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Federal Court of Appeal Decision – January 26, 2015

On April 24, 2014, we were, in the main, successful in our appeal before Justice Russell. We appealed, to the Federal Court of Appeal, on two minor points. The government cross-appealed on the ruling that we can proceed with the bulk of COMER's action.

On January 26, 2015, the Federal Court of Appeal dismissed our Appeal (on two minor points).

More importantly, the Federal Court of Appeal dismissed the government's cross-appeal claiming that the Federal Court could not entertain the lawsuit.

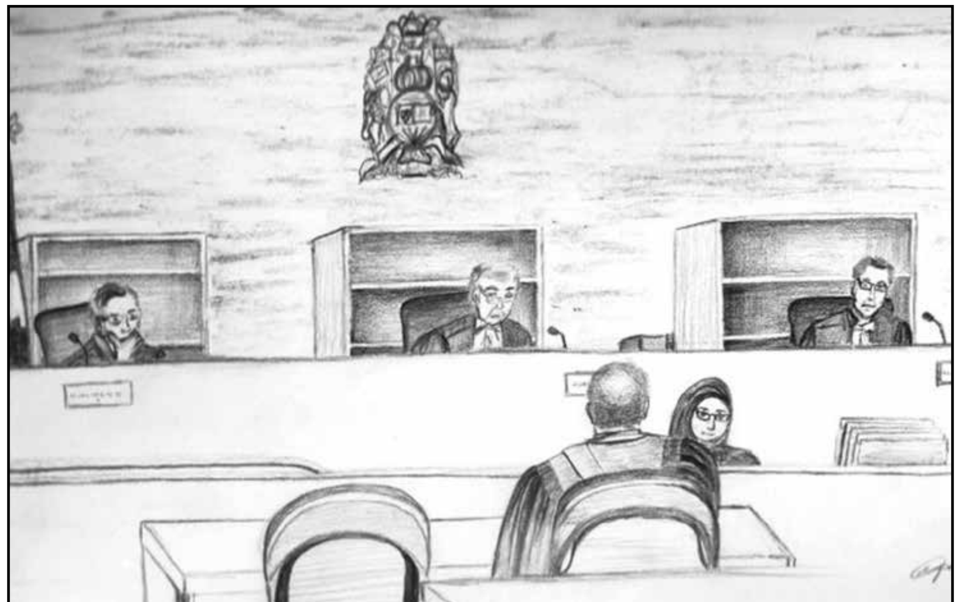
Since the Federal Court of Appeal *fully* upheld the decision of Justice Russell dated April 24, 2014, Justice Russell's decision stands. I refer everyone to my summary of that decision on COMER's website.

What that means is that we *are entitled to proceed* with our action, subject to me drafting and filing an amended Statement of Claim with the Federal Court, which will be done shortly.

In short, and in summary, the decision of the Federal Court of Appeal is a victory for COMER to proceed.

While the government can seek leave of the Federal Court of Appeal's decision to the Supreme Court of Canada, to date no such indication has been conveyed. The government has until March 29, 2015, to do so.

Rocco Galati, B.A., LL.B., LL.M.



Veronica Campbell's sketch shows Rocco Galati during the hearing at the Federal Court of Appeal.

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Austerity or Prosperity? Canada's $626 Billion Question.

By Murray Dobbin, Today, TheTyee.ca

That's what corporations hoard while Tories refuse to stimulate jobs.

Imagine for a moment two societies living side by side. One has discovered the wheel and uses it. The wheel makes life easier for workers and boosts the economy for everyone. Prosperity reigns. The society next door is well aware of the wheel and watches as its neighbours move inexorably ahead, becoming wealthier, more efficient and healthier while creating more leisure time for cultural activities.

But the ones who reject the wheel aren't those who do the work in this society. Those who refuse it are the governing elite, the priests, the official advisors and scribes who have incorporated a moral objection to the wheel into the state religion.

Use of the wheel is thus proscribed by faith, not reason. All practical arguments in its favour are rendered useless.

While Canada is not exactly a next door neighbour to Norway and other Scandinavian countries, there is no excuse for not knowing and emulating the proven success of those nations. What's their open secret? Replace the wheel in this story with robust government engagement in the economy and you have pretty much all you need to understand about why Norway, Sweden and Denmark are doing so well economically and socially. And why Canada is destined for inexorable decline.

Indeed, Canada's government is so dedicated to the religion of austerity that it could easily appear to some future anthropologist that our civilization declined in relentless pursuit of downsizing itself. Unlike the Maya, who apparently outgrew their social and economic structures, we seem determined to deliberately dismantle ours.

Cure for "Chronic Demand Deficiency Syndrome"

Canada and Eurozone countries are suffering from what Martin Wolfe, writing in the Financial Times, calls "chronic demand deficiency syndrome." It is not that governments are unaware of the problem of deficient demand. John Plender, another Financial Times economist, focuses on the Eurozone, which, he writes "is being driven towards deflation by a moralistic drive for austerity which does nothing to arrest rising debt as a percentage of gross domestic product…." He could just as easily be talking about Canada where collapsed oil prices are poised to accelerate a deflationary situation already threatening because of weak demand.

A recent study on Norway, Sweden and Denmark, titled How Can Scandinavians Tax So Much?," demonstrates how national governments can actually address underlying structural demand weaknesses – or rather, in their cases, how to prevent such weaknesses from developing in the first place. The key is not just high government spending but a dedication to revenue collection that comes as close as possible to eliminating leakage in the tax system.

The top marginal income tax rate in the three countries is between 60 percent and 70 percent compared to 43 percent in the US and about 50 percent in Canada. Add in other taxes like consumption and payroll levies and the average Scandinavian worker gets to keep just 20 percent of her paycheck. In the US that same employee keeps 63 percent.

How can such high tax rates (which would be denounced as "punitive" here) result in some of the best economic outcomes on the planet?

How can the Scandinavian countries studied produce such high standards of living, high labour participation rates, highly profitable corporations and high placements (all higher than Canada) in the world competitiveness sweepstakes?

Here is how. Unlike in Canada, where Prime Minister Harper openly demonizes taxes ("I don't believe any taxes are good taxes"), Scandinavian governments have totally committed themselves to collecting all the revenue due to them.

According to the study's author Henrik Jacobsen Kleven: "First, the Scandinavian tax systems have very wide coverage of third-party information reporting and more generally, well-developed information trails that ensure a low level of tax evasion. Second, broad tax bases in these countries further encourages low levels of tax avoidance…. Third, the subsidization or public provision of goods that are complementary to working – including child care, elderly

care, transportation and education – encourages a high level of labour supply."

With the governments pumping billions of dollars into the Scandinavian economies there is no "chronic demand deficiency syndrome." They do not rely on debt-financed consumer demand and the reduction of private consumer spending makes for more rational economic decision-making overall.

The US has accomplished what appears to be a stable recovery by also rejecting the austerity obsession and engaging in repeated rounds of quantitative easing – artificially pumping money out into the economy though bond purchases. Canada meanwhile is actually sucking billions out of the economy through tax cuts to sectors (corporations and the One Percent) who aren't spending it.

The Power of Government Stimulus

The dominant view of taxing and spending in this country has been carefully constructed over a period of 30 years. It is that taxes take money out of the economy and undermine investment. This claim is now revealed as nothing less than an outright lie.

But it should surprise no one. A 1985 book, *Government Limited* by John Calvert, revealed just how much government spending stimulates the economy and bolsters the private sector. Calvert pointed out that most government spending ends up in the coffers of private businesses: police departments buying cars, hospitals buying pharmaceuticals, governments buying paper, building ships, constructing highways, bridges and ports. Fully 12 percent of private sector employment in 1984 was directly attributable to government spending on goods and services.

But that doesn't even count the direct spending of government employees whose salaries represented 22 percent of non-investment income. That translated into 12 percent of total spending on private goods and services. Transfer payments – welfare, family allowance and pensions – accounted for 13 percent of spending on goods and services. The tax revenue for these expenditures came largely from individuals rather than corporations so that rather than a drain on corporate investment, government spending is in fact a subsidy to business. Withdraw it and thousands of businesses would simply go bankrupt.

Corporations Bit on $626 Billion

Of course we have withdrawn billions since 1985 – over $60 billion a year in abandoned revenue at the federal level if you go back and count Paul Martin's huge tax cuts in 2000-2005. If we had that money back to spend, the vast majority of it would ultimately end up being spent in the private sector. And that might actually convince Canadian corporations to invest some of the $626 billion in idle cash it is now sitting on. (An IMF report recently chastised Canadians corporations for accumulating idle capital at a faster rate than any other country in the G7.)

Around the world the religious orthodoxy of unfettered capitalism is being questioned on many fronts. But not in Canada. The 2008 financial crisis had the effect of throwing into question the neoliberal orthodoxy of the gradual disappearance of the nation-state as a key player. Conflicts between states now abound and citizens in EU countries are demanding actions that conflict fundamentally with the EU collective wisdom. As the *Financial Time's* mark Mazower states, "…by discrediting the more mythical idealisations of the market, [the crisis] has encouraged the restoration of state power as a goal in itself."

It is a trend vigorously resisted by the Harper government at every turn.

Use the Wheel, Canada

Some in the financial world have even begun talking about taking an old tool out of the state tool box that would allow deficit spending without going into hock to the banks and international lenders. *That tool is monetizing government debt. In other words, ending the absurd "independence" of central banks and using them to create the money supply, allowing governments to borrow effectively from themselves at near zero interest rates (as they once did).* This would have the added benefit in Canada of ending the irresponsible practices of the Canadian private banks and their reckless creation of a housing bubble.

But that's a radical solution that is beyond the pale in Harper's world.

Another global trend that Harper has been trying to avoid is the ending of tax evasion by corporations and wealthy individuals through the global harmonization of corporate taxes. This objective, being pursued most seriously by EU nations, also has its roots in the revival of nation-state power: countries are desperate for revenue to fund national democratic governance.

None of these trends is universal but the spectre of another crisis, much worse than the last, is challenging free market orthodoxy everywhere. Those countries that take up the challenge first and most effectively are the ones that will survive the next disaster.

In other words, the "wheel" is now a known to be powerful invention and the only question remaining is who will embrace its use first or last.

So far, Canadians must continue to watch their Scandinavian neighbours use the wheel and prosper while we remain captives of the free market priesthood.

Norway's Lessons

Norway is the logical choice of neighbour to compare ourselves to, if you can stomach it.

In Canada we have virtually given away our energy heritage through criminally low royalty rates over a period of some 70 years. Norway bargained hard with oil companies to develop its relatively new-found resource – and kept ownership of it. The result, as reported in The Tyee, is a heritage fund of (as of a year ago) CAD$909.36 billion. That puts tiny Norway $1.5 trillion ahead of us and while each Canadian has a $17,000 share of our $600 billion debt national debt, each Norwegian has a $178,000 stake in their surplus. Norway puts aside a billion dollars a week from its oil resource.

But all that oil money aside (literally), Norway actually funds its government services through taxes which its citizens gladly pay. And why not? As The Tyee's Mitch Andersen reported: "Norwegians enjoy universal day care, free university tuition, per capita spending on health care 30 percent higher than Canada and 25 days of paid vacation every year."

We on the other hand live in a country where a third of citizens believe in Harper's fiscal self-flagellation, in an extremist religion that calls upon us all to deliberately impoverish ourselves. Hallelujah.

Murray Dobbin, now living in Powell River, BC has been a journalist, broadcaster, author and social activist for over forty years. He now writes a bi-weekly column for the on-line journals the Tyee and rabble.ca. He can be reached at murraydobbin@shaw.ca.

Our Comment

When household debt is 165% greater than household income, good jobs are hard to come by, and both fiscal and monetary policies are such as to beggar both citizens and government alike, one can hardly marvel at a *chronic demand deficiency!* What

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is fantastic is the notion – given these circumstances – that *austerity* can revive a failing economy! Never mind the historical evidence that, indeed, *austerity* leads, inevitably, to recession or depression.

The lie that taxes *impede* investment and tax cuts *promote* it, is especially false today, given the emphasis on using money (preferably other people's money), to make more money – draining money from the real economy and, instead, hoarding it, speculating, or gambling with it.

