending. It is a question that advocates of more health spending are always likely to be asked. More generally, exactly how is the total public spending which is currently budgeted for across the next year going to be funded? Do the various charts you see, linking the total tax take and government borrowing to items of government expenditure make any sense? If not, then why not?

The Conventional View

This is that public spending must be paid for through taxation, government sales of assets, or issuing government bonds – in other words, through taxes now, "selling off the family silver" now, or borrowing at interest now money which will have to be repaid in the future, and presumably setting up a burden of additional taxation for future generations.

Your reaction to this conventional answer might be a "conservative" one, which is to say, austerity to keep government spending down and privatisation, in order to keep taxes low: or a "progressive one," which is to say, tax the rich and the multinationals much more highly, because the Government needs more money from rich people so it can pay for our public services.

Both of these reactions are wrong, or at least misleading, because they are based on that conventional view of public sector finance which I mentioned above. It is a conventional view which suits many conservatives, but is also (wrongly) accepted as being valid by many progressive people. It is – and this might surprise you – a view which the majority of highly credentialed economists, including Nobel Prize winners, know to be incorrect, but which many of them justify as a mechanism for imposing some restraint on politicians.

They believe that if politicians only knew the financial options which are actually available to them, they would abuse these freedoms, "spend like drunken sailors," wreck the economy.

Laws of Public Finance

I don't believe there is ever a good reason for remaining in ignorance about something this important, and I think we have other ways of restricting what politicians do than telling blatant lies to the public, so I want to share the truth with you.

To keep this as brief and as straightforward as I can, I am not going to dwell on the current institutional practices, conventions and rules, as they are applied in 2017. Current practices are very different indeed from how things were done before 1979. All the sets of conventions and rules which have been applied down the years have, to a greater or lesser extent, obscured the truth about public finance, which I can summarise in two sentences. Let's call them two 'laws' of public finance (based on Lerner's laws of functional finance, from the 1940s).

1. A government with its own currency (like the dollar), its own central bank (like the Reserve Bank), a floating exchange rate, and no foreign currency debt, faces no financial budget constraint at all.

2. Such a government faces real and ecological constraints, but no financial constraint.

Let's be clear what we are talking about here. We are not talking about Greece. We are not talking about an independent Scotland, if Scotland were to keep the pound or join the euro (which I have recently advised a Scottish political party to stop saying they would do). We are talking about a genuine "monetary sovereign." We are talking about the USA, Japan, Australia and the UK, among many others.

Monetary Sovereignty

The Australian Government is a monetary sovereign. Every time the Australian Government spends a dollar, it does so by crediting the reserves of a commercial bank which are held at the RBA (Australia's central bank) by that dollar, and having the commercial bank credit the bank account of whoever has been the beneficiary of that spending. In other words, every time the Government spends, it creates money. Not some of the time – every time. All of the Governments spending creates money, and all this money is created using the equivalent of keystrokes on a computer.

The Government does not need to receive your money in taxes, or borrow your money by selling bonds, or raise money from you by selling you shares in government owned utilities – before it spends. Think about it for a moment. It isn't, in a literal sense, your money in the first place. Who issues the nation's currency? The RBA. And who owns the RBA? The Australian Government. The Government doesn't need to collect its money, which it creates, from you before it can spend.

Every time our national Government spends, it creates some of its money for the purpose. I know commercial banks create a great deal of deposits for themselves, and a great deal of what is normally defined to be "the money supply" by lending to their customers, but they can only do this because they have access to Government money, in the form of their reserves at the RBA. There are two ways for this money to be created. One is the Government spending this money (permanently) into existence, and the other is the RBA lending this money (temporarily) into existence.

We have come to the answer to our initial question. How can we pay for an increase in health spending? The same way that we pay for all public spending. The Government will spend the money into existence. The way the accounting is done these days, and current institutional practices, obscure this truth, but they do not change the fact that it is a truth. It is not a theory. It is a plain fact.

Let me put it more simply. Money does not grow on trees. It is easier than that. Money comes from nowhere. It exists mainly in the form of electronic entries on spreadsheets (these days), and you can say it is typed into existence. Our Government can no more run out of dollars than the scorer at a cricket ground can run out of runs, perhaps something to remember the next time our Australian boys go over to England to win the Lords' test match. In this sense, the Government really does have a "magic pudding."

You might ask me whether I am talking about "printing money" to pay for the Government's spending. You might conjure up visions of Zimbabwe or Weimar Germany. I'll deal with those briefly in a footnote below, but let us be clear – in a sense, all of Government's spending always involves "printing money." Except, I hate using that term, because of its associations, and because it is a little misleading. Very little modern money is actually printed, remember – it is nearly all electronic.

The Purpose of Taxation

The question is, then, why do governments tax people at all? Taxes do not "pay for government spending," after all. Taxes do not pay for the education service. Taxes do not pay for Medicare. It might make you feel better to know that your taxes are not paying for military weapons. They really aren't. The Government doesn't need to get money from rich people before it can spend. Your taxes, in a literal sense, do not pay for anything. Taxes, at least in a monetary sovereign state, pay for nothing at all.

So, why do we pay taxes? There are many distributional, or microeconomic, functions which the tax system fulfils. However, at the macroeconomic level, the purpose of taxation is very simple. It is necessary for people to pay taxes to destroy (to use a provocative word) some private sector spending power, to make room within the economy for the government to conduct its desired spending on public goods and services, without pushing total spending in the economy beyond the productive capacity of the economy and causing inflation. Taxes limit inflation, helping us to maintain the spending power of money, so that people maintain their confidence in the value of money.

