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A Power Unto Itself: The Bank of Canada. The Threat to Our Nation's Economy.

The following is the preface to A Power Unto Itself *by William Krehm.*

Much of the material in this book was drawn from my writings in *Economic Reform,*[1] the monthly newsletter of the Committee on Monetary and Economic Reform (COMER). In that sense it is a blend of journalism and editorial comment, written in response to events of recent years.

On another plane, however, the book's roots are deeper and go back almost three decades, in the mid-1960s, when the upward surge of prices was becoming a concern, I noticed a serious discrepancy between the mixed economy that had developed since World War II and conventional price theory. To operate an urbanized and increasingly high-tech modern society, we need costly infrastructures that only government can provide. Conventional economists, however, regard price strictly as a balancing act between market and supply and demand. Having settled on this limited definition, they are disinclined to admit the presence of other independent variables.

From my mathematical training, I knew that, to be valid, solutions cannot have fewer independent variables than the problems they are supposed to solve. Since our society had become pluralistic, only a pluralistic view of price could help us fathom what was happening in the economy. For example, I reasoned that prices might rise not necessarily because market demand was outstripping available supply, but because taxes had climbed to pay for public services that were neither priced nor marketed. Or because of a wide variety of other circumstances.

This approach was developed in a number of technical papers that appeared in the two leading economic publications in France,[2] where they aroused a degree of interest. But shortly thereafter, economic publications became closed to such views. This was the period when monetarism – the dogma that prices can be stabilized by restricting the money supply – was adopted by central banks throughout the world. Monetarism also became the approved model at the majority of universities.

Here in Canada, our rich experience in curbing inflation without provoking recession was suppressed. Instead, the idea of fighting inflation was identified solely with the policy of high interest rates as practised by a succession of federal finance ministers and governors of the Bank of Canada. In this climate, which scarcely encouraged dissenting views, I myself published my three previous books on economic subjects.[3] They received favourable attention from readers and commentators both at home and abroad, but essentially I was writing for the record. Aleksandr Solzhenitsyn has remarked that a writer in Soviet Russia often wrote only to bury his manuscript in the garden. No Gulag awaited Canada's economic dissidents, but those of us who persisted in questioning the prevailing wisdom found ourselves in a somewhat similar position.

In time, along with Professor John Hotson of the University of Waterloo and others in Canada and the United States, I organized COMER, whose members exchanged views at modest workshops in Canada and abroad, as well as throughout the pages of its newsletter. Thanks to these exchanges, our views have of course undergone refinements, modifications, and – I hope – improvements.

Continued on page 2

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Power Unto Itself *from page 1*

Meanwhile, the world has moved on to what might be described as a second generation of economic problems. Today, we are confronted less by the dislocations of inflation per se than by the consequences of false defences against inflation blindly imposed. Our main concerns in the early 1990s are so-called "jobless recoveries," the deficits experienced by every level of government, and depleted treasuries that leave no resources available for even the most urgent programs. These adverse effects are worldwide, as a glance at the newspaper headlines reveals.

Those who commandeered economic thinking a quarter-century ago have had their chance and have failed abysmally in their task. The time has come to restore untrammelled dialogue on economic matters.

I write these words as the 1993 federal election campaign is in its earliest stages. Plainly, the economy – particularly job creation and the federal deficit – will remain its focal point. I fear, however, that the three major parties, as well as the smaller regional parties, will end up shouting at one another from time-worn platforms, employing time worn-rhetoric. If so, vital questions will be ignored.

Immediately following the election call the CBC radio program *Morningside* featured a panel of commentators who laid out what they consider likely campaign themes and strategies. One participant noted, almost in passing, that Prime Minister Campbell, if she chose, could instruct the Bank of Canada to alter its policies – but that she simply wasn't about to do so. No one asked why not; no one talked about whether this was good, bad, or indifferent. The discussion then turned to the need for Canadians to make do with less, having lived beyond their means for far too long, and so forth.

Meanwhile, Liberal leader Jean Chrétien has stated that, if in power, he would tell John Crow, Governor of the Bank of Canada, that "we want people to get back to work." He also categorized Mr. Crow as "an official of the government." This led to a brief flurry of speculation in the media. The *Globe and Mail* recalled a speech delivered by Mr. Crow, in which he said that "the central bank has a position somewhat apart from government…it is not simply a department of government."4 On the evening news, several people speculated on the probable reaction of foreign bond-holders to such "interference" on Chrétien's part.

The consensus was that the dollar would come under pressure, rates would rise, and all hell would break loose. A person reading the newspaper or watching television might be pardoned for thinking that the bank, its governor, and its policies are indeed untouchable – or that, if a government dares to meddle in the process, it does so at its peril, not to mention the country's.

I take the opposite view. It is absolutely necessary that the central bank he brought to account, by which ever party forms our next federal government. But for this to happen, the bank, its policies, and a wide range of economic issues must be debated openly in the light of day, stripped of mumbo-jumbo so that ordinary men and women can grasp what has been going on.

At times like these every citizen has a duty to grasp some degree of monetary policy, society as a whole has a broader duty, but enlightened self-interest suggests that everyone must be aware of the forces that impinge upon the quality of our lives.

This is at first glance a daunting prospect. Many people tend to tune out when specialists and so-called experts launch into long and convoluted explanations of fiscal ebb and flow. My purpose in writing this book at this time is not only to convince you of my views but to keep these issues on the political agenda during this crucial period in our nation's history. In this you can play a part. Whether you agree with me or not, it would be wise for you to learn enough to be able to ask questions of the people who are running for public office. This will force them to disclose and defend the positions of their parties on vital economic matters.

Don't consider economics an esoteric science, in which only specialists have the answers. We have to do our best to penetrate the mists and to unravel economics for our time and place.

William Krehm was born in Toronto and studied mathematics and physics at the University of Toronto. He has worked as a correspondent for Time *magazine in Latin America, and in Canada as a freelance broadcaster, house builder and publisher. He is currently the publisher of* Economic Reform*, a journal of the Committee on Monetary and Economic Reform. Mr. Krehm lives in Toronto.*

End Notes

1. Formerly *COMER Comment.*
2. *Revue Économique* and *Économie Appliquée.*
3. *Price in a Mixed Economy: Our Record of Disaster* (1975); *Babel's Tower: The Dynamics of Economic Breakdown* (1977); and *How to Make Money in a Mismanaged economy and Other Essays* (1980).
4. *The Globe and Mail,* 2/9/93.

Our Comment

It seems especially fitting, at this moment in COMER's history, that in this, the last COMER issue in 2017, we glance briefly at the past, and consider its implications for the future.

I have found the Preface to William Krehm's book, *A Power Unto Itself: The Bank of Canada,* a good place to start.

It begins with a reference to a basic flaw in conventional economics – the relegation of certain variables to the status of "externalities."

What counts and what does not count sure makes a difference to the outcome! Imagine a game in which every point scored by team A counts, but only one out of every two points scored counts for team B!

To lump all price increases into the same category regardless of what caused them is a monstrous distortion.

To condemn an economy to strangulation, because it affords advances in medical science conducive to improvements in health care, is absurd.

The role of dogma has been dramatically effective in promoting neoliberalism. However, that dogma has now been widely challenged, and the repression of successful alternatives or a knowledge of them is being increasingly undermined.

We are blessed, today, with new resources with which to meet the imperative need for an awareness of "the forces that impinge upon the quality of our lives," and to do something about them.

The "modest workshops in Canada and abroad," and the newsletter and other COMER publications enabled COMER to work with others, at home and abroad to raise the level of awareness of monetary and economic issues.

As Bill has observed, the world "moved on to what might be described as a second generation of economic problems" – and to their worldwide adverse effects.

Today, we face yet another "generation of economic problems," yet another politics of "time-worn platforms" and "time-worn rhetoric."

Today, more than ever, every citizen – out of "enlightened self-interest" alone – can and must play a part during an even more "crucial period in our nation's history."

The implications for COMER are "rooted in the past" and will include the task of doing what *we* can do to help ourselves and others to "penetrate the mists and to unravel economics for *our* time and place"

Élan

The Canada Infrastructure Bank and the Perversities of Predatory Capital

By Toby Sanger, Canadian Dimension, November 30, 2017

In their election platform and in ministerial mandate letters, the federal Liberals promised they would "establish the Canada Infrastructure Bank to provide low-cost financing (including loan guarantees) for new municipal infrastructure projects."

This had the potential to be a positive initiative. The federal government can borrow at very low rates – significantly below provincial and municipal government rates. In mid-2017, the federal government could borrow for a 10-year term at 1.4 percent and over 30 years for just two percent. These rates are at or below inflation, and close to historic lows. The federal government could also potentially use the capacity of the Bank of Canada to finance public infrastructure projects directly, as had been done until the 1970s.

Unfortunately, it took very little time for the Liberal government to break its promise and succumb to the pressure of big money, turning this into a privatization bank instead.

In January 2016, two months after taking office, Prime Minister Justin Trudeau attended the annual World Economic Forum gathering of plutocrats in Davos, Switzerland. Here, he met with Larry Fink, CEO of Blackrock Inc., the world's largest investment firm, and other powerful bankers and investors at a breakfast organized by Dominic Barton, the global head of McKinsey Consulting.

Shortly after that, Liberal Finance Minister Bill Morneau announced the members of his Advisory Council on Economic Growth. The chair was Dominic Barton, and the vast majority of other members were either CEOs or investment executives. There was no one from labour or who might be seen to represent those that the Liberals so frequently claim they are standing up for: "the middle class and those working hard to join it."

In addition to Barton, key members of Morneau's council include Michael Sabia, CEO of the Caisse de dépôt et placement, Québec's largest pension fund, and Mark Wiseman, the newly-appointed CEO of the Canada Pension Plan Investment Fund. Wiseman left within a few months to work at US-based Blackrock Inc. as Global Head of their Active Equities unit.

This group quickly went to work to recast the Liberal election promise to their own advantage.

Morneau outsourced policy-making about the bank from his department to this advisory council – and through Barton to McKinsey Consulting, which has largely been responsible for the content of the council's flimsy reports. The council's first set of recommendations included a proposal for an infrastructure bank that would rely heavily on expensive private-sector financing, and use it to privatize public infrastructure. The model for the infrastructure bank that Morneau proposed in his Fall Economic Update a few days later and then in his budget bill in April was, in all essentials, identical to this proposal.

Rather than welcoming low public borrowing costs as an excellent opportunity to build public infrastructure, these titans of private finance perversely saw low-cost borrowing as a problem. Why? Because it means that the returns private finance generates by lending directly to governments are low, with trillions in negative rate bonds.

Corporate Billions Sitting Idle

Corporations are sitting on hundreds of billions of excess cash in Canada and trillions worldwide – money they aren't putting into productive investments. So corporations and other investors (including pension funds) desperately want to achieve higher returns. But economic growth is slow (because wage increases are so low and profits so high), which leads to fewer private-sector investment opportunities. So corporations are now turning to the cannibalization of public-sector assets and infrastructure through public-private partnerships or other forms of privatization, including the new infrastructure bank.

The great attraction of these public infrastructure investments for private finance is that high returns are effectively guaranteed

for decades through ongoing government payments, and/or through tolls and other user fees. Most forms of public infrastructure involve some form of natural monopoly. This allows private owners to exploit them for monopoly profits – which is why they were established as public assets in the first place!

In another sordid twist, the briefing notes and presentation about the bank that were prepared for delivery by Trudeau and his ministers at a session for foreign investors were developed in conjunction with Blackrock officials, as *Globe and Mail* reporter Bill Curry revealed, using documents obtained through access to information. In effect, the Liberal government turned over the design and development of this bank to the very people who will profit most from it: the largest private sector and pension investment funds in the world.

More Than the Appearance of Conflict of Interest

As NDP finance critic Alexandre Boulerice said, "If this isn't a major conflict of interest, I don't know what else you could call it." Even Conservative MPs such as former Surrey mayor Dianne Watts have been highly critical of Liberals providing billions in subsidies and turning over control of the bank to "powerful financial interests."