Just as the EU countries are coming to appreciate the true cost of trading their national sovereignty for "mythical idealizations of the market," and recognizing the need to take back state power, we Canadians – long tolerant of the suspension of Canada's sovereign right to fund its needs with government-created money at near-zero interest – risk losing that right altogether, under trade deals like the Comprehensive Economic and Trade Agreement and the Trans Pacific Partnership, being negotiated behind our backs.

How can using our public central bank to restore state power, and to serve the common good – as it did from 1938 until 1974 – be a *radical* solution?

What *does* strike me as being *radical* is the silent transfer of the power to create money from a bank of our own, to private Banks. Who authorized that shift? Article 14(2) of the *Bank of Canada Act* (1934) makes it clear that monetary policy is the government's responsibility:

If… there should emerge a difference of opinion between the minister and the Bank, concerning monetary policy to be followed, the minister may…give the governor a written directive…and the Bank shall comply with that directive.

Fiscal policy that reflects society's values and principles is a great tool but, as economist Joseph Stiglitz points out in, *The Price of Inequality*, monetary policy is a central determinant of an economy's performance. And these two tools must work together – like a hammer and a nail.

Paul Martin's contribution merits a closer look. Interestingly, this is the same Paul Martin who, at a seminar during the infamous Toronto G-20 summit, proclaimed that, "No nation state today can manage its own economy," that, "We must have global economic governance." What better way to undermine a nation's sovereignty than to "abandon revenue at the federal level"?!

Murray Dobbin's, *Paul Martin: CEO for Canada?,* is an excellent account of Paul Martin's slash–dash–debilitate budgets.

In *The Rise of Canada's Richest 1%,* Armine Yalnizian, economist with the Canadian Centre for Policy Alternatives, points out that "after 1980, despite a decade of unbroken economic growth… a clear and consistent trend towards greater equality took… the *great u-turn of our time.*"

In his book, Murray Dobbin traces the policies that propelled the liberal party through that u-turn from its socially progressive "Red-Book" campaign to its 1993 post-election austerity budgets, through which Paul Martin charted a course that "changed the whole purpose…the very DNA of government," exploiting the public's willingness to "sacrifice for the good of the country, to tighten their belts, and to do the right thing in the face of a crisis" (the deficit). "In doing so, however, they signed a contract whose fine print they did not read."

From his "1995 watershed budget for the continued corporatization of Canada," to his "record-breaking, tax-cut program in 2000," Martin engineered "the most radical restructuring of the Canadian Nation-State in its history – a reversal of 40 years of nation building."

Paul Martin's "redefinition of government" totally ignored the social consequences of such policies.

To so emasculate a nation's government and to so mislead its citizenry may well render a nation incapable of managing its own economy. What better way to promote a "New World Order"?

Murray Dobbin's account of how it was managed in Canada is wonderfully enlightening and informative and a practical arsenal of facts to take into the next federal election.

Now is the time to take back the power that is ours. The debt-money system whose evils include unsustainability, growing inequality, an increasingly undemocratic political economy, and debt, must go. As economist Michael Hudson has argued, we have gone about as far as we can go, fuelling our economy through debt, and are headed, unless we change course, for a depression far worse than the crash of '29.

Norwegians have put their wheel into the hands of politicians committed to a political economy designed to serve the common good of Norwegians.

Canadians will soon have an opportunity to decide what sort of politicians will take the wheel in Canada.

Élan

Financial Warfare and the EU Showdown: Greece Takes on the Vampire Squid

By Ellen Brown, Global Research, January 7, 2015

Greece and the troika (the International Monetary Fund, the EU, and the European Central Bank) are in a dangerous game of chicken. The Greeks have been threatened with a "Cyprus-Style prolonged bank holiday" if they "vote wrong." But they have been bullied for too long and are saying "no more."

A return to the polls was triggered in December, when the Parliament rejected Prime Minister Antonis Samaras' pro-austerity candidate for president. In a general election, now set for January 25, the EU-skeptic, anti-austerity, leftist Syriza party is likely to prevail. Syriza captured a 3% lead in the polls following mass public discontent over the harsh austerity measures Athens was forced to accept in return for a €240 billion bailout.

Austerity has plunged the economy into conditions worse than in the Great Depression. As Professor Bill Black observes, the question is not why the Greek people are rising up to reject the barbarous measures but what took them so long.

Ireland was similarly forced into an EU bailout with painful austerity measures attached. A series of letters has recently come to light showing that the Irish government was effectively blackmailed into it, with the threat that the ECB would otherwise cut off liquidity funding to Ireland's banks. The same sort of threat has been leveled at the Greeks, but this time they are not taking the bait.

Squeezed by the Squid

The veiled threat to the Greek Parliament was in a December memo from investment bank Goldman Sachs – the same bank that was earlier blamed for inducing the Greek crisis. Rolling Stone journalist Matt Taibbi wrote colorfully of it:

"The first thing you need to know about Goldman Sachs is that it's everywhere. The world's most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money. In fact, the history of the recent financial crisis, which doubles as a history of the rapid decline and fall of the suddenly swindled dry American empire, reads like a Who's Who of Goldman Sachs graduates."

Goldman has spawned an unusual number of EU and US officials with dictatorial power to promote and protect big-bank interests. They include US Treasury Secretary Robert Rubin, who brokered the repeal of the *Glass-Steagall Act* in 1999 and passage of the *Commodity Futures Modernization Act* in 2000; Treasury Secretary Henry Paulson, who presided over the 2008 Wall Street bailout; Mario Draghi, current head of the European Central Bank; Mario Monti, who led a government of technocrats as Italian prime minister; and Bank of England Governor Mark Carney, chair of the Financial Stability Board that sets financial regulations for the G20 countries.

Goldman's role in the Greek crisis goes back to 2001. The vampire squid, smelling money in Greece's debt problems, jabbed its blood funnel into Greek fiscal management, sucking out high fees to hide the extent of Greece's debt in complicated derivatives. The squid then hedged its bets by shorting Greek debt. Bearish bets on Greek debt launched by heavyweight hedge funds in late 2009 put selling pressure on the euro, forcing Greece into the bailout and austerity measures that have since destroyed its economy.

Before the December 2014 parliamentary vote that brought down the Greek government, Goldman repeated the power play that has long held the eurozone in thrall to an unelected banking elite. In a note titled "From GRecovery to GRelapse," reprinted on Zerohedge, it warned that "the room for Greece to meaningfully backtrack from the reforms that have already been implemented is very limited."

Why? Because bank "liquidity" could be cut in the event of "a severe clash between Greece and international lenders." The central bank could cut liquidity or not, at its whim; and without it, the banks would be insolvent.

As the late Murray Rothbard pointed out, all banks are technically insolvent. They all lend money they don't have. They rely on being able to borrow from other banks, the money market, or the central bank as needed to balance their books. The central bank, which has the power to print money, is the ultimate backstop in this sleight of hand and is therefore in the driver's seat. If that source of liquidity dries up, the banks go down.

The Goldman memo warned: "The Biggest Risk is an Interruption of the Funding of Greek Banks by The ECB.

"Pressing as the government refinancing schedule may look on the surface, it is unlikely to become a real issue as long as the ECB stands behind the Greek banking system….

"But herein lies the main risk for Greece. *The economy needs the only lender of last resort to the banking system to maintain ample provision of liquidity.* And this is not just because banks may require resources to help reduce future refinancing risks for the sovereign. But also because *banks are already reliant on government issued or government guaranteed securities to maintain the current levels of liquidity constant*….

"In the event of a severe Greek government clash with international lenders, *interruption of liquidity provision to Greek banks by the ECB could potentially even lead to a Cyprus-style prolonged "bank holiday."* And market fears for potential Euro-exit risks could rise at that point." [Emphasis added.]

The condition of the Greek banks was not the issue. The gun being held to the banks' heads was the threat that the central bank's critical credit line could be cut unless financial "reforms" were complied with. Indeed, any country that resists going along with the program could find that its banks have been cut off from that critical liquidity.

That is actually what happened in Cyprus in 2013. The banks declared insolvent had passed the latest round of ECB stress tests and were no less salvageable than many other banks – until the troika demanded an additional €600 billion to maintain the central bank's credit line.

That was the threat leveled at the Irish government before it agreed to a bailout with strings attached, and it was the threat aimed in December at Greece. Greek Finance Minister Gikas Hardouvelis stated in an interview:

"The key to…our economy's future in 2015 and later is held by the European Central Bank…. This key can easily and abruptly be used to block funding to banks and therefore strangle the Greek economy in no time at all."

Europe's Lehman Moment?

That was the threat, but as noted on Zerohedge, the ECB's hands may be tied in this case:

"[S]hould Greece decide to default it would mean those several hundred billion Greek bonds currently held in official accounts would go from par to worthless overnight, leading to massive unaccounted for impairments on Europe's pristine balance sheets, which also confirms that Greece once again has all the negotiating leverage."

Despite that risk, on January 3, *Der Spiegel* reported that the German government believes the Eurozone would now be able to cope with a Greek exit from the euro. The risk of "contagion" is now limited because major banks are protected by the new European Banking Union.

The banks are protected but the depositors may not be. Under the new "bail-in" rules imposed by the Financial Stability Board, confirmed in the European Banking Union agreed to last spring, any EU government bailout must be preceded by the bail-in (confiscation) of creditor funds, including depositor funds. As in Cyprus, it could be the depositors, not the banks, picking up the tab.

What about deposit insurance? That was supposed to be the third pillar of the Banking Union, but a eurozone-wide insurance scheme was never agreed to. That means depositors will be left to the resources of their bankrupt local government, which are liable to be sparse.

What the bail-in protocol does guarantee are the derivatives bets of Goldman and other international megabanks. In a May 2013 article in *Forbes* titled "The Cyprus Bank 'Bail-In' Is Another Crony Bankster Scam," Nathan Lewis laid the scheme bare:

"At first glance, the "bail-in" resembles the normal capitalist process of liabilities restructuring that should occur when a bank becomes insolvent….

"The difference with the "bail-in" is that the order of creditor seniority is changed. In the end, it amounts to the cronies (other banks and government) and non-cronies. The cronies get 100% or more; the non-cronies, including non-interest-bearing depositors who should be super-senior, get a kick in the guts instead….

"In principle, depositors are the most senior creditors in a bank. However, that was changed in the 2005 bankruptcy law, which made derivatives liabilities most senior. In other words, derivatives liabilities get paid before all other creditors – certainly before non-crony creditors like depositors.

"Considering the extreme levels of derivatives liabilities that many large banks have, and the opportunity to stuff any bank with derivatives liabilities in the last moment, other creditors could easily find there is nothing left for them at all."

Even in the worst of the Great Depression bank bankruptcies, said Lewis, creditors eventually recovered nearly all of their money. He concluded:

"When super-senior depositors have huge losses of 50% or more, after a "bail-in" restructuring, you know that a crime was committed."

Goodbye Euro?

Greece can regain its sovereignty by defaulting on its debt, abandoning the ECB and the euro, and issuing its own national currency (the drachma) through its own central bank. But that would destabilize the eurozone and might end in its breakup.

Will the troika take that risk? 2015 is shaping up to be an interesting year.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt*. Her latest book,* The Public Bank Solution*, explores successful public banking models historically and globally. Her 200+ blog articles are at EllenBrown.com.*

Greece Remembered

William Krehm and I went to Greece specifically with intent to meet with Tsipras, the leader of the Syriza party (once we learned of their existence). We both were excited about the possibilities for the world which might ensue if this man and party could take hold. We went in almost cold, in that we had no apparent contacts. We just went ahead boldly.

As it turned out, a good friend of Bill Krehm's son lives in Athens and had contacts within the Syriza party. He arranged a meeting once we arrived. The Greeks revere the elderly. They were impressed, pleased, and grateful that such an esteemed person, close to being a centenarian, would seek out their contact.

I was present at the long, private meeting with Alexis Tsipras. He was respectful of Bill. He listened attentively to Bill, showing interest and a knowledge of monetary reform and its necessity. They both agreed that Greece could be the vehicle to lead the world out of the strangling grip of the world's tyrannical financial elite.

Tsipras, a confident (but not arrogant) young man, impressed me as being a man not only of courage, competence, strength, knowledge and determination, but also of insight. May the "Gods" cloak him with the armour of light.

Connie Fogal

The following article about the trip appeared in the June 2012 issue of ER.

Demonstration of Support from Canada

William Krehm, economist, 98 years old, traveled from Canada to Athens [in June], with one purpose in mind: to encourage and support the struggle of Syriza. That was the reason he met with the head of the parliamentary group, Alexi Tsipras.