Deficit Budgeting

We have reached the second law I wrote down above. As a society, we cannot run out of dollars, but we can run out of people, skills, technology, infrastructure, natural and ecological resources. There are limits – but the limits are "real" and not financial. When planning for the future, governments should use their freedom from financial constraints to plan wisely to manage the real and ecological constraints which will always be with us.

The Government, then, cannot spend without limit, because it would push total (private sector plus public sector) spending beyond the current capacity of the economy, and be inflationary. So we have to pay taxes.

This does not, however, mean that governments need to 'balance the budget,' or should ever attempt to balance the budget, or limit its deficit to a specific proportion of GDP. In fact, most Governments (including Australia) have hardly ever run balanced budgets or budget surpluses in modern times, and when they occurred they tended to be just prior to economic downturns. For example, there were very small and very temporary fiscal surpluses in the UK in the late 60s, the late 80s and the late 90s. The rest of the time, the UK Government has been in continuous fiscal deficit, since the early 1950s.

This is true almost everywhere, with almost all the exceptions being relatively small and oil rich countries, like Norway. In the case of Norway, what makes it possible for the government to run fiscal surpluses is not the "sovereign wealth fund" you may have heard about. It is simply Norway's consistently large trade surplus with the rest of the world.

Most governments most of the time historically have run budget deficits. This is essential, because if the rest of us want to build up our savings in dollars (including foreigners in "the rest of us") it turns out the Government will be forced, one way or another, to run a deficit. A good deficit will prevent a recession from happening, and a bad deficit would be the consequence of a recession happening and tax receipts crashing while welfare payments rise, when everyone wants to save and not spend. To explain the logic properly would mean going into too much detail here, but believe me it is a mathematical (or accounting) fact of life.

Sovereign Government Debt Is Different

Doesn't all this mean the Government getting further and further into a burdensome "debt," which future generations will have to repay, so that government borrowing is somehow immoral, and especially so if it isn't to pay for investments in the future?

Not once you understand that monetarily sovereign governments don't and can't really borrow in their own currencies, at all, in the conventional sense of the term. If you or I, or a business, or a local authority, borrow in dollars, then later on we will have to repay that debt and the interest on it, or we will go broke. We are (obviously) not monetary sovereigns. We face a financing constraint.

It is different for our national Government. I have already said that the Government spends new money into circulation, and then uses taxes to destroy some of that money so that there won't be rising inflation. Ideally, the Government should spend more than it taxes, when it is running a deficit, to ensure that total spending in the economy is at the right level to maintain full employment. The total level of public spending, how it is divided up between public goods, and the structure of the taxation necessary to limit inflation, are then political issues.

Until the Global Financial Crisis, and before some central banks started doing quantitative easing, it was necessary for their governments to sell government bonds to more or less match government spending net of taxes, in order to keep control of interest rates. The reasons are a bit dull, but if you bear with me I will try to explain.

Interest rates in general depend on the interest rate banks charge each other when they lend each other money for liquidity management purposes for very short periods of time. A fiscal deficit effectively feeds cash reserves, or liquidity, into the banking system. In the past, it was necessary to remove those reserves again by selling government bonds, or this interest rate would fall below the level the central bank wanted it to be at. Banks with plenty of reserves of cash don't need to borrow from other banks. Sales of government bonds were about keeping the supply of cash to the banking system limited to the right level to stop interest rates falling.

That's all changed now – at least in the UK, the USA, Japan and the Eurozone. The central banks of all those countries first cut interest rates to virtually zero, after the Financial Crisis, and then used quantitative easing to deliberately flood the banks with cash reserves, by purchasing large amounts of (mainly govern-ment) bonds from the private sector. The so-called "bank rate" is now not a rate of interest at which private banks lend to each other – it is now the rate of interest that central banks pay on the huge amount of reserves the commercial banks have on deposit with it. Rather than seeking to limit those reserves, the central banks have been deliberately increasing them.

Yet the old practice of each government selling its bonds goes on. It is rather ridiculous at the moment, because as the governments concerned are selling new government bonds – in a conventional view, to raise money – their own central banks (which are owned by each government, remember) are kept busy buying those same government bonds second hand from the private sector, in order to increase the amount of money in bank reserve accounts. It's very strange and anachronistic. Economists like me view it as something of a muddle.

We have learned in recent years that there is no genuinely good reason for selling government bonds at all, if you are a monetary sovereign government. Indeed, it would be better to convert them into term deposits at the central bank, and to regard them as a form of money.

After all, at the moment bank reserves held at the central bank are (in an accounting sense) Government liabilities, on which the central bank as part of the Government pays interest, but are not seen as Government debt: government bonds are also government liabilities, on which the central bank on behalf of the Government also pays interest, but they are seen as Government debt.

Moreover, if the central bank, as a part of QE, buys Government bonds from the private sector, it is just swapping one interest bearing government liability for another. No wonder QE doesn't work! It isn't "free money" at all. It is basically swapping two very similar assets for each other. The private sector used to own Government bonds and receive interest. The private sector now owns reserves at the central bank, and still received interest.

Summary

Why would that arrangement act as much of a 'stimulus' for the economy? Why, indeed? To cut a very long story quite short:

1. When the Government spends it creates money.

2. When the Government taxes it destroys money.

3. Government "debt" should not be thought of as "debt" in the conventional sense at all. It is better thought of as a form of money.

4. The Government cannot run out of money, and as long as it doesn't guarantee to convert its money at a fixed rate into anything it could run out of, it faces no financial constraints at all.

5. However it faces real and ecological constraints, because we can run out of people, skills, technology, equipment, infrastructure, natural resources, and ecological space.

6. The Government is *not* a household and *not* a business, and has nothing at all in common with a household or a business, where financial matters are concerned.