And, breaking another promise they had made, the Liberals are ramming approval of the bank through Parliament by including it in an omnibus budget bill, a maneuver for which they had strongly criticized the Harper government and promised they would never adopt.

The Liberal budget bill proposes to finance the bank with an initial $35 billion in federal funding, but it will rely mostly on much higher-cost private funds for its financing dollars. The money from the federal government will be there to take a subordinate position and reduce the risk for private-sector investors. In effect, all the projects the bank finances will be privatized. Because private finance demands much higher returns from its investments than the rates at which the federal government

The Politically Impossible Has Suddenly Become Possible

By Naomi Klein, The Intercept, January 13, 2018

Five years ago, when 350.org helped kick off the global fossil fuel divestment movement, one of the slogans the team came up with was "We > Fossil Fuels."

The T-shirts and stickers were nice, but I have to admit that I never really felt it. Bigger than fossil fuels? With their bottomless budgets? Their endless capacity to blanket the airwaves and bankroll political parties? The slogan always made me kind of sad.

Well, yesterday in New York City, listening to Mayor Bill de Blasio announce that the city had just filed a lawsuit against five oil majors and intended to divest $5 billion from fossil fuel companies, I actually felt it. After being outgunned by the power and wealth of this industry for so many years, the balance of power seemed to physically tilt. It's still not equal – not by a long shot – but something big changed nonetheless. Regular humans may not be more powerful than the fossil fuel companies now – but we might be soon.

Within minutes of de Blasio's announcement, activists in London started tweeting at their mayor to step up in equally bold fashion. And while the press conference was still streaming live, several of us started to get emails from city councillors in other cities around the world, promising to initiate a similar process in their communities.

Such is the power of an action emanating from a center as symbolically important as New York City: What felt politically impossible yesterday suddenly seems possible, and the dominos start instantly falling.

It's also extremely significant that the divestment and lawsuit were announced in tandem – because they have the potential to reinforce one another in a kind of virtuous market cycle. Part of the reason why fossil fuel divestment has picked up so much momentum over the past two years is that fossil fuel stocks have been performing badly. This is mainly because the price of oil has been depressed, but it is also because of market uncertainty created by the increasingly powerful climate and indigenous rights movements, and the signing of the Paris climate agreement.

All of this has raised the question of whether fossil fuel companies are really going to be able to get their pipelines and other infrastructure built, given the strength of the opposition. And they have also raised the question of whether these companies will be able dig up the huge oil, gas, and coal reserves that are currently factored into their stock prices – or are these are going to become stranded assets? Right now, we don't know the answers to these questions, and that uncertainty can give many smart investors pause.

(The Trump administration, by ditching the Paris Agreement and opening up vast new swaths of territory for exploration, has been trying frantically to reassure the markets by sending the opposite message – that it's back to dirty business as usual.)

Now, with New York City's lawsuit for climate damages, the market is confronting the prospect of a cascade of similar legal actions – cities, towns, and countries all suing the industry for billions or even (combined) trillions of dollars in damages caused by sea-level rise and extreme weather events. The more suits that get filed, the more the market will have to factor in the possibility of fossil fuel companies having to pay out huge settlements in the near to medium term, much as the tobacco companies were forced to in past decades.

As that threat becomes more credible, with more players taking New York City's lead, the investor case for dumping these stocks as overly high risk will be strengthened, thereby lending a potent new tool to the fossil fuel divestment movement. A virtuous cycle. Oh, and the more we are able to hit the industry in the pocketbook, the less likely costly new drilling and pipeline projects will be to go ahead, no matter how many precious national parks and pristine coastlines the Trump administration attempts to desecrate. If the economics don't make sense, the drilling simply won't advance.

That's why New York's actions are so significant, not just in New York or the United States, but globally. (It's also why I got so cranky with *The New York Times* for treating it like a minor municipal event, buried on page 23.)

Yesterday was a big, good day for the planet – and we needed one of those.

Our Comment. If those who *can*, do, "it will happen." Time to groom, support, and put in place, those who *can! Élan*

can borrow, this means projects financed through the bank could easily cost twice as much over their lives than if they were publicly financed.

The financing costs for a $100 million project at a rate of 2.5 percent amount to just $42 million over 30 years. At a rate of 9 percent (approximately the return private investors expect from infrastructure investments, according to Caisse CEO Michael Sabia and others), the financing costs would total $190 million. This higher rate would quintuple the financing costs and double the total costs of a project – and demonstrates why private finance is pushing so aggressively for a privatization bank. (See Figure 1.)

Deeply Flawed

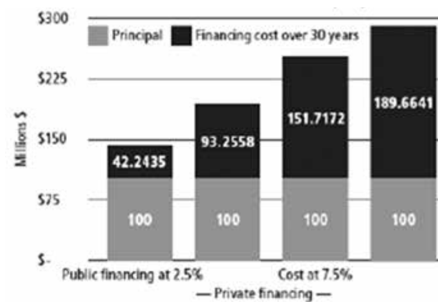
While private finance firms such as Blackrock Inc. may provide the financing up front, all the money to pay for this infrastructure will ultimately come from the Canadian people, both through annual availability payments from governments and through higher user fees, which will hurt middle- and low-income earners the most.

The Liberals have emphasized that the infrastructure bank will provide financing only for "revenuegenerating infrastructure" and for either new projects or projects that involve additional investment. They will very likely include toll roads and bridges, public transit, rail lines, water and wastewater, electrical grid and utilities. These will all involve higher user fees for the public.

Numerous critics have outlined major problems with the proposed bank:

- It will lead to massive privatization of public infrastructure;
- Projects will cost much more, so Canadians will get less bang for their buck;
- Projects will require significant increases in user fees, which will restrict access, and punish middleand lower-income earners;
- There will be little transparency and public accountability required of the bank and its projects or for its use of public funds. Information will be kept secret and will not be subject to the more stringent transparency and accountability rules that govern public projects, while those who disclose information could be subject to fines and jail time;
- The bank is restricted from having any representation on the board from the federal or any other governments, which means the bank will be controlled by private-sector interests, even though the legislation claims it will act in the public interest.

Figure 1: Private Financing Can Double the Cost of Infrastructure Projects



It is still unclear whether the federal government will have some say in the approval of projects, which is reason enough for the bill to be separated from the omnibus budget bill. But the Liberals have obstinately refused to do so.

In addition, the bank will be allowed to entertain "unsolicited bids," which means that the for-profit interests in charge will be able to cherry-pick the public assets and infrastructure projects they think will be most lucrative for potential privatization. In the form currently proposed, the bank is a potential jackpot for private investors, while leaving the cupboard bare for the public sector.

The bank is also tasked with becoming a national centre of expertise and advice for governments on infrastructure projects. Canada needs national public infrastructure planning, but hosting this through a bank focused on privatization is absolutely the worst way to do it.

There's no reason why the federal government can't make the Canada Infrastructure Bank into a truly public infrastructure bank that would provide low-cost loans for large public infrastructure projects. The federal government already has banks and lending institutions that provide low-cost loans, financing, credit, and loan guarantees for housing, for entrepreneurs and for exporters.

The infrastructure bank could be established as a crown corporation with initial capital contributions from the federal and perhaps other levels of government and backed by a federal government guarantee. It could then leverage its assets and borrow directly on financial markets at low rates and then use this capital to invest in new infrastructure projects.

Better Ways

There are many different examples of public banks or lending institutions in Can-

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ada and around the world that provide low-cost loans for a variety of purposes. Canadian examples include the federal Business Development Bank of Canada (BDC) for entrepreneurs, Export Development Canada (EDC) for exporters, the Canada Mortgage and Housing Corporation (CMHC) for housing, and provincial financing authorities (which provide low-cost loans to municipalities). International examples include the World Bank, a range of regional investment banks and many other national investment banks.

Because they're backed by explicit or implicit government guarantees, these banks and lending institutions can borrow on financial markets at low rates of interest (about 25 to 75 basis points above the backing government's borrowing rate), which allows them in turn to provide low-interest loans. While the initial capital provided to establish them may be considered an expense or investment, the amount they borrow and subsequently lend out isn't included on the government's income statements, although it is recorded on consolidated balance sheets.

This approach would involve a slightly higher cost of financing than direct federal government borrowing, but it would be considerably below the cost of private finance. With federal backing, a national infrastructure bank could also provide financing at rates below those that municipalities can borrow at themselves, or through municipal financing authorities, which are about 150 basis points above federal government rates.

The project loans would be repaid by the proponents and could involve government payments, limited user fees where appropriate, and ancillary funding sources. But instead of relying on more expensive private sources for the bulk of its financing, and privatizing the projects, the infrastructure projects would be financed with much less expensive public financing and would remain public. And because the financing cost would be much lower, the annual funds required to pay for the project would likewise be much lower, with less need for user fees or for ongoing public payments.

This is the type of public infrastructure bank that the Liberals actually promised in their election platform. In the topsy-turvy way things have turned out, while the Canadian government has public banks and other lending institutions that take advantage of *lower-cost public finance and government guarantees* to support and subsidize private investments, the plan for a Canada Infrastructure Bank relies on *much higher cost private financing for public infrastructure.*

This illustrates how public institutions continue to be subverted to serve private profit by a predatory state predominantly controlled by the interests of private capital.

While it might have a friendlier face, there isn't much difference between the probable consequences of this infrastructure bank and the mass privatization of public infrastructure planned by President Trump's administration and similar initiatives carried out in other countries.

It is important to resist each privatization proposal and expose each project for who it will benefit and who it will hurt, but ultimately the pressure to privatize and cannibalize the public sector won't abate until we achieve a more profound shift of power from concentrated private capital to a much more equitable economic order.

CUPE resources on the infrastructure "bank of privatization" can be found at cupe.ca/not-for-sale.

COMER General Meeting

February 3, 2018
12:30 to 4 pm
First Unitarian Congregation of Toronto
175 St Clair Avenue West
Toronto, ON M4V 1P7
(southwest corner at Avenue Road)

Our Comment

Yet another hen-house assignment for foxes!

How easy it has been to end-run the Bank of Canada – the infrastructure bank that belongs to all Canadians – the one mandated to serve the common good – with a privatization bank that will serve the privileged few with both a transfer of public wealth into their coffers and enormous potential to further enslave Canadians through unrepayable debt.

Anyone still willing to give the Canadian government "the benefit of the doubt," ought to consider the way the "bank" was created, and the rules governing its operation.

The provision restricting the "bank" from having any representation on the board from government, entrusting the public interest to private-sector control, is an outright betrayal.

That such a "bank" should be "tasked with becoming a national center of expertise and advice for governments on infrastructure projects," should be enough to provoke a national "aha" sufficient to shatter the carefully designed and preserved ignorance on which the plutocratic power of governments and corporations depends.

In her book, *Beyond Banksters: Resisting the New Feudalism,* Joyce Nelson identifies the architects of the Canadian Infrastructure Bank – institutions like BlackRock, the world's biggest investment manager, and "consulting giant McKinsey and Company" and key advisors like Mark Wiseman, the CEO of the Canada Pension Plan Investment Board (CPPIB), who "encouraged the [Canadian] federal government to look to places like Australia or the UK as examples of how Ottawa could utilise the capital of these global funds to meet its own infrastructure-needs" (p. 26), and who shortly moved on "to take a senior-leadership role" at BlackRock (p. 33).

The chair of Morneau's Advisory Council on Economic Growth is Dominic Barton, who is "Canada's so-called New Economy Czar" (p. 37).

He has been the global managing director of McKinsey and Company since 2009. McKinsey "advertises itself as a turn-around specialist, taking on failing companies and helping make them profitable again…it's important to note, that apparently, there are times when a 'turn-around specialist' like McKinsey and Company actually can take a functioning organization and turn it into a disaster" (p. 39).

"Over the past few years, people in the UK have been in a pitched battle to save their beloved (publicly owned) National Health Services (NHS) from the creeping privatization plans outlined largely by McKinsey and Company" (p. 39).