"The message I want to send is really a complaint: to denounce the dominance of the speculative commands of the banks against politics. Commands like these, such ordinates, aim at ignoring human capital. To transform this, too, into a component of the betting game."

And he went on: "This deadly condition concerns not only Greece, but the entire world. The noose they have placed around the neck of Greece today applies to the global economy as a whole. Mankind is not able to reverse its course toward self-destruction without recognizing the critical importance of the ancient Greek heritage."

That heritage is threatened today as the still vital Bill Krehm recognizes, by the austerity policies directed against Greece's cultural infrastructure, that to address cultural infrastructure as a liability is to lead humanity towards self-destruction.

William Krehm, who took part in the Spanish Civil War ("I must say that anarchists behaved wonderfully"), an influential member of the Committee on Monetary and Economic Reform, which publishes a business magazine in Canada, decided to make this journey to Athens in solidarity and support for the struggle of Syriza. "Age is irrelevant," he laughs. "Nothing could deter me from this trip…."

This is the translation from an article that appeared in the Greek newspaper Synentexy *on June 16, 2012.*

Forced to Leave Her Home Right Before Christmas

By Marco Chown Oved, Toronto Star, December 19, 2014

Centre says it can't provide proper care for resident, who has reluctantly agreed to find new residence.

It's a sad byproduct of longevity. Like many who have made it to her age, 94-year-old Marie Sparrow has outlived her entire family: first her husband, then her sons, and finally her grandson and niece.

Sparrow has made a few friends at her Mississauga retirement home. Just weeks before Christmas, however, she was asked to move out and warned she'd be sent to hospital if she didn't comply.

"I could take it if I was a little younger, but I'm 94," she said. "Instead of going somewhere else and getting to know people again, I'd like to stay here."

Amica residence at Erin Mills issued a letter to Sparrow this week documenting a meeting between staff, Sparrow and Maria Silva, a friend who holds her legal power of attorney. Amica staff informed Sparrow that the residence "was not a suitable place for you to receive the care necessary for you to flourish.

"Ms. Silva was advised in the meeting that an acceptable transition plan had to be in place by Friday, December 12. If this did not happen, we would consider alternative measures which include sending you to Credit Valley Hospital," the letter stated.

Amica's regional operations manager Kieran Hess now calls those "some poorly chosen words."

"We don't have the right to evict someone in five days, and we wouldn't do that," Hess said. "There's probably some degree of misinterpretation there."

In spite of the crossed wires, Sparrow agreed to move out. Resigned to her fate, she sat hunched in her wheelchair as movers bagged up her linens and wheeled out her mattress.

She's headed to a much more expensive home until she can find a more permanent solution.

Hess said he could not discuss Sparrow's case specifically due to privacy concerns, but outlined the company's procedures.

"There are only certain types of care that we are equipped and staffed to manage. And beyond that it often becomes a danger to a specific resident…. Generally, when we feel like we can't meet those needs, we begin a dialogue with the resident, the resident's family or their power of attorney to come to an appropriate transition."

Hess says that evictions are very rare and that he has never had to evict someone during his time with Amica.

"If there was a health issue that warranted somebody needing to go to hospital to be safe in the environment, we might take that measure. Certainly, we don't put people on the streets," he said. "It's not in our best interest to get people out of our building; it's actually in our best interest to keep people in our buildings when it's safe.

"The worst thing that can happen for us is for people to leave unhappy."

Sparrow wore a brave face when the Star arrived for a visit. She had neatly combed her hair and donned a flowered shirt and crisply ironed slacks for the trip. But once she started to reminisce about the old times, her wise blue eyes lit up. During the Second World War, her husband, Bill, was riding in a jeep when it struck a landmine.

"The other three chaps were killed but my husband was thrown out and shattered both his legs," said Sparrow.

Bill spent years recuperating in hospital. He had one leg amputated and wore a brace on the other that ran from his heel to his hip.

Because he couldn't work, they moved in with his sister and ended up getting featured a 1951 Montreal Star article about the difficulties faced by returning veterans.

"They put us on the third page. I still have the picture," she said.

After the article, boxes of groceries started arriving at the house from concerned readers. One anonymous philanthropist even sent over a fur coat.

"I thought: 'Wow, you get your name in the paper and people do so many nice things for you,'" said Sparrow.

Neighbours started a drive, and soon after the article ran, they raised enough money to buy Bill a hand-controlled Oldsmobile. He started work at Royal Typewriters; they had two sons, Bill Jr. and Bobby; things were looking up.

But Bill died of a heart attack when he was only 49 and Sparrow raised her kids alone, taking a job at Sun Life to support them. Then Bill Jr., who became an elevator mechanic, died of a stroke at 48 and Bobby died of a heart attack when he was 51. Sparrow's grandson Richard begged her to move back to Montreal to be close to him, but before she had a chance, he died of a stroke. He was 49. The only person she had left was Cynthia, her niece, who passed away in 2011.

Sparrow moved into Amica Erin Mills in July 2013, and while she thought it was "too fancy" at first, grew to like the comfort and the companionship. She hired a personal support worker to come in for eight hours every day and also has a public Community Care Access Centre nurse for an additional four hours. While she has some mobility difficulties and is a little hard of hearing, Sparrow is still razor-sharp.

Her power of attorney, Maria Silva, says the residence started to pressure her to move Sparrow out after a trip to the hospital in November.

"They didn't want her any more, but her condition has not changed. There's no reason why she has to leave. She pays for her own care; the residence doesn't have any extra responsibilities," Silva said.

In several discussions with Amica staff, Silva says the reason Sparrow had to leave kept changing. First, her poor mobility made her a fire hazard, then it was that they didn't have the resources to care for her.

"I felt pushed. They told me they'd call the police to take her to the hospital because she doesn't belong here," Silva said.

At a sit-down meeting earlier this month, Silva says, she was given five days to get Sparrow out. She demanded that this be put in writing and was given a letter "to acknowledge your move-out date."

"This wasn't how the meeting happened. I gave it back to them and told them to put exactly what they told me in the letter," Silva said.

A second letter was more precise about the five-day timeline and the possibility of being moved to hospital if she didn't comply.

Amica regional director Hess points out that the wording of the letter doesn't require that Sparrow move out in five days, only that there is a plan to do so in place. But this doesn't change how Silva and Sparrow feel.

Our Comment

Marie Sparrow's experience should give us all – both rich and poor – pause, in the matter of long-term care.

Anything *private* must be "cost-effective" and as profitable as possible. Business is business.

Given that Marie was able to afford to supplement what care Amica residence at Erin Mills is prepared to provide, one has to wonder why the residence was "not a suitable place for [her] to receive the care necessary for [her] to flourish."

The reader is hard put not to agree with Mrs. Sparrow's power of attorney that there was no reason why she should have to leave.

The case would seem to reflect a common characteristic of private health care – the "cherry-picking" syndrome. Private services tend to be selective about what they cover, and who qualifies.

One wonders if prospective residents are forewarned of limits beyond which they may be turfed in this manner.

The fumbling efforts to account for the ultimatum Mrs. Sparrow was given – "some poorly chosen words"…"some degree of misinterpretation"…the changing reason given… the need for a revised account of the meeting – raise questions that even those wealthy enough to favour private arrangements might want to ask.

Certainly public health care can and must operate on very different principles and it's the only system able to guarantee all of us the level of security that should be one of the paramount advantages of life in society.

Élan

About Our Commenter

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

Baird Quit Early So He Could Cash In

By Carol Goar, Toronto Star, February 11, 2015

If it's crass to talk about money while parliamentarians and pundits are praising John Baird's political prowess and pondering his legacy, pardon my etiquette.

But one piece of the story is still missing. By stepping down this year, the former foreign affairs minister locked in his entitlement to an annual parliamentary pension of $64,381 starting at the age of 55. Had he waited until 2016, when new rules take effect, his golden handshake would not have been available until his 60th birthday.

To most Canadians, financial freedom at 60 still sounds pretty attractive. But for Baird, it would have meant forfeiting more than $320,000.

It is no coincidence that two dozen Conservatives, five New Democrats, two Liberals and three independents have decided not to seek re-election this year. Nor is it a surprise that the financially advantageous timing of Baird's departure received little attention in Ottawa. Parliament Hill is a clubby place. MPs may hurl invective across the floor of the Commons, but they all share the same generous retirement package. Political commentators may analyze a departing cabinet minister's motives, achievements, weaknesses and career plans, but they don't consider parliamentary pensions newsworthy. They're just part of the landscape.

Outside the capital, things aren't so cozy. Each lucrative farewell is a reminder of the disparity between MPs and the constituents they represent. While the government exhorts debt-burdened Canadians to save for their retirement, parliamentarians are taken care of by taxpayers. While most citizens have to wait until they are 67 for old age security (aging boomers qualify at 65), parliamentarians can comfortably retire at 55.

The discrepancy in benefits is stark. Baird's pension works out to $5,365 a month. Canadians get an old age security stipend of $563.74 and a Canada Pension Plan payment of $610 a month if they worked steadily. Combing the two, they're still 80 percent behind the minister.

It would be unfair to suggest pecuniary considerations were the only – or even primary – factor in Baird's decision. He is 45 years old. He has spent his entire adult life in politics. Now is the perfect time – with his high profile, global contacts and bona fides in Ottawa – to embark on a second career with the privacy he has never had as a politician.

But his lucrative exit package underscores the gap between the privileged and the hoi polloi. It reinforces the impression that MPs are more interested in being on the favoured side of the divide than narrowing it.

Critics generally hold their fire. Only the Canadian Taxpayers Federation, self-appointed enemy of government waste, monitors parliamentary pensions. It regularly inveighs against politicians' platinum-plated pension plans.

The left is inexplicably silent. This is a social justice issue (although few advocates recognize it). It explains why every attempt to launch a parliamentary debate on income inequality has petered out; every call to align the interests of MPs with those of the people has gone nowhere. It demonstrates how proximity to the public purse alters people's values. As head of the National Citizens Coalition from 1997 to 2002, Stephen Harper was a vocal critic of parliamentarians' gilt-edged pensions. In the prime minister's defence, he did trim parliamentary pensions in 2012 when he raised the age of eligibility for everybody else to 67.

Starting next January, MPs will have to wait until they are 60 to claim their pensions. By 2017, they will have to contribute 50 percent of the cost of their pensions. (They currently contribute 15 percent.)

By requiring MPs to sacrifice, Harper insulated his government from a damaging public backlash over pensions. But he created a strong incentive for longserving MPs to leave. That is the backdrop of Baird's decision.

None of this is meant to cast aspersions on the minister's character or work ethic. He served the government well and played by the rules.

It is the rules that are wrong. They shield MPs from the economic realities Canadians face. They push the destabilizing gap between the rich and the rest to the margins of the national agenda.

Our Comment. Given the average level of household debt and the reasons for it, given the levels of unemployment and underemployment and the reasons for that, given the cutbacks and the recessions and the general political shortfall – *and given a reminder like this of how well the rest of us reward those responsible for policies that give rise to these social evils* – it is a bit much to be flogged over our irresponsibility in not setting enough aside to see us through our (often short) retirement! *Élan*

Cyprus-style Bail-ins to Take Deposits and Pensions

By Ellen Brown, December 2, 2014

On the weekend of November 16, the G20 leaders whisked into Brisbane, posed for their photo ops, approved some proposals, made a show of roundly disapproving of Russian President Vladimir Putin, and whisked out again. It was all so fast, they may not have known what they were endorsing when they rubber-stamped the Financial Stability Board's "Adequacy of Loss-Absorbing Capacity of Global Systemically Important Banks in Resolution," which completely changes the rules of banking.

Russell Napier, writing in ZeroHedge, called it "the day money died." In any case, it may have been the day deposits died as money. Unlike coins and paper bills, which cannot be written down or given a "haircut," says Napier, deposits are now "just part of commercial banks' capital structure." That means they can be "bailed in" or confiscated to save the megabanks from derivative bets gone wrong.

Rather than reining in the massive and risky derivatives casino, the new rules prioritize the payment of banks' derivatives obligations to each other, ahead of everyone else. That includes not only depositors, public and private, but the pension funds that are the target market for the latest bail-in play, called "bail-inable" bonds.

