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CONTENTS

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Schizophrenic Economics

theREALnews.com, March 12, 2018

Student Debt Cancellation a Viable Option, Economists Say. A new in-depth study on the consequences of cancelling all student debt in the US shows that it would help the economy far more than it would cost. We talk to Stephanie Kelton, one of the study's co-authors.

SHARMINI PERIES: It's The Real News Network. I'm Sharmini Peries coming to you from Baltimore. Student debt is currently the fastest growing form of debt in the United States. More than 44 million Americans owe a total of $1.4 trillion. This is more than is owed on all credit cards or on all other loans. It's the second highest form of household debt after mortgage debt. Last month, Trump's Department of Education, under the leadership of Betsy DeVos, said that they will issue a rule to the states prohibiting them from regulating student debt collection agencies. In other words, the idea is to make it easier for debt collectors to go after students.

In contrast, the Levy Economics Institute of Bard College released a new study examining the economic consequences of canceling all student debt. According to the study, such cancellation would have a tremendous economic benefit that would far outweigh its costs. Joining me now is one of the authors of the study, Stephanie Kelton. Stephanie is a professor of public policy and economics at Stony Brook University. She's also the former chief economist on the US Senate Budget Committee and economic advisor to the Bernie Sanders 2016 presidential campaign. She joins us today in our Baltimore studios. Stephanie, great pleasure to have you here.

S. KELTON: Very nice to be here.

SHARMINI PERIES: Stephanie, the fact that 44 million Americans owe a total of $1.4 trillion in debt, is that a crisis for the United States? Is it an economic problem?

S. KELTON: Well, it is for many of the people who are struggling to repay student loan debt. It's a kind of a mixed bag because there are people who didn't borrow a lot and they ended up getting good jobs when they graduated college, and they're paying back their student loans and it's not really creating a lot of dislocations for them. On the other hand, there are people who borrowed a lot of money, didn't do well in the job market, didn't have that kind of success, are having difficulties repaying. Maybe they're in some form of workout to try to repay the loans. Maybe they're delinquent, they're past due, maybe they're already in default. Maybe they've moved back in with their parents in order to try to make payments on their student loans. So it's a mixed bag but for the economy as a whole, there are a whole lot of people out there, including a number of economists, who believe that student debt poses a real kind of financial crisis for the economy as a whole.

SHARMINI PERIES: But it is also an opportunity, the cancellation of the debt. The study you were doing at the Levy Institute is something that is unheard of here in the United States in terms of debt cancellation. Tell us a little bit about the findings of the study and what it recommends.

S. KELTON: What we did was just ask a hypothetical. We didn't start off…and the paper itself isn't really a policy recommendation. We just sort of asked the question: I wonder what would happen? We said, look, there are 44 million Americans who are trapped with student loan debt today. What if they didn't have that student loan debt? What if they didn't have to repay it? What if it could somehow just be eliminated, canceled, wiped away, and they had a clean slate? What do you think would happen to the economy? What would be the economic

Continued on page 2

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Economics *from page 1*

impact of that?

What we did was work with some macroeconomic models, and we ran some simulations and the models answer the question, what would happen? You know, the findings, I don't think are all that surprising. If you talked to someone who had student loan debt and you said, "How much do you pay every month, take out your checkbook and you write that check and you're paying back your student loans, how much do you write that check for?" The average for students today who are paying back student loans, that are between the ages of 30 and 40, they're writing a check for $351 a month.

If you told them "Suppose you didn't have to do that, you could keep that $351 a month. What would you do with it instead?" I think that most people would understand that the answer would be something like "Well, I'd buy something else. I would spend a little bit more going out to eat. I might replace that with a car payment. I might move out of the basement and get an apartment. I might upgrade my wardrobe, which…I haven't had a pair of new shoes or new clothes in a long time." I mean, you would get answers like that, right? People would tell you that, overwhelmingly, with that freed-up disposable income, they would find other ways to spend it.

What happens is if you're servicing student loan debt, the money is just going essentially to paying down your debt, that doesn't do any good for the economy. It's not creating any new jobs. It's not stimulating demand by getting new consumption spending. But if those people instead had that money available to turn around and spend it into the economy, then you would see new demand. Businesses would see new customers. They would say, "There's more demand for the stuff that I produce, maybe I should hire some more workers. Maybe I should expand my capacity." So what we find in the paper is that that's exactly what happens. By eliminating or canceling the $1.4 trillion in student loan debt, you free up enough disposable income to generate a significant boost to consumption spending that then bleeds over into other forms of spending. Businesses respond by hiring and investing more, and so the macroeconomic effects are pretty substantial.

SHARMINI PERIES: So then what do you say to the companies, the banks and the credit companies? Taylor Hebden, who is behind the scenes here right now, she was saying she pays that $320 a month on her student loan but they're charging her 13% interest. Now, they would be against your plan, or the findings of your study about student cancellation.

S. KELTON: Well, I'm not so sure they would and here's why. Most of that outstanding $1.4 trillion is owed not to private loan servicers but to the federal government, okay? But a non-trivial amount is money that students borrowed from private lenders. Some of that is government-backed, government-guaranteed, and some of it is not. What we did in the paper is say, "We're going to eliminate all of it but the government takes the loss on the portion that it holds." So a little over a trillion, the government just basically says "Don't pay it back," and for the rest of it, the privately held debt, the government takes over the payments on behalf of the borrowers. So she's going to have her loan payment picked up by the federal government. They're going to take over the interest payments and the principal payments for the lifetime of the loan.