Dominic Barton "pegged the infrastructure gap – the difference between what Canada needs and what it has – at a level as high as 500 billion" (p. 38).

He "believes Canada can lead the world in infrastructure building" (p. 38).

He told *The Globe and Mail* in 2009, "I believe very much in creative destruction" (p. 39).

He "fears [Canada] does not play a heavyweight role in international discussion of water's geopolitical future."

This is a mere sampling of the information to be gleaned from *Beyond Banksters,* and a glimpse of its insights into what we have to look forward to if we leave Canada's future up to the CIB.

Élan

Undercover Privilege

The Real Pirates of the Caribbean

By Ed Finn, rabble.ca/blogs, November 10, 2017

During the 20 years I was editor of the *CCPA Monitor*, monthly journal of the Canadian Centre for Policy Alternatives, we published a dozen or more articles about offshore tax havens.

Until the leak of the Panama Papers a few years ago, however, the identity of most of the individuals, corporations and organizations that secreted money overseas – thus avoiding taxation in their home countries – was unknown. But the 2015 leak of 11.6 million documents detailed the tax haven activities of more than 214,000 wealthy people and public officials.

Then came the recent massive leak of the Paradise Papers, which has wide-opened the tax avoidance floodgates. They identify thousands more companies and individuals that hide money from domestic tax collectors in some of the hundreds of foreign tax havens that have proliferated around the world, including Bermuda, the Cayman Islands, and the Bahamas – the real "pirates of the Caribbean."

Those mentioned in the Paradise Papers include three former Canadian prime ministers – Brian Mulroney, Jean Chrétien and Paul Martin – and Justin Trudeau's chief fundraiser, Stephen Bronfman. Queen Elizabeth and the Prince of Wales also had their private estates' use of tax havens disclosed.

In the United States, the offshore ties of more than a dozen of Donald Trump's advisers, cabinet members, and major donors were also listed. One in particular, Wilbur Ross, a private equity tycoon who serves as Trump's commerce secretary, was exposed as having a stake in a shipping company that is funded and co-owned by the son-in-law of Russia President Vladimir Putin.

Three Thousand Canadian Entities Named

The leaked files were first obtained by the German newspaper *Suedddeutsche Zeitung* and shared with the International Consortium of Investigative Journalists (ICIJ) and a network of more than 380 journalists in 67 countries, including CBC/Radio Canada and the *Toronto Star*.

They contain the names of more than 3,000 Canadian entities, including hundreds of companies, wealthy individuals, accountants, and people who inherited money secreted in their families' offshore accounts. The business firms named include Loblaw's, Maple Leaf Foods, Dare Foods, Petro-Canada, and the Glencore mining company.

None of these tax haven users, however, have admitted any wrongdoing. They challenge their accusers to prove they are guilty of tax evasion, or even tax avoidance. Given the vague and loosely defined tax laws in Canada, that kind of solid evidence is very difficult to produce.

"The tax rules in Canada are not clear and tend to cause confusion," says Jonathan Farrar, associate professor of accounting at Toronto's Ryerson University. "If they were clear, it would be much easier to determine if a person or corporation actually was guilty of tax evasion."

Most of the recently leaked tax haven files originated with Appleby, the world's largest offshore law firm. It helps its clients, including giants such as Apple, Nike, Uber, and the Canadian companies named above, to avoid taxes legally by exploiting tax law loopholes and engaging in "creative bookkeeping."

It's worth noting that Canada ranks as one Appleby's biggest sources of clients, surpassed only by the US, the UK, and China.

The CRA's Disappointing Record

The Canada Revenue Agency has a less than stellar history of dealing with tax evasion and fraud. This can be expected to improve somewhat, since the agency was given nearly $1 billion in last year's federal budget specifically to crack down on tax haven shenanigans. Indeed, Revenue Minister Diane Lebouthillier claims that the CRA "is close to recovering $25 billion in unpaid taxes."

We await this achievement with mixed, if not dubious feelings. We know that, in the past, the CRA's tax collection record has been lame, especially when compared with the success of other countries in cracking down on tax evaders.

Sean Davidson, a reporter with CBC News, after comparing the CRA's record with those of other countries, advised that, "If you're going to get caught cheating on your taxes, get caught in Canada. You might have to repay every withheld cent, plus fines and interest, but, once the CRA is done with you, there's a good chance you won't also land up in prison."

He quoted Toronto-area accountant Darryl Hayashi: "The Canadian government, basically, just wants its money back." In most cases this is done through civil proceedings in Tax Court without laying criminal charges. Only in the most egregious cases – 23 percent of all cases in Canada in 2013 – are jail sentences imposed.

In sharp contrast, in the US in the same year, 80 percent of its convicted tax evaders were sentenced to jail terms, in addition to paying their withheld taxes.

Britain is also emulating the US in cracking down a lot harder on its tax evaders, Sean Davidson reports. "The UK's tax agency, known as Her Majesty's Revenue and Customs, is halfway through a five-year drive to increase tax-related criminal prosecutions fivefold."

CRA Keeps Tax-gap Data Secret

In Canada, one of the main problems with tax collection stems from the CRA's adamant refusal to divulge the extent of the gap between the amount of taxes due and the amount actually collected. According to *Toronto Star* investigative reporters Alex Boutilier and Robert Cribb, "Over the past six years, three different parliamentary budget officers – mandated to report to Parliament on fiscal matters – have requested this data," only to be rebuffed time and again by the CRA.

Canada's current parliamentary budget officer, Jean-Denis Frechette, bemoans the long and fruitless tug-of-war with the CRA for access to this vital tax gap information. "We had legal counsel, they had legal counsel. Our lawyers said the PBO reports to Parliament and thus should have access, their lawyers said we didn't. After six years of futile sparring with the CRA, we had to give up and walk away."

"More than a dozen other major countries, including the US, the UK, Sweden, Denmark, Belgium, Australia and Mexico, measure and publicly report the amount of their uncollected taxes from both domestic and offshore sources," Boutilier and Cribb point out. "They do so in order to understand the size of their shortfalls and plan effective public policy strategies to address the problem."

For more than 50 years, the US has been measuring and disclosing the amount of taxes due that never make it into the country's revenue coffers. In Canadian dollars, the latest amount for the US is calculated

at $680 billion. The UK figure is $70 billion, the European Union's $260 billion, Sweden's $24 billion, and Australia's $2.8 billion. As long as the CRA keeps Canada in the dark, however, "it means that public policy is being made in a knowledge vacuum," says Frechette.

Occasionally, the CRA will divulge some information, estimating, for example, that about 5.6 percent of potential tax revenue went uncollected every year between 2000 and 2014. "But this information," Boutilier and Cribb emphasize, "ignores the white elephant in the room: uncollected offshore taxes from the billions of dollars flowing out of Canada into foreign tax havens." Without that knowledge, the domestic shortfall alone is not enough to determine how best to tackle the tax gap.

"The CRA has just gone for the low-hanging fruit and left the important tax matters alone," says Liberal Senator Percy Downe, a vocal advocate for tax gap reporting in Canada.

None of these critics of the CRA, as far as I know, have speculated on why the agency is so unyieldingly opposed to releasing the tax gap data. The only reason I can think of is that the CRA is afraid that disclosure of these figures will reflect badly on its collection methods. As it probably would.

Regardless of how this squabble over tax collection ends, regardless of whether non-payers are considered avoiders or evaders, regardless of whether or not most tax haven users are withholding their taxes illegally, surely there is a more troubling moral and ethical factor to consider. It has to do with the ability of so many people to get away with not paying their taxes. They can do so because they're rich. They can afford the expensive advice of high-priced lawyers and accountants who can exploit convenient loopholes and ambiguities in the tax laws. This explains the vast amount of taxes owed that never get collected.

So, largely because of the riches they have amassed, the super-wealthy of the world are able to hide from the tax collectors an estimated $21 *trillion* in offshore accounts.

This is not to imply that the middle class should have the same advantage, but rather that the billionaires and millionaires should have this advantage stripped from them. It is surely not beyond the capacity of any government dedicated to tax fairness to tighten up its tax laws and force all taxpayers, irrespective of their incomes, to obey those laws.

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.

This of course raises the key question of how many governments are truly devoted to ensuring tax fairness. Canada's federal government, unfortunately, doesn't seem to be one of them.

Our Comment

Tax avoidance details leaked in the Paradise Papers, *identified* the formerly faceless clients of offshore Tax Havens. This development had all the virtues of a police lineup in which witnesses could, at last, "finger" the miscreants – for miscreants they are since, however *legal* the practice, it is bad behavior.

Unmasking the clientele of "the real 'pirates of the Caribbean'" exposes the truth about our supposedly democratic political economy, and empowers the electorate to better address the need to restructure our political system so that we can better ensure the election of representatives worthy of our trust, and hold them to account.

Hats off, and thanks to *Süddeutsche Zeitung* and to the journalists who mobilized that we might "read all about it"! It does much to restore one's faith in the sometimes seemingly 'muzzled' media. No wonder the CBC has been so mercilessly under attack through funding cuts! The project is a superb call to support our public national radio and television facilities, reliable journalists, and media who publish their work.

Taking advantage of "vague and loosely defined tax laws" may not be "wrongdoing," but it is inexcusable, for the *advantages* of "law loopholes" and "creative bookkeeping" are clear enough to prick a healthy conscience.

Speaking of conscience, the Canada Revenue Agency's "adamant refusal" to divulge to parliamentary budget officers the difference between taxes owed and taxes collected, is a sterling reason to build *transparency* into our political economy and to enforce it.

Imagine what a difference a few billion in taxes denied could make to healthcare and education – never mind the deficit excuse!

Ed Finn's conclusions are a challenge that, fortified with the succinct information he has provided, we should all be putting to our MPs, prior to mobilizing around these and other insights for the next federal election!

Élan

Tax Law: The Monster Hidden at the Heart of Government

Op-ed by Stewart Sinclair, February 3, 2013

We all know that taxes of various sorts are almost universally considered to be vexatious in some way. But just how much so and why is usually not closely examined – like the making of sausage.

It all started for me about 4 years ago when, out of curiosity I attended a talk by some "de-tax" advocates (people whose beliefs range from the feeling that the income tax system is grossly unfair to those who oppose all forms of tax). As a result I got curious about the legislation itself and what it looked like. Not having a legal background, I was blown away by what I found.

I have downloaded the web pages containing the main parts of the income tax law as text and loaded them into a Word document. The raw statistics are quite staggering:

• The *Income Tax Act* itself, as of January 1, 2012, is 1,642 pages and 980,000 words. The *Application Rules Act* is another 48 pages and 30,000 words.

• The Income Tax Regulations (directions developed by civil servants explaining how to implement the laws) add another 796 pages and 385,000 words for grand totals of more than 1.33 million words and nearly 2,500 pages. It gets worse.

• References to other laws are found in 1,122 passages in the *Income Tax Act* and the Regulations with the following format: "Note: Application provisions are not included in the consolidated text; see relevant amending regulations."

Just one of these "notes" is followed by 29 references to other pieces of legislation. These references are such an example: SOR/78-2, s. 1; SOR/78-331, s. 1; SOR/80-382, s. 1; SOR/80-502, s. 1; SOR/80-683, s. 1; SOR/80-901, s. 1; SOR/80-941, s. 1; SOR/81-471, s. 1; SOR/83-349, s. 1. And so on for 20 more references.

SOR stands for Statute of the Realm – the formal name of an Act of Parliament. The notes cited above, all refer to other acts that appear to modify the effects of the tax laws in some way. It seems that the contents of these three documents, as monstrous as

they are, are not nearly sufficient to know what is intended by the Act. If the original intentions can ever be known any more.

"Notwithstanding" is a further problem with the *Income Tax Act.* In the text of the Act there are 95 instances of the expression, "*N(n)otwithstanding any other provision of this Act.*" That is, every other portion of the Act is nullified for this passage – including, presumably, the other *general notwithstanding* clauses. This alone implies that the Act is probably self-contradictory.