"Bail in" has been sold as avoiding future government bailouts and eliminating too big to fail (TBTF). But it actually institutionalizes TBTF, since the big banks are kept in business by expropriating the funds of their creditors.

It is a neat solution for bankers and politicians, who don't want to have to deal with another messy banking crisis and are happy to see it disposed of by statute. But a bail-in could have worse consequences than a bailout for the public. If your taxes go up, you will probably still be able to pay the bills. If your bank account or pension gets wiped out, you could wind up in the street or sharing food with your pets.

In theory, US deposits under $250,000 are protected by federal deposit insurance; but deposit insurance funds in both the US and Europe are woefully underfunded, particularly when derivative claims are factored in. The problem is graphically illustrated in Figure 1 from a March 2013 ZeroHedge post.

More on that after a look at the new bail-in provisions and the powershift they represent.

Bail-in in Plain English

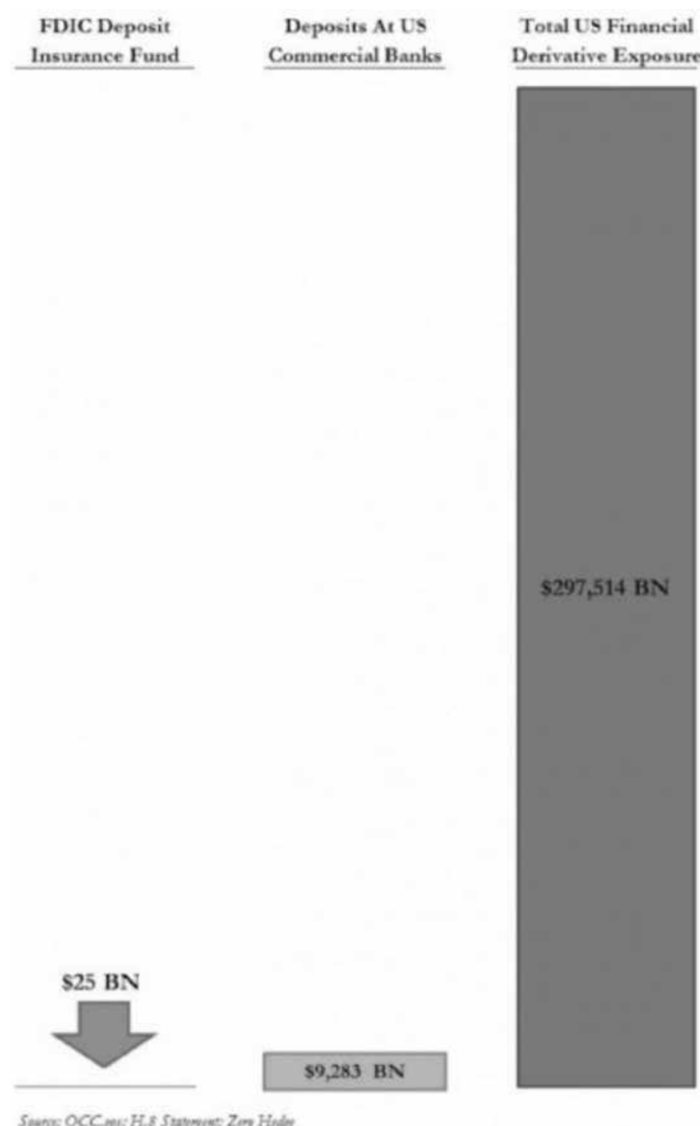
The Financial Stability Board (FSB) that now regulates banking globally began as a group of G7 finance ministers and central bank governors organized in a merely advisory capacity after the Asian crisis of the late 1990s. Although not official, its mandates effectively acquired the force of law after the 2008 crisis, when the G20 leaders were brought together to endorse its rules. This ritual now happens annually, with the G20 leaders rubberstamping rules aimed at maintaining the stability of the private banking system, usually at public expense.

According to an International Monetary Fund paper titled "From Bail-out to Bail-in: Mandatory Debt Restructuring of Systemic Financial Institutions": "[B]ail-in…is a statutory power of a resolution authority (as opposed to contractual arrangements, such as contingent capital requirements) to restructure the liabilities of a distressed financial institution by writing down its unsecured debt and/or converting it to equity. The statutory bail-in power is intended to achieve a prompt recapitalization and restructuring of the distressed institution."

The language is a bit obscure, but here are some points to note:

- What was formerly called a "bankruptcy" is now a "resolution proceeding." The bank's insolvency is "resolved" by the neat trick of turning its liabilities into capital. Insolvent TBTF banks are to be "promptly recapitalized" with their "unsecured debt" so that they can go on with business as usual.
- "Unsecured debt" includes deposits, the largest class of unsecured debt of any bank. The insolvent bank is to be made solvent by turning our money into their equity – bank stock that could become worthless on the market or be tied up for years in resolution proceedings.
- The power is statutory. Cyprus-style confiscations are to become the law.
- Rather than having their assets sold off and closing their doors, as happens to lesser bankrupt businesses in a capitalist economy, "zombie" banks are to be kept alive and open for business at all costs – and the costs are again to be to borne by us.

Figure 1



The Latest Twist: Putting Pensions at Risk with "Bail-Inable" Bonds

First they came for our tax dollars. When governments declared "no more bailouts," they came for our deposits. When there was a public outcry against that, the FSB came up with a "buffer" of securities to be sacrificed before deposits in a bankruptcy. In the latest rendition of its bail-in scheme, TBTF banks are required to keep a buffer equal to 16-20% of their risk-weighted assets in the form of equity or bonds convertible to equity in the event of insolvency.

Called "contingent capital bonds," "bail-inable bonds" or "bail-in bonds," these securities say in the fine print that the bondholders agree contractually (rather than being forced statutorily) that if certain conditions occur (notably the bank's insolvency), the lender's money will be turned into bank capital.

However, even 20% of risk-weighted assets may not be enough to prop up a megabank in a major derivatives collapse. And we the people are still the target market for these bonds, this time through our pension funds.

In a policy brief from the Peterson Institute for International Economics titled "Why Bail-In Securities Are Fool's Gold", Avinash Persaud warns, "A key danger is that taxpayers would be saved by pushing pensioners under the bus."

It wouldn't be the first time. As Matt Taibbi noted in a September 2013 article titled "Looting the Pension Funds," "public pension funds were some of the most frequently targeted suckers upon whom Wall Street dumped its fraud-riddled mortgage-backed securities in the pre-crash years."

Wall Street-based pension fund managers, although losing enormous sums in the last crisis, will not necessarily act more prudently going into the next one. All the pension funds are struggling with commitments made when returns were good, and getting those high returns now generally means taking on risk.

Other than the pension funds and insurance companies that are long-term bondholders, it is not clear what market there will be for bail-in bonds. Currently, most holders of contingent capital bonds are investors focused on short-term gains, who are liable to bolt at the first sign of a crisis. Investors who held similar bonds in 2008 took heavy losses. In a Reuters sampling of potential investors, many said they would not take that risk again. And banks and "shadow" banks are specifically excluded as buyers of bail-in bonds, due to the "fear of contagion": if they hold each other's bonds, they could all go down together.

Whether the pension funds go down is apparently not of concern.

Propping Up the Derivatives Casino: Don't Count on the FDIC

Kept inviolate and untouched in all this are the banks' liabilities on their derivative bets, which represent by far the largest exposure of TBTF banks. According to *The New York Times*:

"American banks have nearly $280 trillion of derivatives on their books, and they earn some of their biggest profits from trading in them."

These biggest of profits could turn into their biggest losses when the derivatives bubble collapses.

Both the *Bankruptcy Reform Act* of 2005 and the *Dodd-Frank Act* provide special protections for derivative counterparties, giving them the legal right to demand collateral to cover losses in the event of insolvency. They get first dibs, even before the secured deposits of state and local governments; and that first bite could consume the whole apple, as illustrated in the above chart.

The chart also illustrates the inadequacy of the FDIC insurance fund to protect depositors. In a May 2013 article in *USA Today* titled "Can FDIC Handle the Failure of a Megabank?," Darrell Delamaide wrote:

"[T]he biggest failure the FDIC has handled was Washington Mutual in 2008. And while that was plenty big with $307 billion in assets, it was a small fry compared with the $2.5 trillion in assets today at JPMorgan Chase, the $2.2 trillion at Bank of America or the $1.9 trillion at Citigroup….

"There was no possibility that the FDIC could take on the rescue of a Citigroup or Bank of America when the full-fledged financial crisis broke in the fall of that year and threatened the solvency of even the biggest banks."

That was, in fact, the reason the US Treasury and the Federal Reserve had to step in to bail out the banks: the FDIC wasn't up to the task. The 2010 *Dodd-Frank Act* was supposed to ensure that this never

Bank of Canada Should Be Lender

By André Marentette, Windsor Star, April 8, 2011

"There must be a discussion, to show how experience is to be interpreted. Wrong opinions and practices gradually yield to fact and argument: but facts and arguments, to produce any effect on the mind, must be brought before it." – John Stuart Mill, 1806-1873

With the onset of the federal election, the following information should be known by all candidates and taxpayers alike.

In 2009, Canadians paid $160 million per day, $58,7 billion for the year, in interest on federal, provincial and municipal debt.

These costs lead to higher taxes and fees, cutbacks in public services and deterioration of public infrastructure. Much of this debt-service cost could be eliminated by greater use of the Bank of Canada to finance government investments.

Because the bank is wholly owned by Canada, all profits on its lending activity go to the government. This means that borrowing from the bank by the government is almost costless.

For years, the government borrowed from the Bank of Canada and, during that time, contrary to t he fears raised by opponents of the idea, run-away inflation never occurred.

By 1975, federal net debt amounted to $19 billion. Then, the government began to shift more of its borrowing from the Bank of Canada to the private sector – especially chartered banks, insurance companies and other large corporations.

By March 31, 2010, the net debt had ballooned to $583 billion and interest-bearing debt had reached $763 billion.

The interest cost to taxpayers for the federal government's debt is currently a $29 billion drain on federal revenues.

In addition, the use of the Bank of Canada to finance public debt would reduce the influence of large corporations on government policy decisions.

We should only vote for candidates who support the use of the Bank of Canada for the purposes described above.

Our Comment. André's letter is a wonderfully succinct argument that is even more pertinent today than it was in 2011 for, as Michael Hudson has pointed out, we've gone about as far as we can go, running out economy on debt. As current figures attest, our debt has become a downright quicksand that is putting life itself – all life – at risk. (André Marentette is a long-time member of COMER.) *Élan*

happened again. But as Delamaide writes, there are "numerous skeptics that the FDIC or any regulator can actually manage this, especially in the heat of a crisis when many banks are threatened at once."

All this fancy footwork is to prevent a run on the TBTF banks, in order to keep their derivatives casino going with our money. Warren Buffett called derivatives "weapons of financial mass destruction," and many commentators warn that they are a time bomb waiting to explode. When that happens, our deposits, our pensions, and our public investment funds will all be subject to confiscation in a "bail in." Perhaps it is time to pull our money out of Wall Street and set up our own banks – banks that will serve the people because they are owned by the people.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. *Her latest book,* The Public Bank Solution, *explores successful public banking models historically and globally. Her 200+ blog articles are at EllenBrown.com.*

A List of the Harper Government's Attack on Democracy

By Brian Staples, JUSTnews, Vol. 18, No. 2. Winter 2014-2015

Prorogations of Parliament. Other governments have prorogued Parliament many times. But Harper's prorogations were seen as more crassly motivated for political gain than others. His second prorogation brought thousands of demonstrators to the streets to decry his disregard for the democratic way. The demonstrations did not serve to elevate the prime minister's respect for Parliament.

Challenging Constitutional Precepts. During the coalition crisis of 2008, Harper rejected the principle that says a government continues in office so long as it enjoys the confidence of the House of Commons. To the disbelief of those with a basic grasp of how the system works, he announced that opposition leader Stéphane Dion "does not have the right to take power without an election."

Abuse of Parliamentary Privilege. Harper refused a House of Commons request to turn over documents on the Afghan detainees' affair until forced to do so by the Speaker, who ruled he was in breach of parliamentary privilege. Later, he refused to submit to a parliamentary request, this time on the costing of his programs. The unprecedented contempt of Parliament rulings followed.