7. When progressives understand this and start framing their arguments in this light, I believe they will be able to argue their points far more effectively and persuasively, and free themselves from what are sometimes called "neoliberal dogmas" (i.e., conservative and "new labour" nonsense).

Understand all of this, and I think that it will change your perspective on many things. And ought to make you a great deal more confident when dealing with interviewers. If they approach you using the conventional view as a framework, remember that it is either because they have never really thought these issues through or because they are being dishonest for some reason (sometimes it is a mix of the two, and people can, of course, be dishonest with themselves, or at least suffer from cognitive dissonance).

Footnote: Mugabe's Zimbabwe and Weimar Germany

Zimbabwe 2008. If you engage in a poorly planned and violent land reform, regardless of your motivation, there will be consequences. Zimbabwe's govern-ment managed to wipe out its vital agri-cultural system, while at the same time alienating most high income country governments, and facing sanctions. The supply of food failed. The Government then (literally) printed vast amounts of money to buy non-existent food, and inevitably the price level sky-rocketed. Ever higher prices then led to ever more money being printed, so that at least the friends of the government and the army could be provided for. The result was hyperinflation. The lesson is that if you destroy the supply side of your economy and try to make up for it by printing loads of money, you will be able to create hyperinflation. Zimbabwe 2008 has no lessons for Australia 2016.

Germany 1923. Germany's productive capacity had been destroyed by war and by the resolution of that war. In addition, Germany had been required to pay vast amounts of gold to its former enemies. The only way to obtain the gold was to buy it, using marks which could then only be spent into a German economy already on the brink of famine. There were some other issues, but it's basically similar to Zimbabwe 2008. If you destroy the supply side of an economy and then print loads of money, you will push spending far beyond the productive capacity of the economy and create inflation.

Dr. Steven Hail is a lecturer in economics at the University of Adelaide, with a special interest in macroeconomics, and is a member of ERA.

Our Comment

From the prevailing "conventional view" and its consequences, to his main point that, "there are limits but the limits are 'real' and not financial – [that] when planning for the future, governments should use their freedom from financial constraints to plan wisely to manage the real and ecological constraints which will always be with us" – Dr. Hail makes it clear that we may not *know* what are options are, in which case we tend to accept that there is no alternative.

His candour regarding "credentialled economists" challenges our general reluctance to question the 'experts' behind the conventional 'wisdom.'

The Global Financial Crisis (GFC) and the "quantitative easing" it provoked, have exposed the absurdity of the government's borrowing from private banks at compound interest, money that it could create itself – spending it into the real economy.

Folly? Ignorance? Ideology?

Élan

Banksters *from page 11*

a powerful economic tool out of the hands of democratic governments." And as retired University of Windsor professor George Crowell has written for the Canadian Centre for Policy Alternatives, "Each year, governments across Canada now pay some $60 billion in interest on their debts – interest payments that need not be incurred."

Beyond Banksters has been described by Gordon Laxer as "a hard-hitting, well-researched, fast-paced exposure of the usually hidden world of Canadian and international banks," University of British Columbia law professor Joel Bakan says it is "a powerful and chilling investigation into an emerging global oligarchy of banks and corporations," while Duncan Cameron urges everyone concerned about corporate rule to "read *Beyond Banksters* and get your MP to read it."

At our 2016 annual conference, a resolution was passed that, "The Council of Canadians call on the Prime Minister and the Minister of Finance to stop all talk of a new federal infrastructure bank – and – that the Council of Canadians call on the Government immediately to resume using the Bank of Canada, not just for infrastructure needs, but for all the needs of Canadians and the Indigenous Peoples of this land, and for the Minister of Finance to so direct the governor of the Bank of Canada."

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Our Comment. Let's hope that the initiative taken by the Council of Canadians at their 2016 annual conference will spearhead a mobilization of Canadians that will frustrate the Canada Infrastructure Bank ploy. By virtue of its *public* central bank, Canada is in a position to demonstrate a democratic alternative to the fascist, feudal model presently in the works. *Élan*

Prepare for McKinsey-esque Sound Bites in Infrastructure Talk: Wells

By Jennifer Wells, Toronto Star, December 30, 2016

Prepare to be inundated with talk of the "scale-up gap" and "innovation ecosystems" and "superclusters."

An easy prediction for 2017: Government-speak as it pertains to the country's economic future will increasingly have the ring of McKinsey sound bites.

I refer here to the global consultancy, which has reached into the country's highest political office via outgoing McKinsey global managing partner Dominic Barton and the Canadian Advisory Council on Economic Growth he now leads.

In October, the council released Round One of the so-called Path to Prosperity – infrastructure, FDI and boosting the labour talent pool via immigration – and promised "additional ideas" late in 2016, which have yet to materialize.

The infrastructure piece has been much discussed here and elsewhere as the council proposes leveraging sidelined institutional capital to deliver more than $200 billion worth of projects across the next decade. These are revenue-stream projects – user fees, by example – that would appeal to the private sector. Some sort of independent governance structure is imagined led by a "world-class" CEO.

The Canada Pension Plan Investment Board is cited as an example of how this "bank" might work, infused with the kind of private-sector rigour that is meant to deliver projects on time and on budget – to be a "steward of efficiency," in the council's words.

When I refer to productive, bankable, investment-ready infrastructure projects offering risk-adjusted returns, know that I am airlifting those words from an Australian task force, the Australians having already forged this path, as previously mentioned in this column. The amended *Infrastructure Australia Act* of 2014 created an independent board and CEO, part of whose task has been to audit existing pipes, ports, roads and rails and set a long-term plan for nation-building infrastructure.

What to watch for as the Canadian version is developed: a commitment to business-case disclosure on proposed institutional capital projects, with full data and analysis transparency. And evidence that successful execution of this private sector pathway will, as promised, expand the amount of capital available for vital projects in which the private sector will have no interest.