The statistics in this paper can be checked at any time at these links: http://laws-lois.justice.gc.ca/eng/acts/I-3.3/index.html, http://laws-lois.justice.gc.ca/eng/acts/I-3.31/index.html for the primary Acts, and http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._945/index.html for the regulations.

Though the afore mentioned documents will certainly have grown since 2012.

Such a law is expensive and cumbersome to enforce. As of 2011, the tax enforcement and collection arm of government (the Canadian Revenue Agency [CRA]) had 45,000 employees and consumed nearly 4.5 billion dollars per year.

Tax compliance has become one of the heaviest regulatory burdens on the Small Medium Enterprise (SME) sector. Only large corporations and the wealthiest of individuals can afford the legal representation to appeal rulings of the CRA on anything like equal terms. While the most dynamic part of our economy, the SME sector bears the heaviest compliance burden. Even wage earners now frequently have to get their income tax returns prepared by professionals at some cost to themselves. For those who carry the load in this economy, the costs of tax compliance are an ever-mounting burden.

Tax law must only serve to collect taxes. The core of the difficulties with the current system is the habit governments have of using the tax system to implement many kinds of social and economic incentives. This practice ensures that these laws will continue to grow with every change in policy and government. For instance, the consolidated *Income Tax Act* grew from 912,000 words in

How the Actual Magic Money Tree Works

By Zoe Williams, The Guardian, October 29, 2017

85% of MPs were unaware that new money is created every time a bank extends a loan. Were you?

Shock data shows that most MPs do not know how money is created. Responding to a survey commissioned by Positive Money just before the June election, 85% were unaware that new money was created every time a commercial bank extended a loan, while 70% thought that only the government had the power to create new money.

The results are only a shock if you didn't see the last poll of MPs on exactly this topic, in 2014, revealing broadly the same level of ignorance. Indeed, the real shock is that MPs still, without embarrassment, answer surveys.

Yet almost all our hot-button political issues, from social security to housing, relate back to the meaning and creation of money; so if the people making those choices don't have a clue, that isn't without consequence.

How is money created? Some is created by the state, but usually in a financial emergency. For instance, the crash gave rise to quantitative easing – money pumped directly into the economy by the government. The vast majority of money (97%) comes into being when a commercial bank extends a loan. Meanwhile, 27% of bank lending goes to other financial corporations; 50% to mortgages (mainly on existing residential property); 8% to high-cost credit (including overdrafts and credit cards); and just 15% to non-financial corporates, that is, the productive economy.

What's wrong with that? On the corporate financial side, bank-lending inflates asset prices, which concentrates wealth in the hands of the wealthy. On the mortgage side, house prices rise to meet the amount the lender is prepared to lend, rather than being moored to wages. The lender benefits enormously from larger mortgages and longer periods of indebtedness; the homeowner benefits slightly from a bigger asset, but obviously spends longer in debt servitude; the renter loses out completely.

Is there a magic money tree? All money comes from a magic tree, in the sense that money is spirited from thin air. There is no gold standard. Banks do not work to a money-multiplier model, where they extend loans as a multiple of the deposits they already hold. Money is created on faith alone, whether that is faith in ever-increasing housing prices or any other given investment. This does not mean that creation is risk-free: any government could create too much and spawn hyper-inflation. Any commercial bank could create too much and generate over-indebtedness in the private economy, which is what has happened. But it does mean that money has no innate value, it is simply a marker of trust between a lender and a borrower. So it is the ultimate democratic resource. The argument marshalled against social investment such as education, welfare and public services, that it is unaffordable because there is no magic money tree, is nonsensical. It all comes from the tree; the real question is, who is in charge of the tree?

What could we do instead? We could do QE for the people, overt monetary financing in which a government creates money for social benefit, such as green infrastructure or education. Or helicopter money, a central bank distributing it to everyone, either in a one-off citizen's dividend or a regular citizen's basic income. The nature of centrally created money should itself be opened up for debate, whose starting point is: if we agree that commercially created money is skewing the economy, can we then agree that it should be created by a public authority, even if we don't yet know what that authority would look like.

Our Comment

Of all the definitions of *shock*, the one most appropriate in this context is that to *shock* someone is, "*to make someone feel outraged or disgusted*" (Oxford English Dictionary).

Given that the survey in 2014, it would seem, failed to effect any concern among MPs regarding their ignorance or its ramification, one has to wonder about follow-up. Were they not enlightened by the survey?

Wouldn't it be interesting to discuss this ignorance and its implications with your own MP?! Such a follow-up could, at least, make it difficult for politicians to ignore the issue of government-created money and, at best, raise some flak between snoozes, during question period in the House!

We might, at least bring the money-creation oversight of their MPs to the attention of our friends, acquaintances and fellow activists.

Élan

June 2009 when I first heard the "de-tax" talk to the current 980,000 words. The original *Income Tax Act* of 1948 was 88 pages and about 32,000 words. Under a system that combines tax collection with incentives policies, we can only expect ever increasing complexity and unfairness.

Economic and social incentives cannot be buried in the tax system in a fair tax and incentive system. Governments that want to provide economic and social incentives need to put the money on the table with purpose-specific legislation so that everyone can see what's going on. Not bury them in the tax system.

Fully indexing rates to inflation to stop hidden tax increases is another important principle. (This is often known as "bracket creep." The partial de-indexation of tax rates in 1985 effectively raised tax rates across the board to rates never before paid by ordinary people).

One consequence of not carrying out this basic reform is that, when Parliament and the provincial legislatures agree on changes to the tax system, they may have little idea of what we will get in practice. The changes will simply get buried by the civil service in the current legal jungle. These income tax laws make a mockery of the principle of the rule of law.

Many of these conditions were recognized and addressed by the Carter Royal Commission on Taxation Report, published in 1967 (http://epe.lac-bac.gc.ca/100/200/301/pco-bcp/commissions-ef/carter1966-eng/carter1966-eng.htm). The problems addressed by that commission have only massively intensified since then. And they will continue to do so until the whole system is reformed and designed solely for the purpose of tax collection.

Our Comment

A lack of transparency? Or a deliberate obfuscation?

With the list of features that have created the *monster* and make it tick, Steward Sinclair has provided us a clear and insightful analysis of the travesty rendering our tax laws a "mockery of the principle of the rule of law."

We may be forgiven an attack of *cynicism* – given especially the fate of the Carter Royal Commission on Taxation Report.

His solution, firmly validated as it is in the details he has provided, leaves us – remarkably – with *hope* that we can tackle and deal with the problem.

Élan

The US Donor Relief Act of 2017

By Joseph E. Stiglitz, Project Syndicate, readersuportednews.org, January 8, 2018

There is nothing about the GOP's recently-passed tax package that lives up to its proponents' promises; it is neither a reform effort nor an equitable tax cut. Rather, the bill embodies all that is wrong with the Republican Party, and to some extent, the debased state of American democracy.

Never has a piece of legislation labeled as both a tax cut and a reform been received with as much disapproval and derision as the bill passed by the US Congress and signed into law by President Donald Trump just before Christmas. The Republicans who voted for the bill (no Democrats did) claim that their gift will come to be appreciated later, as Americans see their take-home pay go up. They are almost certainly wrong. Rather, the bill wraps into one package all that is wrong with the Republican Party, and to some extent, the debased state of American democracy.

The legislation is not "tax reform" by even the most elastic reading. Reform entails closing distortionary loopholes and increasing the fairness of the tax code. Central to fairness is the ability to pay. But this tax legislation reduces taxes by tens of thousands of dollars, on average, for those most able to pay (the top quintile). And, when fully implemented (in 2027), it will increase taxes on a majority of Americans in the middle (the second, third and fourth quintiles).

The US tax code was already regressive long before Trump's presidency. Indeed, the billionaire investor Warren Buffett, one of the wealthiest men in the world, famously complained that it was wrong that he paid a lower tax rate than his secretary. The new legislation makes America's tax system even more regressive.

It is now universally recognized that growing inequality is a key economic problem in the United States, with those at the top capturing almost all the gains in GDP over the past quarter-century. The new legislation adds insult to injury: rather than offsetting this disturbing trend, the Republicans' "reform" gives even more to the top.

A more distorted economy is not a healthy economy. The International Monetary Fund has emphasized that a more unequal society worsens economic performance – and the new tax legislation will lead inexorably to a more unequal society.

Much of the complexity and distortion in the US tax code arises from different types of income being taxed at different rates. Such differential treatment leads not only to the (correct) perception that the tax code is unfair, but also to inefficiencies: resources move to favored sectors, and are wasted as firms try to convert their incomes and activities into the more favored forms. The worst provisions of the old tax code – such as the carried-interest loophole, which allows job-destroying private-equity firms to pay taxes at low rates – have been retained, and new categories of favored income (earned by so-called pass-through entities) have been created.

The hoped-for spur to economic growth is unlikely to materialize, for several reasons. First, the economy is already at or near full employment. If the US Federal Reserve comes to view that to be the case, it will raise interest rates at the first sign of a significant increase in aggregate demand. And higher interest rates mean that investment, and thus growth, will slow, even if the consumption of the very rich increases.

Moreover, squeezing the "blue" (Democratic) states, including California and New York, by including provisions in the tax bill aimed specifically at them, not only further widens America's political divide; it's also bad economics. No sane government would undermine the most dynamic parts of its economy, and yet that is what the Trump administration is doing. Special tax breaks for the real-estate sector may help Trump and his son-in-law, Jared Kushner, but it does not make America great or competitive. And limiting the deductibility of state income tax and property tax will almost surely reduce investment in education and infrastructure – again, not a sound strategy for increasing American competitiveness. Other new provisions will also hurt the US economy.

Because the fiscal deficit will increase – the only question is by how much, with my bet being that it will be far larger than current estimates of $1-1.5 trillion – the trade deficit will increase as well, regardless of whether Trump pursues more nativist/protectionist policies. Lower exports and higher imports will further undermine US manufacturing. Once again (as he has done with health care and the tax cuts), Trump is betraying his core supporters.

But the Republican Party is cynical. Its leaders are stuffing themselves at the trough – Trump, Kushner, and many others in his administration are among the biggest winners – thinking that this may be their last

chance at such a feast. And no Republican believes the party can get away with it more firmly than Trump does.

That is why the legislation is structured to give individuals temporary tax cuts, with corporations getting a permanent reduction in their tax rate. The Republicans seem confident that voters will not see beyond the next paycheck. But voters are not so easily manipulated: they have seen through the trick, and are rightly convinced by the numerous studies, from sources in and out of government, showing that the lion's share of the tax cut goes to corporations and the very rich.

Trump's tax legislation also attests to many Republicans' belief that dollars are more important than voters. All that matters is pleasing their corporate sponsors, who will reward the party with contributions, which will be used to buy votes, thereby ensuring the perpetuation of a corporate-driven political agenda.

Let's hope that Americans really are smarter than the greedy corporate CEOs and their cynical Republican servants believe. With midterm congressional elections coming in November, they will have ample opportunity to prove it.

Our Comment. At least, at last, false promises boldly expressed in misleading words like *reform* (translate *deform*), are more and more, getting an appropriate responds. *Élan*

Regulation Is Killing Community Banks — Public Banks Can Revive Them

By Ellen Brown, Web of Debt Blog, October 30, 2017

Crushing regulations are driving small banks to sell out to the megabanks, a consolidation process that appears to be intentional. Publicly-owned banks can help avoid that trend and keep credit flowing in local economies.

At his confirmation hearing in January 2017, Treasury Secretary Stephen Mnuchin said, "regulation is killing community banks." If the process is not reversed, he warned, we could "end up in a world where we have four big banks in this country." That would be bad for both jobs and the economy. "I think that we all appreciate the engine of growth is with small and medium-sized businesses," said Mnuchin. "We're losing the ability for small and medium-sized banks to make good loans to small and medium-sized businesses in the community, where they understand those credit risks better than anybody else."