Scorn for Parliamentary Committees. Parliamentary committees play a central role in the system as a check on executive power. The Conservatives issued their committee heads a 200-page handbook on how to disrupt these committees, going so far as to say they should flee the premises if the going got tough. The prime minister also reneged on a promise to allow committees to select their own chairs. In another decision decried as anti-democratic, he issued an order dictating that staffers to cabinet ministers do not have to testify before committees.

Lapdogs as watchdogs: Jean Chrétien drew much criticism, but also much help for his cause, as a result of his installing a toothless ethics commissioner. The Harper Conservatives have upped the anti-democratic ante, putting in place watchdogs – an ethics commissioner, lobbying commissioner, and others – who are more like lapdogs.

The foremost example was integrity commissioner Christiane Ouimet, who was pilloried in an inquiry by the auditor general. During her term of office, 227 whistleblowing allegations were brought before Ouimet. None was found to be of enough merit to require redress. The Prime Minister's Office saw to it that she left her post quietly last fall with a $500,000 exit payment replete with a gag order.

The Patronage Machine. Harper initially surprised everyone with a good proposal to reduce the age-old practice of patronage. It was the creation of an independent public appointments commission. But after his first choice of chairman for the body was turned down by opposition parties, he abandoned, in an apparent fit of pique, the whole commission idea.

Since that time he has become, like other PMs before, a patronage dispenser of no hesitation. Mr. Harper also had good intentions on Senate reform but it, too, has remained a patronage pit. One of his first moves as PM was to elevate a senator, Michael Fortier, to his cabinet.

Abuse of Process – Omnibus Bills. Another infringement of democracy came with the 2010 behemoth budget bill – 894 pages and 2,208 clauses. It contained many important measures, such as major changes to environmental assessment regulations, that had no business being in a budget bill. Previous governments hadn't gone in for this type of budget-making. The opposition had reason to allege abuse of process.

The Vetting System. In an extraordinary move, judged by critics to be more befitting a one-party state, Harper ordered all government communications to be vetted by his office or the neighbouring Privy Council Office. Even the most harmless announcements (Parks Canada's release on the mating season of the black bear, for example) required approval from the top. Never had Ottawa seen anything approaching this degree of control.

Public Service Brought to Heel. Harper, who suspected the bureaucracy had a built-in Liberal bias, stripped the public service of much of its policy development functions and reduced it to the role of implementer.

The giant bureaucracy and diplomatic corps chafed under the new system. Their expertise had been valued by previous governments.

Access to Information. The government impeded the access to information system, one of the more important tools of democracy, to such an extent that the government's information commissioner wondered whether the system would survive. Prohibitive measures included eliminating a giant data base called CAIRS, delaying responses to access requests, imposing prohibitive fees on requests, and putting pressure on bureaucrats to keep sensitive information hidden. In addition, the redacting or blacking out of documents that were released reached outlandish proportions. In one instance, the government blacked out portions of an already published biography of Barack Obama.

Suppression of Research. Research, empirical evidence, erudition might normally be considered central to the healthy functioning of democracies. The Conservatives sometimes openly challenged the notion.

At the Justice Department they freely admitted they weren't interested in what empirical research told them about some of their anti-crime measures. At Environment Canada, public input on climate change policy was dramatically reduced.

In other instances, the government chose to camouflage evidence that ran counter to its intentions. A report of the Commissioner

of Firearms saying police made good use of the gun registry was deliberately hidden beyond its statutory deadline, until after a vote on a private member's bill on the gun registry.

The most controversial measure involving suppression of research was the Harper move against the long-form census. The less the people knew, the easier it was to deceive them.

Document Tampering. It was the Bev Oda controversy involving the changing of a document on the question of aid to the church group Kairos that captured attention. But this was by no means an isolated occurrence.

During the election campaign, Conservative operatives twisted the words of Auditor General Sheila Fraser to try to make it sound like she was crediting them with prudent spending when, in fact, what she actually wrote applauded the Liberals. Fraser rebelled, whereupon even her releases would be monitored by central command.

The Conservatives got caught putting their own party logos on stimulus funding cheques, which were paid out of the public purse. They were forced to cease the practice.

Media Curbs. Though having stated that information is the lifeblood of democracy, the Prime Minister went to unusual lengths to deter media access. He never held open season press conferences, wouldn't inform the media of the timing of cabinet meetings, as was traditionally done, limited their access to the bureaucracy, and had his war room operatives (using false names) write online posts attacking journalists. In one uncelebrated incident in Charlottetown in 2007, the Conservatives sent the police to remove reporters from a hotel lobby where they were trying to cover a party caucus meeting.

This is part of a list of problems the Harper government is creating, compiled by Brian Staples, from Edmonton Journal *news clippings and materials from Lawrence Martin and John Ibbitson, September 7, 2012. These points specifically address democracy. More recent iniquities are missing.*

Leadership Qualities — Knowledge, Courage and a Passion for Canada

Book review of Who We Are: Reflections on My Life and Canada *by John* Riddell

Elizabeth May's *Who We Are* is an astonishing book. Her experience, clarity, and information about issues near and dear to the hearts of Canadians – jobs, the oil sands, science, global warming, democracy – to name a few, is truly impressive. This book is not all about "complaining"! May puts forward an array of policies aimed at correcting or at least ameliorating the problems and difficulties with these and like issues.

May speaks directly to Canadians through her words. Her explanations, historical contexts, and personal experiences dealing with problems concerning our country, brought forth a variety of emotions in me – certainly sadness, anger, but also hope and the resolve to struggle to override money interests in favor of citizen concerns.

I found *Who We Are* to be so impressive that I've "crossed the floor" from the NDP to the Green. I feel that May, through her book, has clearly demonstrated that she has the leadership qualities – knowledge, courage, and a passion for Canada – which are sorely lacking on the current Canadian political scene. She has my vote for Election 2015!

Harper's Abuse of Power

By Andrew Coyne, JUSTnews, Vol. 18, No. 2. Winter 2014-2015

Time was when we had to wait weeks, even months for each new abuse of power by the Harper government. Now those abuses arrive by the day, sometimes two and three at a time.

The Prostitution Bill. The Supreme Court having tossed out the old laws as a violation of prostitutes' constitutional right not to be beaten or murdered (I paraphrase), it was expected the government would opt for the "Nordic model," criminalizing the purchase of sex rather than the sale, as a replacement – a contentious but tenable response to the Court's decision. It was not expected the government would, in effect, fling the ruling back in the Court's face. Not content with leaving the impugned provisions, but for a few cosmetic changes, essentially intact, the government imposed new restrictions, for example banning prostitutes from advertising: not just in violation of the Constitution, it would seem, but in defiance of it. The bill is written as if calculated to provoke another confrontation with the Court, ideally in time for the next election.

The Cyber-bullying Bill. At least, that's what it was sold as: legislation making it a crime to post revealing images of someone online without their consent, for which the government deserves praise. But nothing comes free with this gang. Tacked onto the bill is a number of other unrelated measures – among others, one that would make it easier for police and other authorities to obtain customers' personal data from Internet and telephone providers, without a warrant – easier that is, than it already is, which is plenty.

The New Privacy Commissioner. Of all the people the government might have picked to replace the outgoing commissioner, it chose Daniel Therrien, a top lawyer in the Department of Justice known for his work on security and public safety issues: exactly the sort of person the privacy commissioner is supposed to keep tabs on. Worse, of six people on the selection committee's short-list, Therrien placed sixth. The committee might as well not have bothered.

The F-35 Contract. In the wake of the auditor general's findings that it had deliberately understated the true costs of the sole-source purchase of 65 "next generation" fighter jets – initially presented as costing just $9 billion, the correct figure, operating costs included, is now estimated at $45 billion – and in the face of growing doubts about the mission, specifications and performance of the plane, the government agreed to review the purchase, perhaps even open it up to competitive bidding. It is now reported, 18 months later, that the review will recommend buying the same plane, on the same terms – without competition.

And more... And those are just the highlights. In the past week [June 1st, 2014] we've also learned that the government is monitoring "all known demonstrations" in the country, with all departments directed to send reports to a central registry; that the information commissioner has reported a one-third increase in complaints the government is blocking or delaying access to information requests; that a Liberal MP was secretly taped, allegedly by an intern in the Minister of Justice's office, making embarrassing remarks about his leader.

Power Corrupts

Several themes run throughout these complaints: a contempt for civil liberties, for due process, for established convention, and for consultation for openness. This has been replaced throughout by a culture of secrecy, control, expedience and partisan advantage. Worse, there is virtually nothing anyone can do about it. All governments have displayed some of these traits. If this government has pushed things further, it is because it can: because we have so centralized power in the Prime Minister's Office, with few constraints or countervailing powers.

Where this has lately come to a head is in the appointments process. For in Canada, uniquely, the prime minister's powers of appointment extend not only to all who serve beneath him, but to every one of the offices that might be expected to hold

him in check. He appoints the Governor General, all the senators, and every member of the Supreme Court; the governor of the Bank of Canada, all the deputy ministers, and every Crown corporation president; the top military officers, the heads of the security services, and the commissioner of the RCMP; plus all of the officers of Parliament I've mentioned and several more besides. And those are in addition to the already vast powers of appointment with which he rules over members of Parliament: not only cabinet, but all the parliamentary secretaries and all the committee chairs as well.

This would be worrisome enough even if the process were immaculate and the quality of appointments uniformly high. But what we've been seeing lately is a series of puzzling, troublesome and downright incompetent appointments: the parade of senators now in various stages of trouble with the law; the ill-starred promotion of Marc Nadon to the Supreme Court (his successor, Clement Gascon, was better received, but without even the pretense of parliamentary scrutiny that attended Nadon); the conversion of what had been an arm's-length process for choosing the Bank of Canada governor into the personal pick of the Finance minister; the selection of Arthur Porter – Arthur Porter – to chair the Security Intelligence Review Committee. The Therrien appointment seems almost benign in comparison. His people have done their best to smear and demean the auditor general, the parliamentary budget officer and the chief electoral officer.

Appointees Rebel

It is ironic that so many of the prime minister's appointees have proved disruptive of his designs: Senators have defied the whip, Supreme Court judges have ruled against his legislation. We have vested far too much power in one man, with results we can now plainly see.

James Andrew Coyne is a Canadian political columnist with the National Post *and a member of the At Issue panel on CBC. Previously, he has been national editor for* Maclean's *and a columnist with* The Globe and Mail.

From "Who We Are"

By Elizabeth May

This is a book about how we got where we are today – a decent country of immense potential, suddenly on the wrong side of history…. How a parliamentary system could be so degraded that it now more resembles an elected dictatorship than a healthy democracy…

This is a book about how to fix what is wrong, rescue democracy from hyper-partisan policies, and put Canada and the world, on the path to a secure post-carbon economy. We have a…leadership vacuum. I invite you – I invite all of you – to fill it.

From Who We Are*, pages 6-7.*

PART II OF THE UK HOUSE OF COMMONS DEBATES, THURSDAY, NOVEMBER 20, 2014

Backbench Business: Money Creation and Society

Part 1 appeared in the November–December 2014 issue of ER.

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

Steve Baker:

…My bottom line on this is: I want to live in a society where even the most selfish person is compelled by our institutions to serve the needs of other people. The institution in question is called a free market economy, because in a free market economy people do not get any bail-outs and do not get to live at somebody else's expense; they have to produce what other people want. One thing that has gone wrong is that those on the right have ended up defending institutions that are fundamentally statist.

Douglas Carswell (Clacton) (UKIP):

I congratulate the hon. Gentleman on bringing this important subject to the attention of the House. Does he agree that, far from shoring up free market capitalism, the candy floss credit system the state is presiding over replaces it with a system of crony corporatism that gives capitalism a bad name and undermines its very foundations?

Steve Baker:

I am delighted to agree with my hon. Friend – he is that, despite the fact I will not be seeing Nigel later. We have ended up pretending that the banking system and the financial system is a free market when the truth is that it is the most hideous corporatist mess. What I want is a free market banking system, and I will come on to discuss that.

I wanted to make some remarks about price signals, but I will foreshorten them, and try to cover the issue as briskly as I can – it was the subject of my maiden speech. Interest rates are a price signal like any other. They should be telling markets about people's preferences for goods now compared with goods later. If they are deliberately manipulated, they will tell entrepreneurs the wrong thing and will therefore corrupt people's investment decisions. The bond and equity markets are there to allocate capital. If interest rates are manipulated and if new money is thrown into the system, prices get detached from the real world values they are supposed to be connected to – what resources are available, what technology is available, what people prefer. The problem is that these prices, which have been detached from reality, continue to guide entrepreneurs and investors, but if they are now guiding entrepreneurs and investors in a direction that takes them away from the real desires of the public and the available resources and the technology, we should not then be surprised if we end up with a later disaster.