On FDI – foreign direct investment – the council advised the creation of an FDI agency "to increase inward FDI and improve Canada's stature as a destination for foreign capital, skills and companies." As it now stands, "Canada's efforts have been limited and haphazard."

What Are Canada's Strengths?

Here's where we tip into 2017. When Barton addressed the Toronto Board of Trade last autumn, he itemized the country's strengths, or endowments (a highly educated workforce, fiscal stability, abundant natural resources) and weaknesses (an aging population, a failure to "scale" companies as quickly as other countries, limited trade agreements). Our share of "global champions" has shrunk precipitously to just five, he said "We should have many more. My view is a minimum of 18. I think we could actually go to 50."

So prepare to be inundated with talk of the "scale-up gap" and "innovation ecosystems" and "superclusters." In a 2015 report, McKinsey studied the Toronto-Waterloo innovation corridor, and noted that denser clusters such as Boston and Berlin were drawing three to five times as much venture capital investment as Toronto-Waterloo. Could the Ontario region become a supercluster? And what has to happen to make it so?

For that matter, how do you measure innovation?

The Brookings Institution measures innovation "through the scientific impact of research universities, patenting and venture capital flows." In this Toronto does not shine, but takes its place among the ranks of "international middleweights," those cities "striving for a post-recession niche in the global economy."

So, schemes aimed at further goosing enterprise investment should be in the offing.

And, no doubt, the advisory council will harness yet another favourite McKinsey term in urging the feds to "unleash" the region's prospects by easing regulatory restrictions – banking, telecom, information sharing in health care. If Barton has his way, supply management will be up for discussion too. ("Supply management drives me crazy," he said in October, with the caveat that he was speaking for himself, and not on behalf of Finance Minister Bill Morneau.)

The McKinsey exec expressed the view that three or four "clusters" might be a realistic target. Agri-food could be one. Clean tech could be another. Health care? Possibly. "Companies that will actually drive things" in chosen sectors was Barton's message.

In the weeks and months ahead, there will be a great deal of this talk. If it seems a bit odd hearing federal ministers sound like management consultants, know that they are all speaking from the same McKinsey briefing book.

Our Comment

Most Canadians will need to know more about McKinsey Co., *the* global management consulting company, and Canada's "new economy Czar," Dominic Barton, if they are to stand a chance of appreciating "government-speak as it pertains to the country's economic future."

Thus fortified (and Joyce Nelson's latest book can promise you that), one's chances of distinguishing between the "so-called" Path to Prosperity and the garden path to massive privatization and foreign direct investment, less "limited" so-called *free trade*, and further deregulation, will be significantly enhanced.

Dominic Barton, global managing director of McKinsey Co. since 2009, now Chair of Finance Minister Bill Morneau's (former chair of the C.D. Howe Institute), Advisory Council on Economic Growth, "believes Canada can lead the world in infrastructure spending" (*Beyond Banksters, Resisting the New Feudalism*, Joyce Nelson).

The Brit's struggle to save their National Health Service from "the creeping privatization plans outlined largely by McKinsey Co. is one of several cautionary tales included in *Beyond Banksters.*

What, I wonder, are we to make of the fact that our federal ministers are "*all* speaking from the same McKinsey briefing book"?

Élan

Flat Earth Rules

By Peter Radford, Real-World Economics Review Blog, April 2, 2016

Economists, especially mainstream economists, often like to ignore the real world consequences of their theories. Instead they prefer to hide away pretending that their conversations and ideas leave no imprint on society, and that their simple little models are just representations designed to cut through the tangle of reality to get at some core truth. Only in the grand world of macroeconomics is this not true. There, economists love to strut about as if they hold the keys to universal insights untroubled by the somewhat ambiguous results their ideas appear to inflict on the rest of us.

The fact that there are economists on all three sides of any two sided argument ought be sufficient to let us know that their insights are a little vague, and highly dependent on each individual economists worldview. Economics, it seems sometimes, is little more that highly formalized opinion.

This is not meant to demean economics, I think it is a subject worthy of high regard, I mean only to alert us all to its manifest weaknesses and deeply ingrained biases. Only economists could possibly imagine into being something as absurd as dynamic stochastic general equilibrium, or representative households, or the non-accelerating inflation rates of unemployment, or growth models where the unexplained residual accounts for there-quarters of growth. All these could be dismissed as arcane academic nonsense were they not essential to the policy making that affects everyday lives of hundreds of millions of people.

It is because of this policy impact that economics ought have a well developed ethical standard for its researchers – something like "first do no harm" would be a good place to start – but economics being the home of a group of people who look askance at organized or social anything steadfastly refuses to look inward at its ethical responsibility. After all, they argue, the mar ket will take care of weeding out the rotten apples.

Sure. But here I am not concerned with macro which is, despite my deep skepticism, the part of economics that has some, albeit it cartoonish, relationship with reality. No, the part of economics that is truly messed up is micro. And by messed up I mean really messed up. Rational choice? Really? Microeconomics makes no pretension whatsoever about connecting with the real world. It just exists in its make-believe world of agents – not people – running around in a kind of utopian information rich hyper-individualistic flat earth like place where the vistas are the same in every direction, where choice is a singularity driven by machine like logic, and where anything resembling humanity is scrunched aside in order to make life easy for economists. All those individuals defy the meaning of individual because true autonomy would surely introduce variety, and variety dirties the purity of economics. So out variety must go.

This would be all well and good were it contained within economics. Who would care? No one. The rest of us could look on and laugh at the silliness of it all.

But we ought not laugh: economics is really dangerous stuff. Sometimes I think it should be banned – it's that dangerous.

You see, economics has infected other disciplines. Its ideas have migrated and brought their lax ethics into places where they can do enormous damage.