The number of US banks with assets under $100 million dropped from 13,000 in 1995 to under 1,900 in 2014. The regulatory burden imposed by the 2010 Dodd-Frank act exacerbated this trend, with community banks losing market share at double the rate during the four years after 2010 as in the four years before. But the number had already dropped to only 2,625 in 2010. What happened between 1995 and 2010?

Six weeks after September 11, 2001, the 1,100 page *Patriot Act* was dropped on congressional legislators, who were required to vote on it the next day. The *Patriot Act* added provisions to the 1970 *Bank Secrecy Act* that not only expanded the federal government's wiretapping and surveillance powers but outlawed the funding of terrorism, imposing greater scrutiny on banks and stiff criminal penalties for non-compliance. Banks must now collect and verify customer-provided information, check names of customers against lists of known or suspected terrorists, determine risk levels posed by customers, and report suspicious persons, organizations and transactions. One small banker complained that banks have been turned into spies secretly reporting to the federal government. If they fail to comply, they can face stiff enforcement actions, whether or not actual money-laundering crimes are alleged.

In 2010, one small New Jersey bank pleaded guilty to conspiracy to violate the *Bank Secrecy Act* and was fined *$5 million* for failure to file suspicious-activity and cash-transaction reports. The bank was acquired a few months later by another bank. Another small New Jersey bank was ordered to shut down a large international wire transfer business because of deficiencies in monitoring for suspicious transactions. It closed its doors after it was hit with *$8 million* in fines over its inadequate monitoring policies.

Complying with the new rules demands a level of technical expertise not available to ordinary mortals, requiring the hiring of yet more specialized staff and buying more anti-laundering software. Small banks cannot afford the risk of massive fines or the added staff needed to avoid them, and that burden is getting worse. In February 2017, the Financial Crimes Enforcement Network proposed a new rule that would add a new category requiring the flagging of suspicious "cyberevents." According to an April 2017 article in *American Banker*: "[T]he "cyberevent" category requires institutions to detect and report all varieties of digital mischief, whether directed at a customer's account or at the bank itself….

"Under a worst-case scenario, a bank's failure to detect a suspicious [email] attachment or a phishing attack could theoretically result in criminal prosecution, massive fines and additional oversight."

One large bank estimated that the proposed change with the new cyberevent reporting requirement would cost it an additional $9.6 million every year.

Besides the cost of hiring an army of compliance officers to deal with a thousand pages of regulations, banks have been hit with increased capital requirements imposed by the Financial Stability Board under Basel III, eliminating the smaller banks' profit margins. They have little recourse but to sell to the larger banks, which have large compliance departments and can skirt the capital requirements by parking assets in off-balance-sheet vehicles.

In a September 2014 article titled "The FDIC's New Capital Rules and Their Expected Impact on Community Banks," Richard Morris and Monica Reyes Grajales noted that "a full discussion of the rules would resemble an advanced course in calculus," and that the regulators have ignored protests that the rules would have a devastating impact on community banks. Why? The authors suggested that the rules reflect "the new vision of bank regulation – that there should be bigger and fewer banks in the industry." That means bank consolidation is an intended result of the punishing rules.

House Financial Services Committee Chairman Jeb Hensarling, sponsor of the *Financial Choice Act* downsizing Dodd-Frank, concurs. In a speech in July 2015, he said: "Since the passage of Dodd-Frank, the big banks are bigger and the small banks are fewer. But because Washington can control a handful of big established firms much easier than many small and zealous competi-

tors, *this is likely an intended consequence of the Act*. Dodd-Frank concentrates greater assets in fewer institutions. It codifies into law 'Too Big to Fail'…." (Emphasis added.)

Dodd-Frank institutionalizes "too big to fail" by authorizing the biggest banks to "bail in" or confiscate their creditors' money in the event of insolvency. The legislation ostensibly reining in the too-big-to-fail banks has just made them bigger. Wall Street lobbyists were well known to have their fingerprints all over Dodd-Frank.

Restoring Community Banking: The Model of North Dakota

Killing off the community banks with regulation means killing off the small and medium-size businesses that rely on them for funding, along with the local economies that rely on those businesses. Community banks service local markets in a way that the megabanks with their standardized lending models are not interested in or capable of.

How can the community banks be preserved and nurtured? For some ideas, we can look to a state where they are still thriving – North Dakota. In an article titled "How One State Escaped Wall Street's Rule and Created a Banking System That's 83% Locally Owned," Stacy Mitchell writes that North Dakota's banking sector bears little resemblance to that of the rest of the country: "With 89 small and mid-sized community banks and 38 credit unions, North Dakota has *six times* as many locally owned financial institutions per person as the rest of the nation. And these local banks and credit unions control a resounding 83 percent of deposits in the state – more than twice the 30 percent market share that small and mid-sized financial institutions have nationally."

Their secret is the century-old Bank of North Dakota (BND), the nation's only state-owned depository bank, which partners with and supports the state's local banks. In an April 2015 article titled "Is Dodd-Frank Killing Community Banks? The More Important Question is How to Save Them," Matt Stannard writes: "Public banks offer unique benefits to community banks, including collateralization of deposits, protection from poaching of customers by big banks, the creation of more successful deals, and…regulatory compliance. The Bank of North Dakota, the nation's only public bank, directly supports community banks and enables them to meet regulatory requirements such as asset to loan ratios and deposit to loan ratios…. [I]t keeps community banks solvent in other ways, lessening the impact of regulatory compliance on banks' bottom lines.

"We know from FDIC data in 2009 that North Dakota had almost 16 banks per 100,000 people, the most in the country. A more important figure, however, is community banks' loan averages per capita, which was $12,000 in North Dakota, compared to only $3,000 nationally…. During the last decade, banks in North Dakota with less than $1 billion in assets have averaged a stunning 434 percent more small business lending than the national average."

The BND has been very profitable for the state and its citizens – more profitable, according to *The Wall Street Journal*, than JPMorgan Chase and Goldman Sachs. The BND does not compete with local banks but partners with them, helping with capitalization and liquidity and allowing them to take on larger loans that would otherwise go to larger out-of-state banks.

In order to help rural lenders with regulatory compliance, in 2011 the BND was directed by the state legislature to get into the rural home mortgage origination business. Rural banks that saw only three to five mortgages a year could not shoulder the regulatory burden, leading to business lost to out-of-state banks. After a successful pilot program, SB 2064, establishing the Mortgage Origination Program, was signed by North Dakota's governor on April 3, 2013. It states that the BND may establish a residential mortgage loan program under which the Bank may originate residential mortgages if private sector mortgage loan services are not reasonably available. Under this program a local financial institution or credit union may assist the Bank in taking a loan application, gathering required documents, ordering required legal documents, and maintaining contact with the borrower. At a hearing on the bill, Rick Clayburgh, President of the North Dakota Bankers Association, testified in its support: "Over the past years because of the regulatory burdens our banks face by the passage of Dodd Frank, and now the creation of the Consumer Financial Protection Bureau, it has become very prohibitive for a number of our banks to provide residential mortgage services anymore. We two years ago worked both with the Independent Community Bankers Association, and our Association and the Bank of North Dakota to come up with the idea in this program to help the bank provide services into the parts of the state that really residential mortgaging has seized up. We have a number of our banks that have terminated doing mortgage loans in their communities. They have stopped the process because they cannot afford to be written up by their regulator."

Under the Mortgage Origination Program, local banks get paid what is essentially a finder's fee for sending rural mortgage loans to the BND. If the BND touches the money first, the onus is on it to deal with the regulators, something it can afford to do by capitalizing on economies of scale. The local bank thus avoids having to deal with regulatory compliance while keeping its customer.

The BND is the only model of a publicly-owned depository bank in the US; but in Germany, the publicly-owned Sparkassen banks operate a network of over 15,600 branches and are the financial backbone supporting Germany's strong local business sector. In the matter of regulatory compliance, they too capitalize on economies of scale, by providing a compliance department that pools resources to deal with the onerous regulations imposed on banks by the EU.

The BND and the Sparkassen are proven models for maintaining the viability of local credit and banking services. It is time other states followed North Dakota's lead, not only to protect their local communities and local banks, but to bolster their revenues, escape the noose of Washington and Wall Street, and provide a bail-in-proof depository for their public funds.

Ellen Brown is an attorney, founder of the Public Banking Institute, a Senior Fellow of the Democracy Collaborative, and author of 12 books including Web of Debt *and* The Public Bank Solution. *A 13th book,* The Coming Revolution in Banking, *is due out this winter. She also co-hosts a radio program on PRN.FM called* It's Our Money. *Her 300+ blog articles are posted at EllenBrown.com.*

Our Comment

The imposition of regulations that only big banks can afford, seems a pathetically easy way to force consolidation.

Increasing capital requirements that, again, increase the pressure on smaller banks, while not inconveniencing the larger banks, (the better to afford buying smaller banks out!), is an excellent example of *seeming* to do good!

The phenomenon of legislation *"ostensibly"* designed to do one thing while actually doing the opposite, is typical, as is the implication of Wall Street lobbyists in *framing* legislation.

It's all part of the great monopoly game.

Elan

Is Trudeau Ready for a Middle East War?

By Murray Dobbin, Counter Punch, November 17, 2017

The world is now at the mercy of a coalition of three of the most dangerous autocrats on the planet: Donald Trump, Benjamin Netanyahu and Saudi Arabia's new absolute ruler Mohammad bin Salman a name that will become increasingly familiar as the months go by. It now seems possible these three leaders are collaborating in an incredibly reckless plan to permanently reshape the Middle East.

The final outcome will unfold no matter what Canada does. But unless the government of Justin Trudeau gets a grip on reality, Canada will be drawn into this potential catastrophe by virtue of foreign policy positions it has already taken. Geopolitics is getting incredibly complex and there is little evidence that the Liberal government has a clue how to navigate through the dangers. The problem is that despite all the hype about "being back," Canada's foreign policy under Trudeau and minister of foreign affairs Chrystia Freeland is still characterized by cynicism and ill-considered trade-offs on files within the broad spectrum of foreign affairs – including investor rights agreements like NAFTA and the Trans Pacific Partnership.

Obviously, a certain amount of realpolitik is inevitable and even necessary to protect Canada's interests. But even so it begs the question of how Canada's interests are defined. How much of the store is Trudeau willing to give away to buy favour with the US on NAFTA, especially when it seems concessions like putting our troops on Russia's border has gotten us nothing in return? With Trump and his redesigned US empire, there is no quid pro quo.

The embarrassing "me too" gang-up on Russia is bad enough. The Canadian version of the US *Magnitsky Act* is a pathetic effort to please the US (EU allies in NATO are increasingly uneasy about Russophobia given their own particular national interests). And Putin can hurt Canada and Canadian businesses more than we can hurt Putin and his oligarchs – and he has promised to do so.

And the Middle East is a whole other question. Canada's past sins, such as torture in Afghanistan, and the destruction of Libya, can be dismissed by the government as old news. Canada has thankfully avoided getting re-involved in the chaos that is Middle East politics. But with the coming to (absolute) power of the new and reckless Saudi ruler Mohammad bin Salman, Middle East policy is suddenly fraught with danger and risk for any country allied with the US or with any claim to interests in the region.

The new Saudi prince (who has arrested everyone who might challenge his authority) is encouraging Israel to invade Lebanon, urging the Israelis to do what they want to do, anyway: deal a crippling blow to Israel's most effective foe, Hezbollah. Hezbollah basically governs Lebanon and has its own well-armed force. Funded by and allied to Iran, it fought the Israeli army to a standstill in 2006. It is this fact that prompted the Saudis to force the resignation of the Lebanese Prime Minister Saad Hariri; he refused or was unable to curb Hezbollah's political power. The Saudi government upped the ante saying the Lebanese government would *"be dealt with as a government declaring war on Saudi Arabia."* It ordered all Saudi citizens to leave Lebanon.