In short, after prices have been bid up by a credit expansion, they are bound to fall when later the real world catches up with it. That is why economies are now suffering this wrecking ball of inflation followed by deflation, and here is the rub: throughout most of my life, the monetary policy authorities have responded to these corrections by pumping in more new money – previously through ever cheaper credit, and now through QE. This raises the question of where this all goes, and brings me back to the point my hon. Friend the Member for Stone (Sir William Cash) provoked from me: that this might be pointing towards an end of this monetary order. That is not necessarily something to be feared, because the monetary order changed several times in the 20th century.

We have ended up in something of a mess. The Governor said about the transition once interest rates normalise:

"The orderliness of that transition is an open question."

I believe the Governor is demonstrating the optimism appropriate to his role, because I think it is extremely unlikely that we will have an orderly transition once interest rates start to normalise. The problem is basically that Governments want to spend too much money. That has always been the case throughout history. Governments used to

want to fund wars. Now, for all good, moral, decent, humanitarian reasons, we want to fund health, welfare and education well beyond what the public will pay in taxes. That has meant we needed easy money to support the borrowing.

What is to be done? A range of remedies are being proposed. Positive Money proposes the complete nationalisation of the production of money, some want variations on a return to gold, perhaps with free banking, and some want a spontaneous emergence of alternative moneys like Bitcoin.

I would just point out that Walter Bagehot is often prayed in aid of central banking policy, but his book *Lombard Street* shows that he did not support central banking; he thought it was useless to try to propose any change. What we see today is that, with alternative currencies such as Bitcoin spontaneously emerging, it is now possible through technology that, within a generation, we will not all be putting our money in a few big mega-banks, held as liabilities, issued out of nothing.

I want to propose three things the Government can practically do. First, the present trajectory of reform should be continued with. After 15 years of studying these matters, and now having made it to the Treasury Committee, I am ever more convinced that there is no way to change the present monetary order until the ideas behind it have been tested to destruction – and I do mean tested to destruction. This is an extremely serious issue. It will not change until it becomes apparent that the ideas behind the system are untenable.

Secondly, and very much with that in mind, we should strongly welcome proposals from the Bank's chief economist, Andy Haldane, that it will commission "anti-orthodox research," and it will "put into the public domain research and analysis which as often challenges as supports the prevailing policy orthodoxy on certain key issues."

That research could make possible fundamental monetary reform in the event of another major calamity.

Thirdly, we should welcome the Chancellor's recent interest in crypto-currencies and his commitment to make Britain a "centre of financial innovation." Imperfect and possibly doomed as it may be, Bitcoin shows us that peer-to-peer, non-state money is practical and effective. I have used it to buy an accessory for a camera; it is a perfectly ordinary legal product and it was easier to use than a credit card and it showed me the price in pounds or any other currency I liked. It is becoming possible for people to move away from state money.

Every obstacle to the creation of alternative currencies within ordinary commercial law should be removed. We should expand the range of commodities and instruments related to those commodities that are treated like money, such as gold. That should include exempting VAT and capital gains tax and it should be possible to pay tax on those new moneys. We must not fall into the same trap as the United States of obstructing innovation. In the case of the Liberty Dollar and Bernard von NotHaus, it seems that a man may spend the rest of his life in prison simply for committing the supposed crime of creating reliable money.

Finally, we are in the midst of an unprecedented global experiment in monetary policy and debt. It is likely, as Philip Coggan set out, that this will result in a new global monetary order. Whether it will be for good or ill, I do not know, but as technology and debt advance, I am sure that we should be ready for a transformation. Society has suffered too much already under the present monetary orthodoxy; free enterprise should now be allowed to change it.

Mr Michael Meacher (Oldham West and Royton) (Lab):

I, too, strongly congratulate the hon. Member for Wycombe (Steve Baker) on securing this debate, which everyone recognises is vital and which has not been debated in this House for 170 years, since Sir Robert Peel's *Bank Charter Act* 1844. The hon. Gentleman drew that fact to my attention when we were last speaking in a similar debate. That Act prohibited the private banks from printing paper money. In light of the financial crash of 2008-09 and the colossal expansion of money supply that underpinned it – no less than a twenty-two-fold increase in the 30 neo-liberal years between 1980 and 2010 – the issue is whether that prohibition should be extended to include electronic money.

It is unfortunate that it is so little understood by the public that money is created by the banks every time they make a loan. In effect, the banks have a virtual monopoly – about 97% – over domestic credit creation, so they determine how money is allocated across the economy. That has led to the vast majority of money being channelled into property markets and the financial sector. According to Bank of England figures for the decade to 2007, 31% of additional money created by bank lending went to mortgage lending, 20% to commercial property, and 32% to the financial sector, including to mergers and acquisitions and trading and financial markets. Those are extraordinary figures.

Mr Jim Cunningham (Coventry South) (Lab):

Given what my right hon. Friend has just said, is there not an argument, in this situation of unlimited credit from banks, for the Bank of England to intervene?

Mr Meacher:

My hon. Friend anticipates the main line of my argument, so if he is patient I think I will be able to satisfy him. Crucially, only 8% of the money referred to went to businesses outside the financial sector, with a further 8% funding credit cards and personal loans.

Mr MacNeil:

I hear what the right hon. Gentleman says about money going into building, housing and mortgages, but is that not because the holders of money reckon that they can get a decent return from that sector? They would invest elsewhere if they thought that they could get a better return. One reason why the UK gets a better return from that area than, say, Germany is that we have no rent controls. As a result, money is more likely to go into property than into developing industry, which is more likely to happen in Germany.

Mr Meacher:

I very much agree with that argument. Again, I assure the hon. Gentleman that I will return to that matter later in my speech. He is absolutely right that the reason is the greater returns that the banks can get from the housing and rental sector. Our rental sector, which is different from that in Germany and other countries, is the cause of that.

It is only this last 16% – the 8% lent to businesses and the 8% to consumer credit – that has a real impact on GDP and economic growth. The conclusion is unavoidable: we cannot continue with a system in which so little of the money created by banks is used for the purposes of economic growth and value creation and in which, instead, to pick up on the point made by the hon. Member for Na h-Eileanan an Iar (Mr MacNeil), the overwhelming majority of the money created inflates property prices, pushing up the cost of living.

In a nutshell, the banks have too much power and they have greatly abused it. First, they have been granted enormous privileges since they can create wealth simply by writing an accounting entry on a register. They

decide who uses that wealth and for what purpose and they have used their power of credit creation hugely to favour property and consumption lending over business investment because the returns are higher and more secure. Thus the banks maximise their own interests but not the national interest.

Secondly, if they fail to meet their liabilities, the banks are not penalised. Someone else pays up for them. The first £85,000 of deposits are covered by a guarantee underwritten by the state and in the event of a major financial crash they are bailed out by the implicit taxpayer guarantee –

Steve Baker

rose –

Mr Meacher:

Let me finish, and I will of course give way.

The banks have been encouraged by that provision into much more risky, even reckless, investment, especially in the case of exotic financial derivatives –

Mr Jim Cunningham

rose –

Mr Meacher:

Members are beginning to queue up to intervene, but let me finish my point first.

The banks have been encouraged even to the point at which after the financial crash of 2008-09 the state was obliged to undertake the direct bail-out costs of nearly £70 billion as well as to provide a mere £1 trillion in support of loan guarantees, liquidity schemes and asset protection arrangements.

Steve Baker:

I wholly agree with the right hon. Gentleman. The moral hazard problem is absolutely enormous and one of the most fundamental problems. However, the British Bankers Association picked me up when I said it was a state-funded deposit insurance scheme and told me it was industry-funded. I think the issue now is that nobody really believes for a moment that the scheme will not be back-stopped by the taxpayer.

Mr Meacher:

As always, I am grateful for the intervention from the hon. Gentleman – let me call him my hon. Friend, as I think that on this issue he probably is.

Mr Jim Cunningham:

On the question of banks investing in the property market, does my right hon. Friend think we could learn anything from the United States and the collapse of Fannie Mae? Are we in a similar situation?

Mr Meacher:

Again, that takes me down a different path, but there is considerable read-across.

Douglas Carswell:

The right hon. Gentleman has been absolutely magnificent in diagnosing the problem, but when it comes to the solution and passing power away from banks, rather than passing the power upwards to a regulator or to the state, would he entertain the idea of empowering the consumer who deposits money with the bank? Surely the real failure is that the *Bank Charter Act* 1844 does not give legal ownership of deposits to the person paying money into the bank. The basis of fractional-reserve banking is the legal ownership the bank has when money is

Will Demented Geezers Wreck the Economy?

By James Ridgeway, www.counterpunch.com, September 9, 2009

As we grow older more and more of us will become demented. A new research study by David Laibson, a Harvard professor(and colleagues at NYU, the Federal Reserve Bank of Chicago and Federal Reserve Board in Washington), reports dementia doubles every 5 years after age 60 until by age 85 some 30 percent of the population is dotty. Even people without dementia have "substantial cognitive impairment."

All told, nearly half the population between 80-89 is either demented or has cognitive impairment, according to the report. The researchers are worried about all of this because people suffering dementia just aren't up to handling their finances. Even taking into account the 401K crash, there's a lot of money among the elderly, and if some old screwball starts fooling around, it could all go down the drain. Think about it: Geezers could wreck the Wall Street rally.

So what these professors and economists propose in their paper entitled "The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation," is a series of options. As reported in Pensions & Investments, an online service that follows the ups and downs of pensions, these include:

….Improved disclosure is less paternalistic, although the authors doubt such actions will effectively improve financial choices. "Even for cognitively healthy populations, there is scant evidence that increases in disclosure improve decision making," the paper said…

A more paternalistic option, the report said, is "gentle nudges" from plan executives to steer older participants into the proper investments. But while the authors said they weren't opposed to the nudges, they said older adults with "significant cognitive impairment may be no match for highly incentivized parties with malevolent interests and ample opportunities to nudge in the wrong direction."

Other policy options in the paper: laissez faire; requiring participants to pass a "licensing" test if they want to opt out of a safe harbor investment or make other significant investment decisions; requiring older adults to develop a financial "advanced directive," such as appointing a standard fiduciary, before reaching age 70; regulating financial products like "dietary supplements," with safety and quality standards; and requiring "explicit regulatory approval" of financial products.

Bottom line: Tons more business for the mutual fund industry which already provides investment advice – much of it bad – to 401Ks, but now can argue that its contribution of health care is to protect the nation's wealth by becoming fiduciaries for old zombies. And who's going to make that happen? The Congress, which will enact regulations that allow private companies with their superior knowledge to handle the money.

Now to be fair about all this, rip off is not what Laibson has in mind. But given the existing political climate, with a Congress and a series of administrations on the verge of turning all or part of the Social Security system over to Wall Street, that's what is more than likely to happen.

Big Meaning: here's how in the name of the nation's public health a new sort of "rationing" can conduct the greatest robbery of the elderly in the nation's history. First Wall Street tells us to take charge of our own investments and get big brother off our back. Now, with dementia as its guide, Wall Street can opt for a solution some might label "socialism."

James Ridgeway can be reached at www.unsilentgeneration.net.

Our Comment. A tragic example of one person's crisis being someone else's opportunity! *Élan*

paid in. If we tackle that, the power will pass from the big state-subsidised corporations and banks outwards to the wider economy.

Mr Meacher:

I have great sympathy with what the hon. Gentleman is saying –

Ms Diane Abbott (Hackney North and Stoke Newington) (Lab)

rose –

Mr Meacher:

One at a time, please. I was going to say a little bit more than that I had sympathy with what the hon. Member for Clacton (Douglas Carswell) said.

I will argue that the capacity to regulate an increasingly and exceedingly complex financial sector is not the proper way, and I will propose an alternative solution. I am strongly in favour of structural changes that enable people to achieve greater control over the money that they have contributed.

Ms Abbott:

I was intrigued to hear my right hon. Friend mention depositor protection. Is he saying that he is against any form of depositor protection?