Like into business schools. Take a look at Figure 1.

Familiar? It ought to be. It has been making the rounds in one form or another for a while now. A friend of mine just sent it to me and asked for an explanation. How come wages have not kept up with productivity.

Now economists of all stripes and opinions have their own views. Globalization. Class structures. Technological change. The demise of unions. And many more.

I tried to think of something different to tie those things together.

My thought is that the cause of the great divergence between wages is due to the notion of shareholder value.

Huh?

Look at the date of the onset of the divergence. It is coincident with the rise of modern management theories being peddled at business schools. Central to the panoply of ideas of modern management is shareholder value.

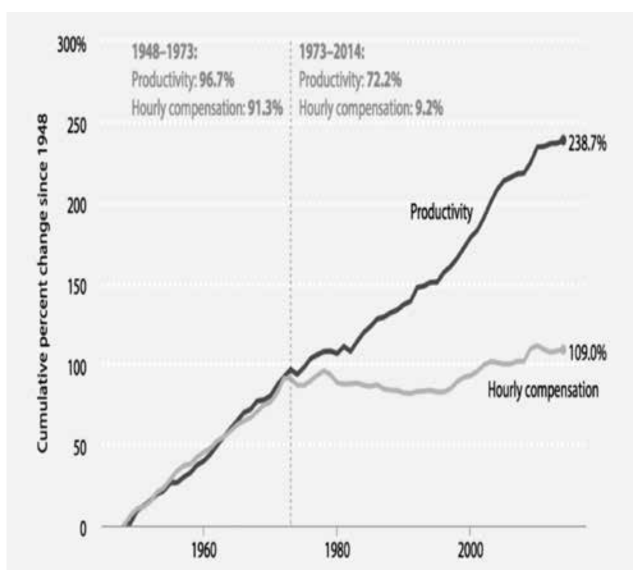
What is this?

It is the pernicious idea that the single and only valid focus of corporate management is to maximize the value of the corporation in the hands of its shareholders. Nothing else matters. Nothing. The thought of "stakeholders" is anathema to shareholder value theorists. Milton Friedman – yes he was an ardent advocate of the new idea – was apoplectic at the thought that management had any other goal.

Why? Because in the flat earth of Friedman's microeconomics every agent is doing the same ting: looking out for number one. Further, they are all capable of doing so. Because standard microeconomics has embarrassingly little to say about business as it actually exists, Friedman's extraordinarily naive perspective is consistent with his equally naive theories of human behavior. In such a flat earth businesses are little more than single person entrepreneurs who struggle perpetually to eke out a living in fierce competition, and they see to maximize their incomes – just like everyone else – in a world flooded with information.

So workers, customers, society, the environment, trade unions, and other sundry so-called "stakeholders" had no place in Friedman's rubric other than they are could be manipulated to maximize shareholder return. Let me repeat: nothing else mattered.

Figure 1: Disconnect between Productivity and a Typical Worker's Compensation, 1948–2014



Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix for more detailed information)

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Because microeconomics is so restricted and divorced from reality people like Friedman could argue for shareholder value with straight, if disingenuous, face.

This startlingly narrow view of the world would be fine had it not then become the intellectual basis for the notion of shareholder value business schools began to teach. What was sensible in the world of economic fiction then became the basis for real world drama.

Since business schools operate in that real world – their graduates are destined to to actual jobs and not just manipulate equations – what they teach has a great impact on business. Real business, not the unreal business of economics. The intellectual roots of modern management are back deep in Friedman-like make believe.

Just as modern economics was invaded and corrupted by the purity of rational choice and its associated fictions, so too was management theory.

The problem is, of course, that unlike the caricatures of economics, actual businesses are not governed by the so-called laws of economics. And, more to the point, they are sufficiently large to impress their values union society.

Strategy negates and plunders the pristine world of microeconomic nirvana. Business schools only teach microeconomics so as to identify "market failures" or "niches" where a good profit can be made. The real world is about creating opportunities for rents not profits.

Gradually the notion of shareholder value was pressed into service to justify the relegation of labor to an expense to be minimized rather than as resource to be valued; to justify the remuneration of managers who delivered cost reduction by offshoring manufacturing; to justify the adoption of financial structures that privileged debt in corporate balance sheets; to justify the steady shift of national income towards capital away fro labor; to justify the explosion of so-called global logistics; to justify the resistance to alarm over the environmental damage of some production; to justify resistance to the adoption of sustainable business practice; and to justify the explosion in CEO pay.

All of which, cumulatively, re-created the business environment and produced the divergence between pay and productivity in the chart above.

In retrospect I think it fair to say that modern management theory, and shareholder value in particular, can be seen as a technology developed from the intellectual parent we know as neoclassical economics. Shareholder value, by taking the claims of its utopian forbears seriously, ends up perverting them. It is, in my view, weaponized neoclassical economics. It became the sharp end of the performative effort of modern economists to transform the economy in the image of their flat earth nonsensical ideas. After all if the world can be flattened, a flat earth theory starts to look more sensible, and flat earth believers start to look more astute.

Meanwhile, as that chart shows, the consequences of ideas can be devastating. The collateral damage of the attack on reality by our flat earth economists is very real.

But, as I said at the beginning, economists, especially mainstream economists, often like to ignore the real world consequences of their theories. After all they can always claim to know nothing about business, business schools, or any other practical thing. Who could possibly know that rational choice and all that marginal talk might get, well, taken seriously?