For the Saudis, the ultimate target is Shiite Iran and its significant influence in the Middle East and presence, directly or indirectly, in Lebanon, Syria, Iraq and Yemen. When bin Salman declared that a rocket attack on Riyadh by Yemeni rebels could be seen as an act of war by Iran, the US backed him up, implicitly giving the Saudi dictator a green light for more aggressive action.

Given the political situations in the US, Israel and Saudi Arabia, www.informationclearinghouse.info/48176.htm, with the potential for a rapid escalation of military confrontations, to the point of risking a confrontation between the US and Russia. The first would be an Israeli assault on Hezbollah and Lebanon's infrastructure. That could be followed by a Saudi-led invasion of Qatar and the removal of its government. While less likely, another confrontation could see the US launch a campaign to seize Syrian territory reclaimed by the Assad regime, on behalf of Israel and risking a direct confrontation with Russia.

All of this could be a prelude to an attack on Iran itself and possibly the use by Israel of nuclear weapons. The rich potential for unintended consequences includes World War III.

If all of this sounds fantastical, consider who currently runs Israel, the US and Saudi Arabia. Netanyahu is mired in his own corruption scandal and needs a distracting war to survive. Bin Salman has already demonstrated a stunning recklessness and ruthlessness: the brutal bombing of Yemen (and now a blockade of food and medicine), the blockade of Qatar, and the house arrest of another country's prime minister. As for Trump (and some of his generals), he seems to genuinely believe that the US is invulnerable, a truly suicidal assumption. All three heads of state adhere to the doctrine of exceptionalism: the normal rules of international behaviour don't apply to them.

If one or more of these scenarios begins to play out just what will Trudeau do? His government's policy towards Israel is driven by political cowardice, rooted in the fear of the Israel lobby in Canada. Towards Saudi Arabia, it is driven by sales of armoured personnel carriers, and a blind eye towards gross human rights violations. With respect to the US it is characterized by ad hoc efforts to predict the unpredictable.

If any of this war scenario plays out, Trudeau will suddenly be pressed to come up with principled positions in response and not just political opportunism and calculated ambiguity. And he should take note: Canadians' attitudes towards Israel have turned very critical, with 46 percent expressing negative views and just *28 percent positive views of that country.* As for our proposed $15 billion arms sale to Saudi Arabia, *64 percent disapprove.*

While these progressive attitudes lie relatively dormant at the moment another slaughter of innocents will bring them to life. Is the prime minister prepared?

Our Comment

The alarming situation described by Murray Dobbin is a compelling argument for the need of a level of leadership that seems particularly sadly lacking at this time.

His references to such responses as Trudeau's "embarrassing 'me too' gang up on Russia," to his "cowardly" policy towards Israel, and to his unprincipled sale of armoured personnel carriers to Saudi Arabia, are not encouraging.

A foreign policy rooted in the belief that we must accept selfishness as *the* operating principle of negotiations, and submit, therefore, to "ill-considered trade-offs" that favour the strong over the weak, can lead only to capitulation and ultimate serfdom. Ours is a time for courage and innovation – a time

to consider how we can "stand on our own two feet" to the fullest reasonable extent.

The notion that "free trade" was ever about just trade needs to be re-examined in terms of what is being traded and at what cost – like, for example, trading away a nation's right to preserve its environment, in order to protect corporate "rights" to pillage and plunder in pursuit of profit.

The examples given of Trudeau's "opportunism and calculated ambiguity" call into question the *likelihood* of hit suddenly coming up with "principled positions."

A cynic has been described as, "a pitcher broken at the well."

"Is the prime minister prepared?"

Are we?

Élan

Creeping Privatization is Putting Medicare at Risk

By Linda McQuaig, Columnist, The Toronto Star, December 21, 2016

Prime Minister Justin Trudeau is wrong to want to reduce the federal contribution to health care. If we want to control health care costs, we should extend the publicly funded portion, not open more services to the private sector.

At Canada's Wonderland, you can buy your child a "Fast Lane Pass" so he or she can experience the thrill of pushing ahead of all the other children waiting to get on a ride.

It's excellent preparation for today's world of hyper-privilege – where the rich get to buy their way to the front of just about every line.

We live in a society that's riddled with elitism and special privilege. One of the few hold-outs is Medicare, Canada's public health care system, where a billionaire can't bypass a fast-food worker waiting for medical care. Access is determined by medical need, not wallet size.

We all pay for Medicare through our taxes. And, if we're sick, we can spend weeks in a hospital, receiving top-level medical care, and walk out at the end – without paying a penny. It's not surprising that, in a national contest sponsored by CBC Television, Canadians voted Tommy Douglas, father of Medicare, the greatest Canadian of all time.

It's easy to lose sight of the truly inspiring aspects of Medicare in the midst of federal-provincial wrangling, like this week's negotiations, over health care financing. What's ultimately at stake is whether there will be sufficient public funding to prevent provinces from turning over more of our health care system to the private sector.

The push for private, for-profit medicine really got going after the Chrétien Liberals deeply cut federal health care funding in 1995. Ottawa had contributed 25 percent of total health spending in 1977, but that contribution dropped down to just 9.8 percent by the late 1990s, leaving the provinces reeling and sending hospital wait-times climbing.

Advocates of private health care eagerly moved in, and have been a loud part of the public debate ever since.

Since the late 1990s, Ottawa has been increasing the federal contribution, restoring it to about 23 percent today. Now the Trudeau government, roughly following the course laid out by Stephen Harper, plans to slow the growth of the federal contribution. The provinces insist the Liberal offer would reduce the federal share back down to about 20 percent, leaving them struggling with rising health costs.

All this creates conditions that embolden those pushing for privatization, including conservative think tanks and private clinic operators. In BC, orthopedic surgeon Dr. Brian Day is in court trying to strike down health care laws that restrict his business opportunities. He operates two highly profitable private clinics and wants to ensure he and other medical entrepreneurs can collect fees from the public system while charging patients whatever extra amounts they wish. If he wins, the floodgates could open.

Privatization advocates want us to believe public health care is no longer affordable. But in fact, it's private, for-profit medicine that's unaffordable.

The publicly funded portion of our health care spending – doctors' fees and hospital stays – has remained fairly stable as a percentage of GDP for more than 30 years. What is out of control is the part controlled by the private sector – drugs, home care, physiotherapy, etc.

If we want to control health care costs, we should extend the publicly funded portion, not open more services to the private sector. But that would require more public funding, which provincial and federal governments, after years of deep tax cutting, are reluctant to commit to.

High drug prices, for instance, are a major contributor to rising costs. The solution, as many studies have shown, would be a national universal pharmacare program, which would cost money to get started but ultimately save Canadians billions of dollars a year.

But while extending the public system would make sense, the political winds are blowing in the opposite direction, particularly with a Republican White House and Congress planning to move the US even farther into the weeds of private medicine, with its special privileges for those with money.

Expect to hear privatization advocates try to destroy our faith in our public system, pointing out that a dog can get a hip replacement faster in Canada than a human. That may be true – because veterinary care is private and, with enough money, you can get whatever you want as soon as you want it.

On the other hand, if an owner can't pay, the dog is put down.

In an age when the rich demand a fast lane to the front of every line, it will require resolve and determination to preserve our Medicare system, a bastion of equality sharply at odds with the heartless corporate world we inhabit.

Linda McQuaig is a journalist and author. Her column appears monthly.

Our Comment

I was chastened by the reference to Canada's Wonderland. I recently bought the most expensive tickets available to take a 9 year old to an event, as a Christmas present. While I was informed that such tickets would enable us to get seated early, I had not anticipated the extent to which that favoured us.

Still, the privileges it conferred didn't tweak my conscience, for I never thought of it as "buying [our] way to the front of the line."

Good for Linda for pointing out such an example of the "excellent preparation" that conditions us to accept todays elitism and special privilege.

While the "Fast Lane Pass" is distasteful, the push for private, for-profit medicine is abhorrent.

We *can* afford quality public health care for all. We *can not* afford to give up that "bastion of equality."

Élan

Sanders Would Be the Instant Frontrunner for 2020

By Brent Budowsky, The Hill, readersupportednews.org, December 22, 2017

The passage of the tax cut bill locks President Trump and Republicans in Congress together as the party of the rich and the rulers of the swampland in Washington. The stage is set for a historic progressive renaissance that will win the 2018 midterm elections and lead the nation after the 2020 presidential campaign.

The tax cut bill was designed to provide lavish financial windfalls to America's wealthiest citizens, largest multinational conglomerates, leading money center banks and most powerful Wall Street firms.

Many middle-class citizens will receive modest and temporary tax cuts, which were cleverly created by Republicans to expire, unlike the lavish benefits given by the bill to our largest corporations, which were cleverly created by Republicans to be permanent.

However, between 5 and 10 percent of middle-class Americans, measured in the millions of voters, will be hit with a tax increase. What's more, countless Americans, comprising tens of millions of voters, will be whacked by insurance premium increases that will create anger against Trump and Republicans from these voters.

The tax bill has always been, and will remain, highly unpopular with voters who understand that this is "a tax cut for the rich" that offers them comparatively little benefit and imposes significant pain through insurance premium increases and, in some cases, tax increases.

Beneath the surface of American politics is a powerful and profound trend creating broad support for a progressive renaissance of historic dimension.

The Gilded Age abuses of the late 19th century were followed by the progressive renaissance under President Teddy Roosevelt. The Wall Street frenzies and socially unjust policies of the 1920s were followed by the progressive renaissance of Franklin Roosevelt and the New Deal.

The Wall Street scandals and financial crash during the presidency of George W. Bush were followed by landslide Democratic victories in congressional elections and the huge victory of President Barack Obama in 2008.

History will repeat itself. The stage is set for a potentially epic Democratic landslide that could bring a Democratic House and even potentially a Democratic Senate after the 2018 midterm elections. It is increasingly likely that a progressive Democratic president and strong Democratic majorities in Congress could lead and govern the nation after the 2020 presidential campaign.

If Sen. Bernie Sanders (I-Vt.) decides to run for president in 2020, he would be the instant frontrunner for the nomination and favored in the general election against Trump or any other GOP nominee. If Sanders decides not to run, there is a strong likelihood that the ultimate nominee will campaign, win and govern as a true progressive in the Sanders mold.

When historians look back on the Sanders 2016 campaign, they will note two fundamentally important and lasting contributions that Sanders and his supporters made.

First, the Sanders platform in the 2016 primaries, which was significantly but not fully included in the Democratic platform at the convention, will provide the policy blueprint for the next Democratic presidential campaign and the next great Democratic president.

The progressive populist policies of William Jennings Bryan evolved into the progressive populist presidency of Teddy Roosevelt. The populist policies of Teddy Roosevelt, when he campaigned to regain the presidency as the progressive candidate after abandoning the Republican Party, were largely incorporated by Franklin Roosevelt into his New Deal.

Similarly, the programs championed by Sanders in 2016 will largely be adopted in the Democratic platform in 2020 and fervently championed by the 2020 nominee, whether it is Sanders or a similar candidate.

The second historic legacy of the Sanders campaign in 2016 was that he challenged, and defeated, the old style campaign fundraising paradigm of previous major candidates. It was revolutionary and historic that Sanders energized a gigantic army of small donors and became a fundraising leader who changed campaign fundraising forever.

The Sanders small-donor paradigm thrives today in the pro-Sanders group, Our Revolution, and in the enormous impact small donors have had since 2016, most recently in the Alabama Senate election.

The most profound political change in 2017 is that the Trump presidency and the GOP rule in the House and Senate that produced bills that most Americans oppose and many consider legislative monstrosities, fomented a powerful and growing resistance that provoked a huge turnout from anti-Trump and anti-GOP voters in elections throughout 2017.

While the Trump and Republican tax cuts will create yet another substantial increase in income inequality in America, they will provoke an equally substantial further increase in Democratic voter turnout to "throw the bums out."

While Trump and Trump Republicans in Congress now speak as one and lavishly praise each other while celebrating the tax bill that most Americans oppose, the stage is set for the progressive renaissance that will bring far greater celebrations after its ultimate repeal.