Mr Meacher:

The protection of deposits is up to £85,000 and is underwritten by the state.

Ms Abbott:

Is my right hon. Friend against?

Mr Meacher:

I am neither for nor against. I am making the point that the arrangement encourages the banks to increase their risk taking. If they are caught out, for each depositor £85,000 is guaranteed by the state. I agree with the hon. Member for Wycombe that we need much wider structural change. It is not a question of tweaking one thing here or there.

The question at the heart of the debate is who should create the money? Would Parliament ever have voted to delegate power to create money to those same banks that caused the horrendous financial crisis that the world is still suffering? I think the answer is unambiguously no. The question that needs to be put is how we should achieve the switch from unbridled consumerism to a framework of productive investment capable of generating a successful and sustainable manufacturing and industrial base that can securely underpin UK living standards.

Two models have hitherto been used to operate such a system. One was the centralised direction of finance, which was used extremely successfully by several Asian countries, especially the south-east Asian so-called tiger economies, after the second world war, to achieve take-off. I am not suggesting that that method is appropriate for us today. It is not suited to advanced industrial democracies. The other method was to bring about through official "guidance" the rationing of bank credit in accordance with national targets and, where necessary, through quantitative direct controls. In the post-war period, that policy worked well in the UK for a quarter of a century, until the 1970s when it was steadily replaced by the purely market system of competition and credit control based exclusively on interest rates. In our experience of the past 30 or 40 years, that has proved deeply unstable, dysfunctional and profoundly costly.

Since then there have been sporadic attempts to create a safer banking system, but these have been deeply flawed. Regulation under the dictates of the neo-liberal ideology has been so light-touch – by new Labour just as much as by the other Government – that it has been entirely ineffective. Regulation has been too detailed. I remind the House that Basel III has more than 400 pages, and the US *Dodd-Frank* Bill has a staggering 8,000 pages or more. It is impossibly bureaucratic and almost certainly full of loopholes. Other regulation has been so cautious – for example, the Vickers commission proposal for Chinese walls between the investment and retail arms of a bank – that it missed the main point. Whatever regulatory safeguards the authorities put in place faced regulatory arbitrage from the phalanx of lawyers and accountants in the City earning their ill-gotten bonuses by unpicking or circumventing them.

Mr Ronnie Campbell (Blyth Valley) (Lab):

My right hon. Friend is always very good on these subjects. Would I be going too far if I were to suggest that we should nationalise the City, nationalise the banks and run ourselves a Government on behalf of the people?

Mr Meacher:

Public ownership of the banks is a significant issue, but I am not going to propose it in my speech. It would be a mistake to return RBS and Lloyds to the private sector, and the arguments about Barclays and HSBC need to be made, but not in this debate. I shall suggest an alternative solution that removes the power of money creation from the banks and puts it in different hands to ensure better results in the national interest.

Against that background, there are solid grounds for examining – this is where I come to my proposal – the creation of a sovereign monetary system, as recommended by several expert commentators recently. Martin Wolf, who, as everyone in this House will know, is an influential chief economics commentator for the *Financial Times*, wrote an article a few months ago – on 24 April, to be precise – entitled, "Strip private banks of their power to create money." He recommends switching from bank-created debt to a nationalised money supply.

Lord Adair Turner, the former chair of the Financial Services Authority, delivered a speech about 18 months ago, in February 2013, discussing an alternative to quantitative easing that he termed "overt money finance," which is also known as a from of sovereign money. Such a system – I will describe its main outline – would restrict the power to create all money to the state via the central bank. Changes to the rules governing how banks operate would still permit them to make loans, but would make it impossible for them to create new money in the process. The central bank would continue to follow the remit set by the Chancellor of the Exchequer, which is currently to deliver price stability, which is defined at the present time as an inflation target of 2%. The central bank would be exclusively responsible for creating as much new money as was necessary to support non-inflationary growth. Decisions on money creation would be taken independently of Government by a newly formed money creation committee or by the existing Monetary Policy Committee, either of which would be accountable to the Treasury Committee. Accountability to the House is crucial to the whole process.

Mr Jim Cunningham:

Going back to the question I asked my right hon. Friend earlier, what would be the role of the Bank of England?

Mr Meacher:

I will come on to explain that. The Bank of England has an absolutely crucial role to play. If my hon. Friend listens to the last bit of my speech, he will get a full answer to that question.

A sovereign money system thus offers – if I may say this – a clear thermostat to balance the economy, which is notoriously lacking at present. In times when the economy is in recession or growth is slow, the money creation committee would be able to increase the rate of money creation, to boost aggregate demand. If growth is very high and inflationary pressures are increasing, it could slow down the rate of money creation. That would be

a crucial improvement over the current system, whereby the banks either produce too much mortgage credit in a boom because of the high profit prospects, which produces a housing bubble and raises house prices, or produce too little credit in a recession, which exacerbates the lack of demand.

Lending to businesses is central to this whole debate.

Derek Twigg (Halton) (Lab):

I want to take my right hon. Friend back to when he mentioned accountability to Parliament and the Select Committee. Could he enlarge on that point? On accountability, what powers would Parliament have to ensure that his proposal was being followed through properly and the rules were being laid down?

Mr Meacher:

The purpose of accountability to the Treasury Committee would be to enable Parliament fully to explore the manner in which the money creation committee or the Monetary Policy Committee was working. I would anticipate a full three-hour discussion with the leading officials of those committees before the Treasury Committee, and if necessary they could be given a hard time. Certainly, the persons in this House who are most competent to deal with the matter would make clear their priorities, and where they thought the money creation committee was not paying sufficient attention to the way in which it was operating, and they would suggest changes. They would not have the power formally to compel the money creation committee to change, but I think the whole point about Select Committees, which are televised and discussed in the media, is that they have a very big effect. That would be a major change compared with what we have at present. Like all systems, if it is inadequate it can be modified, changed and increasingly enforced.

Sir William Cash:

With reference to the Treasury Committee, does the right hon. Gentleman see a potential role for some form of joint Committee, perhaps with the Public Accounts Committee, whose origins are to do with taxation and spending? Does he think that broadening scrutiny a little in that direction might be helpful so that we get the full benefit of the all-party agreement of both Committees?

Mr Meacher:

That is a helpful intervention. Although it is a relatively big part of what I am proposing, it is not for me to suggest exactly what the structure of accountability should be. I would be strongly in favour of increasing it as the hon. Gentleman proposes. Until this House is content that it has a proper channel of accountability which is effective in terms of the way our financial system is run, we should bring in further changes to the structure of accountability as may be necessary, such as along the lines that he suggests.

On lending to businesses, the experience that we have had in the past half-decade has been very unsatisfactory. Under a sovereign monetary system, the central bank would be empowered to create money for the express purpose of that funding role. The money would be lent to banks with the requirement that the funds were used for productive purposes, whereas lending for speculative purposes – for example, to purchase pre-existing assets, either financial or property – would not be allowed. The central bank could also create and lend funds to other intermediaries – the hon. Member for Wycombe referred to this – such as regional or publicly owned business banks, which would ensure that a floor could be placed under the level of lending to businesses, which would be a great relief to British business, guaranteeing support for the real economy.

To avoid misunderstanding, I should add that within the limits imposed by the central bank on the broad purposes for which money may be lent, lending decisions would be entirely at the discretion of the lending institutions, not of the Government or the central bank.

I believe that a sovereign monetary system offers very considerable advantages over the current system. First, it would create a better and safer banking system because banks would have an incentive to take lower levels of risk, as there would be no option of a bail-out or rescue from taxpayers and thus moral hazard would be reduced. Secondly, it would increase economic stability because money creation by banks tends to be pro-cyclical, as I explained, whereas money creation by the central bank would be counter-cyclical. Thirdly, sovereign money crucially supports the real economy, whereas under the current system 83% of lending does not at present go into productive investment. I underline that three times.

Ann McKechin:

My right hon. Friend said that the aim would be to reduce risk and for banks to be more cautious, but if we are to encourage innovation in manufacturing, would we not require an investment bank at state level that could fund the riskier levels of innovation to ensure that they get to market, because they are not at the point where they would be commercially viable?

Mr Meacher:

That is an extremely important point and, again, I strongly support it. The current Secretary of State for Business, Innovation and Skills has been struggling to introduce a Government-supported business investment bank and has recently announced something along those lines. I think that should be greatly expanded. The book by Mariana Mazzucato, which I hope most of us have read, *The Entrepreneurial State*, shows the degree to which funding for major innovation, not just in this country but in many other countries which she cites, has been financed through the state because the private sector was not willing to take on board the risk involved. One understands that, but one does need to recognise that the role of the state is extremely important, and under a Labour Government I would like to see something like this being brought in.

Ian Murray (Edinburgh South) (Lab):

My right hon. Friend makes a tremendous case for money creation and what we should be considering in this House, but I wonder whether there is also a cultural issue. Many businesses and lenders tell me that there is a cultural problem in the United Kingdom for businesses, particularly entrepreneurial businesses that we have heard about from my hon. Friend the Member for Glasgow North (Ann McKechin), with regard to giving away equity rather than creating debt – funding businesses through equity rather than debt. Other countries throughout Europe that are incredibly successful at giving away equity rather than creating debt have much more growth in their entrepreneurial economy.

Mr Meacher:

That is perfectly true, and my hon. Friend makes an important point. The proposals that I am making would support that. There is a very different climate in this country, largely brought about by the churning in the City of London where profits have to be increased or reach a relevant size within a very short period, such as three or six months. Most entrepreneurial businesses cannot possibly produce a decent profit within that period, so the current financial system does not encourage what my hon. Friend wants. These proposals would make money creation available to those we really want to support much more fully than at present.

Fourthly, under the current system,

house price bubbles transfer wealth, as we all know, from the young to the old and from those who cannot get on the property ladder to existing house owners, which increases wealth inequality, while removing the ability of banks to create money should dampen house price rises and thus reduce the rate of wealth inequality.

My fifth and last point, which I think is very important, is that sovereign money redresses a major democratic deficit. Under the current system, around just 80 board members across the largest five banks make decisions that shape the entire UK economy, even though these individuals have no obligation or mandate to consider the needs of society or the economy as a whole, and are not accountable in any way to the public: it is for the maximisation of their own interests, not the national interest. Under sovereign money, the money creation committee would be highly transparent – we have discussed this already – and accountable to Parliament.

For all those reasons, the examination of the merits of a sovereign monetary system is now urgently needed, and I call on the Government to set up a commission on money and credit, with particular reference to the potential benefits of sovereign money, which offers a way out of the continuing and worsening financial crises that have blighted this country and the whole international economy for decades.

12.13 pm

Mr Peter Lilley (Hitchin and Harpenden) (Con):

It is a pleasure, as always, to follow the right hon. Member for Oldham West and Royton (Mr Meacher), who gave us a characteristically thoughtful and radical speech. I do not necessarily start from the same premises as him, but what he says is an important contribution to the debate, on the securing of which I credit my hon. Friend the Member for Wycombe (Steve Baker). He has done the House and the country a service by forcing us to focus on the issue of where money comes from and what banks do. He did so in an insightful way. Above all, he showed that he sees, as our old universities used to see, economics as a branch of moral sciences. It is not just a narrow, analytical, economic issue, but a moral, philosophical and ultimately a theological issue, which he illuminated well for the House.

A lot has been made of the ignorance of Members of Parliament of how money is created. I suspect that that ignorance, not just in Members of Parliament but in the intellectual elite in this country, explains many things, not least why we entered the financial crisis with a regulatory system that was so unprepared for a banking crisis. I suspect that it is because people have not reflected on why banks are so different from all other capitalist companies. They are different in three crucial respects, which is why they need a very different regulatory system from normal companies.

First, all bankers – not just rogue bankers but even the best, the most honourable and the most honest – do things that would land the rest of us in jail. Near my house in France is a large grain silo. After the harvest, farmers deposit grain in it. The silo gives them a certificate for every tonne of grain that they deposit. They can withdraw that amount of grain whenever they want by presenting that certificate. If the silo owner issued more certificates than there was grain kept in his silo, he would go to jail, but that is effectively what bankers do. They keep as reserves only a fraction of the money deposited with them, which is why we call the system the fractional reserve banking system. Murray Rothbard, a much neglected Austrian economist in this country, said very flatly that banking is therefore fraud: fractional reserve banking is fraud; it should be outlawed; banks should be required to keep 100% reserves against the money they lend out. I reject that conclusion, because there is a value in what banks do in transforming short-term savings into long-term investments. That is socially valuable and that is the function banks serve.