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Our Comment. How responsible are we for what we think? If John McMurtry is correct (*The Cancer Stage of Capitalism)* and most people *think* what they were taught, it's long past time to start teaching people *how* to think, rather than *what* to think. *Élan*

The Laws of Free Trade Are Not Immutable After All

By Jim Stanford, Real-World Economics Review Blog, January 9, 2017

For years, we've been told the dictates of globalization, and the intrusive and prescriptive terms of free trade agreements in particular, are immutable, natural, and unquestionable. When workers were displaced by the migration of multinational capital toward more profitable jurisdictions, we were told there's nothing we can do about it except join the race to the bottom in a desperate attempt to hang onto our jobs. When investment and employment were undermined by lopsided trade and capital flows, and employers and financiers utilized the leverage afforded them by unrestrained international mobility to ratchet the distributional structure of the economy evermore-blatantly in their own favour, we were informed this was just the logic of markets. And anyone who questioned that logic, or pointed out that it didn't work in the real world like it is described in the economic textbooks, was labelled either economically illiterate or protectors of vested interests.

Now, suddenly, on the strength of a few tweets from a President who hasn't even taken office yet, it seems that those rules are not so immutable, permanent, or natural after all. Now, global corporations will move billions of dollars of investment, and thousands of good jobs, just because a President-elect wants them to. If there is one crucial lesson from the extraordinary developments this month in the North American auto industry (including Trump's threats against Ford, GM, and Toyota, and Ford's stunning decision to completely cancel its new assembly plant in Mexico), it's that politics matter. Nothing about the economy is ever natural or permanent – and the immense resources invested in convincing us they are, are actually trying to disempower and silence the potential power of those being hurt by the current system of globalization. We've now seen that when it suits powerful forces, global rules can be rewritten in an instant; decisions of global megacorps overturned swiftly and effectively; provisions of trade deals simply ignored.

None of this is remotely to celebrate or endorse Donald Trump's coming rule, which will be destructive to working people, will reinforce the elite power of the plutocracy which he railed against (but then installed in his cabinet), and will fundamentally threaten human civilization and the environment along many axes. Personally, I am most worried about his plan to destroy nascent climate regulations (both in the US and globally), and his imminent plan for national "right-to-work" laws (which would be another big nail in the coffin of the US labour movement). And there are many other of grotesque things to fear from Trump's rule – and to resist.

But the stunning way in which he is wading into the private investment decisions of enormous corporations, overruling their established global strategies, and simply ignoring the supposedly sacrosanct rules of trade deals, is an important reminder for all of society that the "economy" is nothing more or less than the conscious decisions which human beings make about how to work, produce, and distribute. Those conscious decisions always reflect power and competing interests, they are never "natural" or "automatic" or "omnipresent." If Trump can rewrite international economic treaties on the strength of a few tweets, before even taking office, then we can do the same thing – but only if we build a political movement with the same confidence and power. And it's harder for us to do that, since we don't have the power of wealth and everything that comes with it (including the power to construct ideas and ideology through the private media and other means).

I think there's an important analogy here between trade policy (now being re-written as we speak) and recent revolutions in both monetary and fiscal policy. For a quarter-century we were told that monetary policy was a technocratic, rules-driven process, best governed by so-called "independent"central banks, immune from political pressures. Of course, those central banks were never independent: their role, and the policy edifice they oversaw, was always profoundly biased in order to elevate the interests of financial wealth (through strict inflation control) over other economic and social priorities. The GFC and its aftermath, however, laid bare that those supposedly untouchable "rules" were arbitrary, temporary, and discretionary. The advent of quantitative easing policies, in particular, proved what lefty critics had been saying all along: namely that money is created out of thin air every day (by commercial banks and central banks alike); the big issue is who controls that process, and what is the money used for? Now the genie is out of the bottle, and there is new space for progressive visions of unconventional monetary policies to address persistent stagnation and unemployment – like using the central bank's money-creating powers, for instance, to underwrite useful investments in public physical and social infrastructure. The idea that monetary policy rules and inflation targets are binding, natural, and permanent has been destroyed.

The same is true of the tenets of neoliberal fiscal policy: including both specific rules (like the Maastricht targets, now rotting on the scrapheap of economic history) and the general identification of debt and deficit-reduction as government's central priority. The ideology of debt-phobia still wields considerable power, of course, including in Canada. But past claims that the world as we know it would end if deficit targets were not met have been destroyed. In the wake of the GFC, enormous deficits suddenly became legitimate again – and that rediscovered flexibility was applied in a biased manner (with bailing out banks being the first, and by far most expensive, priority). The fact that the Trump administration is now pledging to dramatically expand the US deficit (to pay for corporate and high-income tax cuts and public infrastructure), and more tellingly that a Republican Congress will endorse that shift (after 8 years of handcuffing a Democratic President's more modest deficit stimulus measures), confirms that in this realm, too, it's all about politics and power – not about "rules" or "necessities."

Trump has already proven that trade deals can not only be overruled – they can simply be ignored outright. Of course, that's easier for a big country to do than a small one. But even smaller countries (like Canada) have lots of capacity to directly intervene in and regulate trade and investment flows, using their own markets, their own financial capacity, and their own ability to produce goods and services as collateral. To be sure, Trump's rewriting of NAFTA and other trade deals (and his cancellation of the TPP) will be applied in a particular, biased manner: in ways that most benefit US capital (like the pharmaceutical giants who complained loudly that the TPP and other deals weren't aggressive enough in protecting and extending drug patents). He isn't doing this for US workers, that's for sure. Dean Baker's recent RWER blog makes this point convincingly.

But by proving that trade deals are no more permanent or immutable than the paper they are written on, Trump has pulled back the ideological veil which disguised pro-corporate global policy as somehow "natural" and unchallengable. We now have a big opening (just as we do in the realms of monetary and fiscal policy) to define and advocate a vision of international economic exchange (obviously not autarky) that would be balanced and socially beneficial. If Donald Trump can browbeat global corporations into keeping investments and jobs in America instead of moving them abroad, why can't other leaders do the same? The clear truth is that they can.