It will either be led by Sanders or a candidate like Sanders, who will turn the progressive vision into the law of the land after the 2018 and 2020 elections.

Brent Budowsky was an aide to former Sen. Lloyd Bentsen (D-Texas) and former Rep. Bill Alexander (D-Ark.), who was chief deputy majority whip of the US House of Representatives. He holds an LLM in international financial law from the London School of Economics.

Our Comment

Given the ultimate blunted reality that followed the euphoric promise behind those "landslide Democratic victories," and the huge victory of President Barack Obama in 2008, it is hard to be optimistic.

However, there is every reason to believe that the political will for a "progressive renaissance" could rise out of the present crisis and generate real progressive change!

Élan

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Student Debt Slavery: Bankrolling Financiers on the Backs of the Young

By Ellen Brown, Common Dreams, December 28, 2017

Higher education has been financialized, transformed from a public service into a lucrative cash cow for private investors.

The advantages of slavery by debt over "chattel" slavery – ownership of humans as a property right – were set out in an infamous document called the *Hazard Circular*, reportedly circulated by British banking interests among their American banking counterparts during the American Civil War. It read in part: "Slavery is likely to be abolished by the war power and chattel slavery destroyed. This, I and my European friends are glad of, for slavery is but the owning of labor and carries with it the care of the laborers, while the European plan, led by England, is that capital shall control labor by controlling wages."

Slaves had to be housed, fed and cared for. "Free" men housed and fed themselves. For the more dangerous jobs, such as mining, Irish immigrants were used rather than black slaves, because the Irish were expendable. Free men could be kept enslaved by debt, by paying them wages that were insufficient to meet their costs of living. On how to control wages, the Hazard Circular went on: "This can be done by controlling the money. The great debt that capitalists will see to it is made out of the war, must be used as a means to control the volume of money…. It will not do to allow the greenback, as it is called, to circulate as money any length of time, as we cannot control that."

The government, too, had to be enslaved by debt. It could not be allowed to simply issue the money it needed to meet its budget, as Lincoln's government did with its greenbacks (government-issued US Notes). The greenback program was terminated after the war, forcing the government to borrow from banks – banks that created the money themselves, just as the government had been doing. Only about 10% of the "banknotes" then issued by banks were actually backed by gold. The rest were effectively counterfeit. The difference between government-created and bank-created money was that the government issued it and spent it on the federal budget, creating demand and stimulating the economy. Banks issued money and lent it, at interest. More had to be paid back than was lent, keeping the supply of money tight and keeping both workers and the government in debt.

Student Debt Peonage

Slavery by debt has continued to this day, and it is particularly evident in the plight of students. Graduates leave college with a diploma and a massive debt on their backs, averaging over $37,000 in 2016. The government's student loan portfolio now totals $1.37 trillion, making it the second highest consumer debt category behind only mortgage debt. Student debt has risen nearly 164% in 25 years, while median wages have increased only 1.6%.

Unlike mortgage debt, student debt must be paid. Students cannot just turn in their diplomas and walk away, as homeowners can with their keys. Wages, unemployment benefits, tax refunds and even Social Security checks can be tapped to ensure repayment. In 1998, Sallie Mae (the Student Loan Marketing Association) was privatized, and Congress removed the dischargeabilility of federal student debt in bankruptcy, absent exceptional circumstances. In 2005, this lender protection was extended to private student loans. Because lenders know that their debts cannot be discharged, they have little incentive to consider a student borrower's ability to repay. Most students are granted a nearly unlimited line of credit. This, in turn, has led to skyrocketing tuition rates, since universities know the money is available to pay them; and that has created the need for students to borrow even more.

Students take on a huge debt load with the promise that their degrees will be the doorway to jobs allowing them to pay it back, but for many the jobs are not there or not sufficient to meet expenses. Today nearly one-third of borrowers have made no headway in paying down their loans five years after leaving school, although many of these borrowers are not in default. They make payments month after month consisting only of interest, while they continue to owe the full amount they borrowed. This can mean a lifetime of tribute to the lenders, while the loan is never paid off, a classic form of debt peonage to the lender class.

All of this has made student debt a very attractive asset for investors. Student loans are pooled and repackaged into student loan asset-backed securities (SLABS), similar to the notorious mortgage-backed securities through which home buyers were caught in a massive debt trap in 2008-09. The nameless, faceless investors want their payments when due, and the strict terms of the loans make it more profitable to force a default than to negotiate terms the borrower can actually meet. About 80% of SLABS are backed by government-insured loans, guaranteeing that the investors will get paid even if the borrower defaults. The onerous federal bankruptcy laws also make SLABS particularly safe and desirable investments.

But as economist Michael Hudson observes, debts that can't be paid won't be paid. As of September 2017, the default rate on student debt was over 11% at public colleges and was 15.5% at private for-profit colleges. Defaulted borrowers risk damaging their credit and their ability to borrow for such things as homes, cars, and furniture, reducing consumer demand and constraining economic growth. Massive defaults could also squeeze the federal budget, since taxpayers ultimately cover any unpaid loans.

Investing in Human Capital: Student Debt and the GI Bill

It hasn't always been this way. Until the 1970s, tuition at many state colleges and universities was free or nearly free. Education was considered an obligation of the public sector, and costs were kept low.

After World War II, the federal government invested heavily in educating the 15.7 million returning American veterans. The goal of the *Servicemen's Readjustment Act* of 1944, or GI Bill, was to facilitate their re-integration into civilian life. By far its most popular benefits were financial assistance for education and housing. Over half of GIs took advantage of this educational provision, with 2.2 million attending college and 5.6 million opting for vocational training. At that time there were serious shortages in student housing and faculty, but the nation's colleges and universities expanded to meet the increased demand.

The GI Bill's educational benefits helped train legions of professionals, spurring post-war economic growth. It funded the education of 450,000 engineers, 240,000 accoun-

tants, 238,000 teachers, 91,000 scientists, 67,000 doctors and 22,000 dentists, 14 future Nobel laureates, two dozen Pulitzer Prize winners, three Supreme Court justices, and three presidents of the United States. Loans enabled by the bill also boosted the housing market, raising home ownership from 44% before the war to 60% by 1956. Rather than costing the government, the GI Bill turned out to be one of the best investments it ever made. The legislation is estimated to have cost $50 billion in today's dollars and to have returned $350 billion to the economy, a nearly sevenfold return.

That educational feat could be repeated today. The government could fund a public education program as Lincoln did, by simply issuing the money or having the central bank issue it as a form of "quantitative easing for people." Infrastructure funded with government-issued US Notes in the 1860s included not only the transcontinental railroad but the system of free colleges and universities established through federal land grants.

The exponential rise in college costs occurred only after the government got into the student loan business in a big way. The *Higher Education Act* of 1965 was part of President Lyndon Johnson's Great Society agenda, intended "to strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education." The Act increased federal money given to universities, created scholarships, gave low-interest loans for students, established a National Teachers Corps, and included a PLUS loan program that allowed parents of undergraduate and graduate students to borrow up to the full cost of attending college. Unfortunately, the well-intended Act had the perverse effect of driving up tuition costs. The availability of federally guaranteed loans allowed colleges and universities to raise their prices to whatever the market would bear. By the mid-1970s, tuition was rising much faster than inflation. But costs remain manageable until the late 1990s, when the federal student loan business was turned over to private banks and investors with aggressive collection practices, converting federally-guaranteed student loans from a public service into a private investor boondoggle.

Meanwhile, in many countries in Europe university tuition is still free, including Denmark, Estonia, Finland, Germany, Norway, Slovak Republic, Slovenia, Sweden and Turkey. But providing an affordable education for the next generation is evidently not a priority with our government. Only 3 percent of the federal budget is spent on education – not just for college loans but for school programs of all sorts, from kindergarten through graduate school. Compare that to the outlay for military spending, including the Veterans Affairs and other defense-related departments, which consumes over half the federal budget and is an obvious place to cut. But there are no signs that our government is moving in that direction.

What then can be done to relieve the student debt burden? Stay tuned for Part 2.

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

Our Comment

Young people are a country's most important resource. They are *not* an expense; they are an *investment.* That they graduate debt slaves, many of them enrolling in courses they *hoped* would lead to employment, rather than in courses better suited to their interests and abilities, is a crime against them! And it is a crime against society!

Governments can get away with it only because of what students and their parents don't know about money!

Spread the word!

Élan

How to Wipe Out Puerto Rico's Debt Without Hurting Bondholders

By Ellen Brown, Web of Debt, October 15, 2017

During his visit to hurricane-stricken Puerto Rico, President Donald Trump shocked the bond market when he told Geraldo Rivera of Fox News that he was going to wipe out the island's bond debt. He said on October 3rd: "You know they owe a lot of money to your friends on Wall Street. We're gonna have to wipe that out. That's gonna have to be – you know, you can say goodbye to that. I don't know if it's Goldman Sachs but whoever it is, you can wave good-bye to that."

How did the president plan to pull this off? Pam Martens and Russ Martens, writing in Wall Street on Parade, note that the US municipal bond market holds $3.8 trillion in debt, and it is not just owned by Wall Street banks. Mom and pop retail investors are exposed to billions of dollars of potential losses through their holdings of Puerto Rican municipal bonds, either directly or in mutual funds. Wiping out Puerto Rico's debt, they warned, could undermine confidence in the municipal bond market, causing bond interest rates to rise, imposing an additional burden on already-struggling states and municipalities across the country.

True, but the president was just pointing out the obvious. As economist Michael Hudson says, "Debts that can't be paid won't be paid." Puerto Rico is bankrupt, its economy destroyed. In fact it is currently in bankruptcy proceedings with its creditors. Which suggests it's time for some more out-of-the-box thinking.

In July 2016, a solution to this conundrum was suggested by the notorious Goldman Sachs itself, when mom and pop investors holding the bonds of bankrupt Italian banks were in jeopardy. Imposing losses on retail bondholders had proven to be politically toxic, after one man committed suicide. Some other solution had to be found.

Italy's non-performing loans (NPLs) then stood at €10bn, at a time when the ECB was buying €120bn per year of outstanding Italian government bonds as part of its QE program. The July 2016 *Financial Times* 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."

His solution: rather than buying Italian government bonds in its quantitative easing program, the European Central Bank could simply buy the insolvent banks' NPLs. 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.

Puerto Rico's debt is only $73 billion, one third the Italian debt. The Fed has stopped its quantitative easing program,

but in its last round (called "QE3"), it was buying $85 billion per month in securities. At that rate, it would have to fire up the digital printing presses for only one additional month to rescue the suffering Puerto Ricans without hurting bondholders at all. It could then just leave the bonds on its books, declaring a moratorium at least until Puerto Rico got back on its feet, and better yet, indefinitely.

According to the Bureau of Labor Statistics jobs data, 33,000 US jobs were lost in September, the first time the country has had a negative figure since 2010. It could be time for a bit more economic stimulus from the Fed.

Successful Precedent

Shifting the debt burden of bankrupt institutions onto the books of the central bank is not a new or radical idea. UK Prof. Richard Werner, who invented the term "quantitative easing" when he was advising the Japanese in the 1990s, says there is ample precedent for it. In 2012, he proposed a similar solution to the European banking crisis, citing three successful historical examples.

One 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 second 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."

Werner's third example 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. Again the move worked: the banks did not collapse, the economy got back on its feet, and the much-feared inflation did not result.

In each of these cases, he 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."

The Moral Hazard Question

One objection to this approach is the risk of "moral hazard": lenders who know they will be rescued from their bad loans will recklessly make even more. That is the argument, but an analysis of data in China, where NPLs are now a significant problem, has relieved those concerns. China's NPLs are largely being left on the banks' books without writing them down. The concern is that shrinking the banks' balance sheets in an economy that is already slowing will reduce their ability to create credit, further slowing growth and triggering a downward economic spiral. As for the moral hazard problem, when researchers analyzed the data, they found that the level of Chinese NPLs did not affect loan creation, in small or large banks.