We should recognise the second distinctive feature of banks that arises directly from the fact that they have only a fraction of the reserves against the loans they make: banks, individually and collectively, are intrinsically unstable. They are unstable because they borrow short and lend long. I have been constantly amazed throughout the financial crisis to hear intelligent people say that the problem with Northern Rock, RBS or HBOS, or with the German, French, Greek and other banks that ran into problems, was the result of their borrowing short and lending long, and they should not have been doing it, as if it was a deviation from their normal role. Of course banks borrow short and lend long. That is what banks do. That is what they are there for. If they had not done that they would not be banks. Banking works so long as too many depositors do not try to withdraw their funds simultaneously. However, if depositors, retail or wholesale, withdraw or refuse to renew their short-term deposits, a bank will fail.

If normal companies fail, there is no need for the Government to intervene. Their assets will be redeployed in a more profitable use or taken over by a better-managed company. But if one bank fails, depositors are likely to withdraw deposits from other banks, about which there may also be doubts. A bank facing a run, whether or not initially justified, would be forced to call in loans or sell collateral, causing asset prices to fall, thereby undermining the solvency of other banks. So the failure of one bank may lead to the collapse of the whole banking system.

The third distinctive feature of banks was highlighted by my hon. Friend the Member for Wycombe: banks create money. The vast majority of money consists of bank deposits. If a bank lends a company £10 million, it does not need to go and borrow that money from a saver; it simply creates an extra £10 million by electronically crediting the company's bank account with that sum. It creates £10 million out of thin air. By contrast, when a bank loan is repaid, that extinguishes money; it disappears into thin air. The total money supply increases when banks create new loans faster than old loans are repaid. That is where growth in the money supply usually comes from, and it is the normal situation in a growing economy. Ideally, credit should expand so that the supply of money grows sufficiently rapidly to finance growth in economic activity. When a bank or banks collapse, they will call in loans, which will reduce the money supply, which in turn will cause a contraction of activity throughout the economy.

In that respect, banks are totally different from other companies – even companies that also lend things. If a car rental company collapses, it does not lead to a reduction in the number of cars available in the economy. Its stock of cars can be sold off to other rental companies or to individuals. Nor does the collapse of one rental company weaken the position of other car rental companies; on the contrary, they then face less competition, which should strengthen their margins.

The collapse of a car rental company has no systemic implications, whereas the collapse of a bank can pull down the whole banking system and plunge the economy into recession. That is why we need a special regulatory regime for banks and, above all, a lender of last resort to pump in money if there is a run on the banks or a credit crunch, yet this was barely discussed

when the new regulatory structure of our financial and banking system was set up in 1998. The focus then was on consumer protection issues. Systemic stability and the lender-of-last-resort function were scarcely mentioned. That is why the UK was so unprepared when the credit crunch struck in 2007. Nor were these aspects properly considered when the euro was set up. As a result, a currency and a banking system were established without the new central bank being given the power to act as lender of last resort. It has had to usurp that power, more or less illegally, but that is its own problem.

This analysis is not one of those insights that come from hindsight. Some while ago, Michael Howard, now the noble Lord Howard, reminded Parliament – and indeed me; I had completely forgotten – that I was shadow Chancellor when the Bill that became the *Bank of England Act* 1998 was introduced. He pointed out that I then warned the House that

"With the removal of banking control to the Financial Services Authority…it is difficult to see how…the Bank remains, as it surely must, responsible for ensuring the liquidity of the banking system and preventing systemic collapse."

And so it turned out. I added: "setting up the FSA may cause regulators to take their eye off the ball, while spivs and crooks have a field day." – [Official Report, 11 November 1997; Vol. 300, c. 731-32.]

So that turned out, too. I could foresee that, because the problem was not deregulation, but the regulatory confusion and the proliferation of regulation introduced by the former Chancellor, which resulted from a failure to focus on the banking system's inherent instability, and to provide for its stability.

This failure to focus on the fundamentals was not a peculiarly British thing. The EU made the same mistakes in spades when setting up the euro, and at the very apogee of the world financial system, they deluded themselves that instability was a thing of the past. In its "Global Financial Stability Report" of April 2006, less than 18 months before the crisis erupted, the International Monetary Fund, no less, said:

"There is growing recognition that the dispersion of credit risk by banks to a broader and more diverse group of investors, rather than warehousing such risk on their balance sheets, has helped to make the banking and overall financial system more resilient…. The improved resilience may be seen in fewer bank failures and more consistent credit provision. Consequently, the commercial banks…may be less vulnerable today to credit or economic shocks."

The supreme irony is that those at the pinnacle of the world regulatory system believed that the very complex derivatives that contributed to the collapse of the financial system would render it immune to such instability. We need constantly to be aware that banks are unstable, and are the source of money. If instability leads to a crash, that leads to a contraction in the money supply, and that can exacerbate and intensify a recession.

Bob Stewart (Beckenham) (Con):

I am listening carefully to my right hon. Friend. Does that mean that the banks are uncontrollable, as things stand?

Mr Lilley:

No; they can and should be controlled. They are controlled both by being required to have assets, and ultimately by the measures that Government should take to ensure that they do not expand lending too rapidly. That is the point that I want to come on to, because a failure to focus on the nature of banking and money creation causes confusion about the causes of inflation and the role of quantitative easing.

As too many people do not understand where money comes from, there is confusion about quantitative easing. To some extent, the monetarists, of whom I am one, are responsible for that confusion. For most of our lifetime, the basic economic problem has been inflation. There have been great debates about its causes. Ultimately, those debates were won by the monetarists. They said, "Inflation is caused by too much money – by money growing more rapidly than output. If that happens, inevitably and inexorably, prices will rise." The trouble was that all too often, monetarists used the shorthand phrase, "Inflation is caused by Government printing too much money." In fact, it is caused not by Government printing the money, but by banks lending money and then creating new money at too great a rate for the needs of the economy. We should have said, "Inflation follows when Governments allow or encourage banks to create money too rapidly." The inflationary problem was not who created the money, but the fact that too much money was created.

The banks are now not lending enough to create enough money to finance the growth and expansion of the economy that we need. That is why the central bank steps in with quantitative easing, which is often described as the bank printing money. Those who have been brought up to believe that printing money was what caused inflation think that quantitative easing must, by definition, cause inflation. It only causes inflation if there is too much of it – if we create too much money at a faster rate than the growth of output, and therefore drive up prices – but that is not the situation at present.

Mr MacNeil:

The right hon. Gentleman is giving a very good explanation of the different circumstances in which money is created. He has spoken about the morality, and about quantitative easing. When there is demand, what is his view of the theory of helicopter money, and where that money gets spread to?

Mr Lilley:

As a disciple of Milton Friedman, I am rather attracted to the idea of helicopter money; I think it was he who introduced the metaphor, and said that it would be just as effective if money were sprayed by a helicopter as if it were created by banks. Hopefully, as I live quite near the helicopter route to Battersea, I would be a principal recipient. I do not think that there is a mechanism available that would allow us to do that, but I am not averse to that in principle, if someone could do it. My point is that the banks, either spontaneously or encouraged by the central bank through quantitative easing, must generate enough money to ensure that the economy can grow steadily and stably.

Mr MacNeil:

Could it not be argued that increasing welfare payments would be a form of helicopter money, because the people most likely to spend money are those with very little money? If we put money in the pockets of those who have little money, it would be very positive, because of the economic multiplier; the money would be spent, and would circulate, very quickly.

Mr Lilley:

There are far better reasons for giving money to poor people than because their money will circulate more rapidly – and there is no evidence for that; I invite the hon. Gentleman to read Milton Friedman's *A Theory of the Consumption Function*, which showed that that is all nonsense. There are good reasons for giving money to poor people, namely that they are poor and need money. Whether the money should be injected by the Government spending more than they are raising, rather than by the central bank expanding its balance sheet, is a moot point.

All I want to argue today is that we should recognise that the economy is as

much threatened by a shortage of money as it is by an excess of money. For most of our lifetimes the problem has been an excess, but now it is a shortage. We therefore need to balance in either occasion the rate of growth of money with the rate of growth of output if we are to have stability of prices and stable economic activity. I congratulate my hon. Friend the Member for Wycombe on bringing these important matters to the House's attention.

12.30 pm

Austin Mitchell (Great Grimsby) (Lab):

I welcome this debate and congratulate hon. Friends on securing it, because we have not debated this matter for over 100 years, and it is time we did so. This House and the Government are obsessed with money and the economy, but we never debate the creation of money or credit, and we should, because, when it comes to our present economic situation and the way the banks and the economy are run, that is the elephant in the room. It is time to think not outside the box, but outside the banks; it is time to think about the creation of credit and money.

I speak as a renegade social creditor who is still influenced by social credit thinking; I do not pledge total allegiance to Major Douglas, but I am still influenced by him. As has just been pointed out, 93% of credit is created by the banks, and a characteristic of what has happened to the economy since the '70s is the enormous expansion of that credit. I have here a graph from Positive Money showing that the money created by the banks was £109 billion in 1980. Thanks to the financial reforms and the huge increase in the power of the banks since then, by 2010 that figure had risen to £2,213 billion, whereas the total cash created by the Government – the other 3% – had barely increased at all. Since 2000 we have seen the amount of money created by the banks more than double.

That has transformed the economy, because it has financialised everything and made money far more important. It has created debt-fuelled growth followed by collapse. It is being controlled by the banks, which have directed the money into property and financial speculation. Only 8% of the credit created has been lent to new businesses. The Government talk about the march of the makers, but the makers are not marching into the banks, because the banks are turning them away. Even commercial property is more important than makers. That has created a very lop-sided economy, with a weak industrial base that cannot pay the nation's way in the world because investment has been directed elsewhere, and a very unequal society, which has showered wealth on those at the top, as Piketty shows, and taken it away from those at the bottom.

A very undesirable situation is being created. We have built an unstable economy that is very exposed to risk and to bubble economics, thanks to the financialisation process that has gone on since 1979. The state allocates all credit creation to the banks and then has to bail them out and guarantee them, at enormous expense and with the creation of debt for the public, when the bubble bursts and they collapse.

Some argue – Major Douglas would have argued this – that credit should therefore be issued only by the state, through the Bank of England. That would probably be a step too far in the present situation, given our present lack of education, but we can and should create the credit issued by the banks. We can and should separate the banks' utility function – servicing our needs, with cheque books, pay and so on – and their speculative role. The Americans have moved a step further, with the Volcker rule, but it is not quite strong enough. In this country we tend to rely on Chinese walls, which are not strong at all. I think that only a total separation of the banks' utility and speculative arms will do it, because Chinese walls are infinitely penetrable and are regularly penetrated.

We can limit the credit creation by the banks by increasing the reserve ratios, which are comparatively low at the moment – the Government have been trying to edge them up, but not sufficiently – or we could limit their power to create credit to the amount of money deposited with the banks as a salutary control. We could tax them on the hidden benefit they get from creating credit, because they get the seigniorage on the credit they create. If credit is created by banknotes and cash issued by the Government, the Government get the profit on that – the signorage. The banks just take the signorage on all the credit they issue and stash it away as a kind of hidden benefit, so why not tax that and give some of the profit from printing money to the state?

Martin Wolf, in an interesting article cited by my right hon. Friend the Member for Oldham West and Royton (Mr Meacher), has argued that only central banks should create new money and that it should be regulated by a public credit authority, rather like the Monetary Policy Committee. I think that that would be a solution and a possible approach. Why should we not regulate the issue of credit in that fashion?

That brings us back to the old argument about monetarism: whether credit creation is exogenous or endogenous. The monetarists thought that it was exogenous, so all we have to do is cut the supply of money into the economy in order to bring inflation under control. That was a myth, of course, because we cannot actually control the supply of money; it is endogenous. The economy, like a plant, sucks in the money it needs. But that can be regulated by a public credit authority so that the supply matches the needs of the economy, rather than being excessive, as it has been over the past few years. I think that that kind of credit authority needs to be created to regulate the flow of credit.

That brings me to the Government's economic policy. The Government tell us that they have a long-term economic plan, which of course is total nonsense. Their only long-term economic plan is slash and burn. The only long-term economic planning that has been done is by the Bank of England.

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