In this regard, I look forward to the coming work of progressive research networks to help define and advance a progressive alternative to NAFTA and other neoliberal deals, so that the distinctions between our critique and Trump's can become clearer. Another crucial priority will be to engage participation from Mexico and other low-wage, exploitive export platform jurisdictions, in order to counter the implicit racism that has fueled Trump's anti-free-trade bandwagon. In Mexico, too, there will now be an enormous opening for progressives to expose the betrayed promises of NAFTA (living standards have not risen there, and human and labour rights are more in threat than ever), and to highlight the limits of the export-led race-to-the-bottom which neoliberal Mexican governments have followed so enthusiastically (at the expense of well-rounded economic and social development). I would love to see Canadian, US, and Mexican progressives get together quickly to formulate a hopeful vision of balanced, mutually beneficial, sustainable continental trade and development. That could become the lightning rod for our interventions in the coming battles.

Here are a couple of additional resources to supplement this argument: (a) my column in Canada's *Globe and Mail* on Ford's decision to cancel its Mexican investment, and the opportunities and risks facing Canada's auto industry as Trump moves to address the huge US-Mexico trade imbalance; (b) a joint column in the *Toronto Star* by Unifor's President Jerry Dias and the Council of Canadians' Maude Barlow on the key principles of a progressive alternative to NAFTA.

Our Comment

Wow! What a consolidated explosion of the truth about politics and economics! Thank you, Jim Stanford, for such an articulate, powerful, and authoritative testimony! It should do much to inspire that critical political movement!

Élan

Can Jill Carry Bernie's Baton? A Look at the Green Candidate's Radical Funding Solution

By Ellen Brown, counterpunch, August 3, 2016

Bernie Sanders supporters are flocking to Jill Stein, the presumptive Green Party presidential candidate, with donations to her campaign exploding nearly 1,000% after he endorsed Hillary Clinton. Stein salutes Sanders for the progressive populist movement he began and says it is up to her to carry the baton. Can she do it? Critics say her radical policies will not hold up to scrutiny. But supporters say they are just the medicine the economy needs.

Stein goes even further than Sanders on several key issues, and one of them is her economic platform. She has proposed a "Power to the People Plan" that guarantees basic economic human rights, including access to food, water, housing, and utilities; living-wage jobs for every American who needs to work; an improved "Medicare for All" single-payer public health insurance program; tuition-free public education through university level; and the abolition of student debt. She also supports a basic income guarantee; the reinstatement of Glass-Steagall, separating depository banking from speculative investment banking; the breakup of megabanks into smaller banks; federal postal banks to service the unbanked and under-banked; and the formation of publicly-owned banks at the state and local level.

As with Sanders' economic proposals, her plan has been challenged as unrealistic. Where will Congress find the money?

But Stein argues that the funds can be found. Going beyond Bernie, she calls for large cuts to the bloated military budget, which makes up 55% of federal discretionary spending; and progressive taxation, ensuring that the wealthy pay their fair share. Most controversial, however, is her plan to tap up the Federal Reserve. Pointing to the massive sums the Fed produced out of the blue to bail out Wall Street, she says the same resources used to save the perpetrators of the crisis could be made available to its Main Street victims, beginning with the students robbed of their futures by massive student debt.

It Couldn't Be Done Until It Was. Is tapping up the Fed realistic? Putting aside for the moment the mechanics of pulling it off, the central bank has indeed revealed that it has virtually limitless resources, as seen in the radical "emergency measures" taken since 2008.

The Fed first surprised Congress when it effectively "bought" AIG, a private insurance company, for $80 billion. House Speaker Nancy Pelosi remarked, "Many of us were…taken aback when the Fed had $80 billion to invest – to put into AIG just out of the blue. All of a sudden we wake up one morning and AIG has received $80 billion from the Fed. So of course we're saying, Where's this money come from?"

The response was, "Oh, we have it. And not only that, we have more."

How much more was revealed in 2011, after an amendment by Sen. Bernie Sanders to the 2010 Wall Street reform law prompted the Government Accounting Office to conduct the first top-to-bottom audit of the Federal Reserve. It revealed that the Fed had provided a whopping $16 trillion in secret loans to bail out American and foreign banks and businesses during the economic crisis. "This is a clear case of socialism for the rich and rugged, you're-on-your-own individualism for everyone else," said Sanders in a press release.

Then there was the shocker of "quantitative easing" (QE), an unconventional monetary policy in which the central bank creates new money electronically to buy financial assets such as Treasury securities and mortgage-backed securities (many of them "toxic") from the banks. Critics said QE couldn't be done because it would lead to hyperinflation. But it was done, and that dire result has not occurred.

Unfortunately, the economic stimulus that QE was supposed to trigger hasn't occurred either. QE has failed because the money has gotten no further than the balance sheets of private banks. To stimulate the demand that will jumpstart the economy, new money needs to get into the real economy and the pockets of consumers.

Why QE Hasn't Worked, and What Would. The goal of QE as currently implemented is to return inflation to target levels by increasing private sector borrowing. But today, as economist Richard Koo explains, individuals and businesses are paying down debt rather than taking out new loans. They are doing this although credit is very cheap, because they need to rectify their debt-ridden balance sheets in order to stay afloat. Koo calls it a "balance sheet recession."

As the Bank of England recently acknowledged, the vast majority of the money supply is now created by banks when they make loans. Money is created when loans are made, and it is extinguished when they are paid off. When loan repayment exceeds borrowing, the money supply "deflates" or shrinks. New money then needs to be injected to fill the breach. Currently, the only way to get new money into the economy is for someone to borrow it into existence; and since the private sector is not borrowing, the public sector must, just to replace what has been lost in debt repayment. But government borrowing from the private sector means running up interest charges and hitting deficit limits.