But if Puerto Rico got relief from the Fed, wouldn't cities and states struggling with their own debt burdens want it too? Perhaps, but that bar could be set in bankruptcy court. Few cities or states can match the devastation of Puerto Rico, which was already in bankruptcy court when struck by hurricanes that left virtually no tree unscathed and literally flattened the territory.

Arguably, the Fed *should* be making nearly-interest-free loans to cities and states, allowing them to rebuild their crumbling infrastructure at reasonable cost. That argument was made in an October 2012 editorial in *The New York Times* titled "Getting More Bang for the Fed's Buck." It was also suggested by Martin Hutchinson in Reuters in October 2010: "An alternative mechanism could be an extension of the Fed's [QE] asset purchases to include state and municipal bonds. Currently the central bank does not have the power to do this for maturities of more than six months. But an approving Congress could remove that hurdle at a stroke…."

The Fed lent $29 trillion to Wall Street banks virtually interest-free. It could do the same for local governments.

Where There's a Will

When central banks want to save bankrupt institutions without cost to the government or the people, they obviously know how to do it. It is a matter of boldness and political will, something that may be lacking in our central bankers but has been amply demonstrated in our president.

If the Fed resists the QE alternative, here is another possibility: Congress can audit the Department of Housing and Urban Development and the Department of Defense, and retrieve some of the $21 trillion gone missing from their accountings. This massive black money hole, tracked by Dr. Mark Skidmore and Catherine Austin Fitts, former assistant secretary of HUD, is buried on the agencies' books as "undocumented adjustments" – entries inserted without receipts or other documentary support just to balance the books. It represents money that rightfully belongs to the American people.

If our legislators and central bankers can find trillions of dollars to bail out Wall Street banks, while overlooking trillions more lost to the DoD and HUD in "undocumented adjustments," they can find the money to help an American territory suffering the worst humanitarian crisis in its history.

Ellen Brown is an attorney, founder of the Public Banking Institute, a Senior Fellow of the Democracy Collaborative, and author of twelve books including Web of Debt *and* The Public Bank Solution. *A thirteenth book titled* The Coming Revolution in Banking *is due out this winter. She also co-hosts a radio program on PRN.FM called* It's Our Money. *Her 300+ blog articles are posted at EllenBrown.com.*

Our Comment

Debt, it would seem, is – more than anything – an indispensable economic and political *strategy* in a system designed and honed to guarantee the flow of wealth to a favoured few and to keep the rest of society toeing the line.

The point has been well demonstrated: "The FED lent $29 trillion to Wall St. banks virtually interest-free. It could do the same for local governments."

What moral hazard could trump that of the monopoly power to create and control the distribution of money?

Given its history, its constitution, and the *Bank of Canada Act*, Canada is in a better position than most, to choose and champion democracy over debt. What a shame we have, instead, set up a private "central bank" – the Canada Infrastructure Bank – that is more apt to exacerbate the turning of the screw!

Élan

We Must End Global Oligarchy

By Bernie Sanders, Common Dreams, November 13, 2017

"This massive level of wealth and income inequality, and the political power associated with that wealth, is an issue that cannot continue be ignored. We must fight back."

One of the major, untold stories of our time is the rapid movement toward global oligarchy, in which just a handful of billionaires now own and control a significant part of the world economy.

Here in the United States, the top one-tenth of 1% owns almost as much wealth as the bottom 90%. Incredibly, according to a recent report from the Institute for Policy Studies, three of the richest people in America – Bill Gates, Jeff Bezos and Warren Buffett – now own more wealth than bottom 160 million people in our country.

"The Paradise Papers make it clearer than ever that we need, in the United States and throughout the world, a tax system which is fair, progressive and transparent."

An Issue Beyond the Border of the United States

But this is clearly not just an American issue. It is a global issue. While millions of people throughout the world live in dire poverty, without clean drinking water, adequate health care, decent housing, or education for their kids, the six wealthiest people in the world as ranked by Forbes Magazine own more wealth, according to Oxfam, than the bottom half of the world's population, 3.6 billion people.

This massive level of wealth and income inequality, and the political power associated with that wealth, is an issue that cannot continue be ignored. We must fight back.

Thanks to the so-called Paradise Papers, a trove of millions of documents analyzed by the International Consortium of Investigative Journalists (ICIJ) and its collaborating news outlets, we now have a better understanding of how the largest corporations and wealthiest people in the world avoid paying their taxes and hide ownership of assets. Needless to say, these billionaires are all strong supporters of our military, our veterans, our infrastructure, our schools and other government services. They would just prefer that you pay for those activities, not them.

According to the ICIJ's investigative reporting, the Americans listed as having offshore accounts in the Paradise Papers, (which have not been independently reviewed by CNN), are a who's who of billionaires, some of whom are the very same officials who have led the effort to promote the Republican tax plan, which would provide even more tax-avoiding opportunities to the very rich.

Even before these revelations, we knew that tax dodging by the wealthy and large corporations, not just in the US but globally, was taking place on a massive scale. In 2012, the Tax Justice Network, a British advocacy group, estimated that at least $21 trillion was stashed in offshore tax havens around the world. In other words, while governments enact austerity budgets, which lower the standard of living of working people, the super-rich avoid their taxes.

According to Berkeley economist Gabriel Zucman, individuals in the US are avoiding $36 billion through offshore tax schemes and US corporations are avoiding more than $130 billion through these schemes. The situation has become so absurd that one five-story office building in the Caymans is now the "home" of nearly 20,000 corporations – and that is just one of many tax havens operating across the globe.

The essence of oligarchy is that the billionaire class is never satisfied with what they have. They want more, more and more – no matter what impact their efforts have on working people, the elderly, children, the sick and the poor. Greed is their religion. While the oligarchs are avoiding their taxes, Trump and his Republican colleagues, ostensibly in order to save federal dollars, have been trying to throw tens of millions of Americans off of their health insurance, and make massive cuts in education, nutrition assistance and affordable housing.

As a candidate for president, Trump promised that he would stand up for the working class of this country. Needless to say, that was a lie. Almost half of the benefits in the Trump/Republican tax plan would go to the top 1%, according to the Center for Budget and Policy Priorities. Additionally, they want to lower the corporate tax rate from 35% to 20%, even though in 2012 one out of every five large, profitable corporations in the US paid no federal income taxes at all and between 2008 and 2015, 18 corporations had a tax rate lower than 0%.

Republicans also want to make it easier for companies to shelter their profits overseas and pay zero taxes. The "territorial tax system" they are proposing, which means companies would be taxed only on income earned within our country's borders, would exempt the offshore profits of American corporations from US taxes and allow for a one-time 12% tax on their offshore cash profits when brought back into the United States.

Meanwhile, while the wealthy and large corporations are receiving huge tax breaks, nearly half of middle-class families would actually see their taxes go up by the end of the decade by eliminating deductions for medical expenses, student loan interest rates, state and local income and sales taxes, and the cost of health insurance for the self-employed.

The Paradise Papers make it clearer than ever that we need, in the United States and throughout the world, a tax system which is fair, progressive and transparent.

Now is the time, in the US and internationally, for people to come together to take on the greed of the oligarchs. We can and must create a global economy that works for all, not just a handful of billionaires.

Bernie Sanders (I-Vt.) was elected to the US Senate in 2006 after serving 16 years in the House of Representatives. He is the longest serving independent member of Congress in American history. Elected Mayor of Burlington, Vt., by 10 votes in 1981, he served four terms. Before his 1990 election as Vermont's at-large member in Congress, Sanders lectured at the John F. Kennedy School of Government at Harvard and at Hamilton College in upstate New York.

Our Comment

"When we want to eliminate child poverty as much as we wanted to eliminate small pox, it will happen." – John Hotson, co-founder of COMER.

What will it take for the social disease of global oligarchy to bring us to the tipping point? The next recession?

Élan

Check out the COMER bookstore at www.comer.org

Financial Services Should Be an Essential Force for Good

By Ed Waitzer, The Globe and Mail, August 1, 2017

The philosopher John Locke observed the human tendency to err in "taking words for things." He noticed that when concepts are dignified by words, they start to seem "so suited to the nature of things that they perfectly correspond with their real existence." People maintain in their minds certain stereotypes of how one should behave. They remain attached to traditional forms, even when presented with logical arguments that they are not ideal. These biases can be reduced if we introduce new words, and new units of measurement, to help shift patterns of thinking. Such seemingly inconsequential matters as changes in wording are a key part of how innovation proceeds.

Nick Silver understood this when he founded the Climate Bonds Initiative, working to mobilize the $100-trillion bond market for climate-change solutions. In his new book, *Finance, Society and Sustainability – How to Make the Financial System Work for the Economy, People and Planet*, he has taken the next step: joining a growing choir of authors in describing the pressing need to reassert and promote public awareness of the social utility of the financial sector.

His starting point is a depiction of finance as social technology that allocates economic surplus by allowing people to manage risk, smooth lifetime consumption and efficiently allocate savings. He illustrates how finance has been a powerful catalyst for expanding opportunity. He also describes how self-serving, rent-seeking behaviour has led to failures of the financial system to innovate in ways that contribute to economic growth or development.

Few resent the wealth accumulation of Bill Gates or Steve Jobs because so many directly enjoy the benefits of their innovations. The same is not true for financiers. Public perceptions of the sector have become dominated by a lack of understanding or trust. The cultures of financial institutions have become harder to manage or regulate and isolated from the values and beliefs of those it should serve. Rather than focusing on the creation of wealth, financial markets are now primarily seen to be engaged in rearranging it.

The financial crisis was a stark reminder of how instabilities and misalignment in our globalized financial system can bring the entire infrastructure to the brink of collapse and cause dramatic losses across all asset classes. The looming investment uncertainties of climate change (and other sustainability concerns) and of growing inequalities are a constant reminder that fundamental disruptions in our social, political and environmental systems raise the spectre of "unhedgeable" financial risks.

Mr. Silver is part of a growing body of advocacy that points to the extraordinary opportunities to deliver financial services that mitigate systemic risks and help achieve social objectives. Consider for example, work under way on new environmental, longevity and social-enterprise asset classes. The financial sector should be "connecting the dots" – increasing public awareness of the vital role of financial services in creating sustainable wealth. Likewise, leadership by financial-sector policy makers can demonstrate that financial regulation is about more than trying to protect consumers from deceptive products and practices. Rather, it should be to ensure that society is well served through the articulation (and enforcement) of public stewardship responsibilities throughout the financial services supply chain.

While the demonization of finance may be deserved, it serves little public purpose. Financial services should be an essential force for good. Our financial institutions could encourage systemic change in ways that transcend the capacity of domestic governments and regulatory bodies. Realizing this possibility, however, will require deliberate action to correct the cultural and structural problems that have persisted within the sector. Mr. Silver, and others, have begun to sketch out illustrative elements of what such an approach might look like.

Even the harshest critics of the financial sector acknowledge that, over the long sweep of history, financial innovation has been important in promoting growth. In recent decades though, it appears that many financial activities have generated private returns much higher than the perceived social returns. In his first economic message, Pope Francis noted that "whatever is fragile, like the environment, is defenceless" against markets that are devoid of social purpose and that hence show a "lack of real concern for human beings." He went on to argue that a financial system imbued with ethical values "would make it possible to bring about balance and a more human social order." This may well be the inflection point that our financial sector will either embrace or have imposed upon it. Mr. Silver is an optimist. He may not be convincing, but he is certainly thought provoking.

Ed Waitzer is a professor at Osgoode Hall Law School and Schulich School of Business and senior partner at Stikeman Elliott LLP

Our Comment

It's hard to believe that the finance sector, having so successfully divorced itself from the real economy, could be persuaded to redeem itself as an instrument of "social utility," within the present system.

"Could" and "should" express possibility and responsibility, but our financial institutions seem less inclined to be "an essential force for good" than to make money.

The likelihood of voluntary conversion is inconceivable!

Élan