The alternative is to do what governments arguably should have been doing all along: issue the money directly to fund their budgets.

Central bankers have largely exhausted their toolkits, prompting some economists to recommend some form of "helicopter money" – newly-issued money dropped directly into the real economy. Funds acquired from the central bank in exchange for government securities could be used to build infrastructure, issue a national dividend, or purchase and nullify federal debt. Nearly interest-free loans could also be made by the central bank to state and local governments, in the same way they were issued to rescue an insolvent banking system.

Just as the Fed bought federal and mortgage-backed securities with money created on its books, so it could buy student or other consumer debt bundled as "asset-backed securities." But in order to stimulate economic activity, the central bank would have to announce that the debt would never be collected on. This is similar to the form of "helicopter money" recently suggested by former Fed Chairman Ben Bernanke to the Japanese, using debt instruments called "non-marketable perpetual bonds with no maturity date" – bonds that can't be sold or cashed out by the central bank and that bear no interest.

The Bernanke proposal (which he says could also be used by the US Fed in an emergency) involves the government issuing bonds, which it sells to the central bank for dollars generated digitally by the bank. The government then spends the funds directly into the economy, bypassing the banks.

Something similar could be done as a pilot project with student debt, Stein's favorite target for relief. The US government could pay the Department of Education for the monthly payments coming due for students not in default or for whom payment had been suspended until they found employment. This would free up income in those households to spend on other consumer goods and services, boosting the economy in a form of QE for Main Street.

In QE as done today, the central bank reserves the right to sell the bonds it purchases back into the market, in order to reverse any hyperinflationary effects that may occur in the future. But selling bonds and taking back the cash is not the only way to shrink the money supply. The government could just raise taxes on sectors that are currently under-taxed (tax-dodging corporations and the super-rich) and void out the additional money it collects. Or it could nationalize "systemically important" banks that are insolvent or have failed to satisfy Dodd-Frank "living will" requirements (a category that now includes five of the country's largest banks), and void out some of the interest collected by these newly-nationalized banks. Insolvent megabanks, rather than being bailed out by the government or "bailed in" by their private creditors and depositors, arguably *should* be nationalized – not temporarily, but as permanent public utilities. If the taxpayers are assuming the risks and costs, they should be getting the profits.

None of these procedures for reversing inflation would be necessary, however, if the money supply were properly monitored. In our debt-financed system, the economy is chronically short of the money needed to support a dynamic, abundant economy. New money *needs* to be added to the system, and this can be done without inflating prices. If the money goes into creating goods and services rather than speculative asset bubbles, supply and demand will rise together and prices will remain stable.

Is It in the President's Toolbox? Whether Stein as president would have the power to pull any of this off is another question. QE is the province of the central bank, which is technically "independent" from the government. However, the president does appoint the Federal Reserve's Board of Governors, Chair and Vice Chair, with the approval of the Senate.

Failing that, the money might be found by following the lead of Abraham Lincoln and the American colonists and issuing it directly through the Treasury. But an issue of US Notes or Greenbacks would also require an act of Congress to change existing law.

If Stein were unable to get either of those federal bodies to act, however, she could resort to a "radical" alternative already authorized in the Constitution: an issue of large-denomination coins. The Constitution gives Congress the power to "coin Money [and] regulate the value thereof," and Congress has delegated that power to the Treasury Secretary. When minting a trillion dollar platinum coin was suggested as a way around an artificially imposed debt ceiling in January 2013, Philip Diehl, former head of the US Mint and co-author of the platinum coin law, confirmed:

In minting the $1 trillion platinum coin, the Treasury Secretary would be exercising authority which Congress has granted routinely for more than 220 years. The Secretary authority is derived from an act of Congress (in fact, a GOP Congress) under power expressly granted to Congress in the Constitution (Article 1, Section 8).

The power just needs to be exercised, something the president can instruct the Secretary to do by executive order.

In 1933, President Franklin Roosevelt engaged in a radical monetary reset when he took the dollar off the gold standard domestically. The response was, "We didn't know you could do that." Today the Federal Reserve and central banks globally have been engaging in radical monetary policies that have evoked a similar response, and the sky has not fallen as predicted.

As Stein quotes Alice Walker, "The most common way people give up their power is by thinking they don't have any."

The runaway success of Sanders and Trump has made it clear that the American people want real change from the establishment Democratic/Republican business-as-usual that Hillary represents. But real change is not possible within the straitjacket of a debt-ridden, austerity-based financial scheme controlled by Wall Street oligarchs. Radical economic change requires radical financial change, as Roosevelt demonstrated. To carry the baton of revolution to the finish line requires revolutionary tools, which Stein has shown she has in her toolbox.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. *Her latest book,* The Public Bank Solution, *explores successful public banking models historically and globally. Her 300+ blog articles are at EllenBrown.com.*

Our Comment

So crisis really *can* morph into opportunity! The disastrous 2008 meltdown led to the revelation that the US central bank "has virtually limitless resources."

Small wonder that the Fed didn't announce that it "had provided a whopping $17 trillion in secret loans to bail out American and foreign banks and businesses during the economic crisis"!

The publicity around "quantitative easing" has yielded awkward public insights into the truth about money creation. The "mighty Oz" has been driven from his cover and may have to take – not to a hot-air-balloon – but to a helicopter.

The feasibility and the potential of using government-created money has been clearly argued and irrefutably demonstrated.

Lucky us! The Canadian tool box contains all the revolutionary tools necessary. They have been well tested and found equal to the task. We have only to come up with a government also equal to the task.

Élan