So when you say, "I don't think the private lenders would be too excited about this," I'm not so sure, because many of these loans are in default. They're scrambling and spending money to try to track down borrowers and harass them and get paid back right over time. Now, some of them like that because they can assess penalties and extra fees and layer on additional costs just by having access to people who can't afford to pay back their loans. But they're also going to get paid back on a lot of loans that would otherwise default and they may never get paid back. So I don't know, I think they might actually like the idea of having 100% of the people who they lend money to eventually pay it all back.

SHARMINI PERIES: So then why is the Trump administration issuing this rule to states asking them not to pass any restrictive legislation on debt collectors?

S. KELTON: Well, for the reasons that I alluded to, that they make a tremendous amount of money off of people who have difficulty repaying their student loan debt. You start off owing $30,000, let's say. But by the time you have a few missed payments, you're late, the fees they start assessing and then penalties and next thing you know, I'm not kidding, some number of years down the road, you owe 80, $100,000. You started off with $30,000 in student loan borrowing and now it's tripled in size because of the additional money that they're able to extract from people who have trouble.

SHARMINI PERIES: Now, in terms

of politics, this would be a very favorable position to adopt. The Democratic Party and even if you're running as a candidate… I'm sure you're the most famous professor on campus [inaudible 00:09:07]. I mean, this could be a very popular position for candidates and politicians to take up. Why the resistance?

S. KELTON: Well, I don't know that there is resistance. I just don't know how many people have considered anything this ambitious. Lots of politicians, frankly on both sides of the aisle, recognize that student loan debt is a problem and it's something that politicians are looking to address in some way. I haven't seen anybody do anything this ambitious. You hear all the time, people will introduce legislation to say there's no reason that students should be paying back loans at higher interest rates than what the Fed lends to the banks or something, so we should lower the rates that we charge students. We should make it easier for them to get out of these loans.

Income-based repayment programs are kind of a popular thing, where you say we're going to collect back money for a period of time but it's going to be based on how much you earn and then after a certain number of years of paying it back, we forgive the rest of it. So there are programs…. Public service, if you go into public service employment, you work for the federal government, you can get into one of these loan forgiveness programs of this kind. So it's not that loan forgiveness is completely anathema and nobody will touch it, there are various schemes. I don't know anyone who yet has looked at just canceling all outstanding student loan debt, wiping the slate clean.

It does seem like it would be the kind of thing that could be popular because you've got a demographic of 44 million people who are touched by this, and that's directly touched. That is, they have student loan debt themselves. But then figure the loved ones, the parents, the grandparents, aunts and uncles, who have co-signed who are watching their loved ones struggle to pay back debt and you've expanded the population of people who are impacted by student loan debt probably up to around 100 million Americans. So as an issue that a politician could take and say "I'm going to address this," you're going to hit a lot of people's lives directly or indirectly with this. So I can imagine it having broad appeal. Our report came out, it's gotten a lot of attention, I think, on the Hill including. I think we just have to wait and see whether anyone in the House or Senate has ambitions to think that boldly about how to address the student loan problem.

SHARMINI PERIES: If this is implemented, what prevents students from taking out as much loans as they can, knowing that it's going to be forgiven?

S. KELTON: Yeah, economists call that moral hazard. That's one of the problems that we talk about in the paper. The only way this would really make sense is if you fold this into a broader approach to college education, to higher education in this country. If you were to cancel all outstanding student loan debt today but do nothing else, then immediately you start running up the clock again tomorrow. Students begin borrowing the finance college expenses again and 10 years down the road, we're right back where we are today. So that wouldn't be a very good policy.

What we're imagining is that this is kind of like a hitting of the reset button, at a time when you're transitioning to making public colleges and universities tuition-free. If you do both things in tandem, then it makes more sense, right? Because you're eliminating the tuition payments that students incur when they go to college in the first place and you're saying, "We're resetting the debt clock. We're at zero, and we're making public colleges and universities tuition-free," and then you try to make it more manageable for students to attend university.

SHARMINI PERIES: Did you do any comparisons with countries that do have free education, higher education, available and what that would mean in terms of the economy?

S. KELTON: We didn't in this research paper. I did some of this for the Sanders campaign and some when I was working in the Senate office when we were working on the *College for All Act* that he introduced. We did look a little bit at that time at what other countries do in terms of how they deal with any student debt problem that they have. In some cases, you had countries where public education was tuition-free, Germany for example, and then they transitioned away from that. They started charging tuition, student debt becomes a problem, there's a backlash and an outcry, and the decision is made to return to making public colleges and universities tuition-free. We learned some lessons about what the UK, for example, is doing in terms of income-based repayment and that sort of a thing, but not in this paper.

SHARMINI PERIES: Right. I remember in Germany when it was not only did they cover the cost of higher education but they actually paid a stipend for students to go to college.

S. KELTON: See, I don't remember Germany being among those countries, but Finland, I recall, offering a substantial stipend. So not only can you go to college for free, and that included professional degrees and advanced study, not just the four-year, but they would pay you a stipend that was sufficient to cover your living expenses as well, which is why you don't have the student debt associated with the entire college experience.

SHARMINI PERIES: Stephanie, let me go back to a point you made earlier, which is that this a bold new idea. Is it in fact the case that in the United States they have not considered debt cancellation for students in the past?

S. KELTON: Well, when you say "they have considered," who do we mean?

SHARMINI PERIES: The legislators in Washington.

S. KELTON: Do you know something? I don't know. The person that I think we all heard talk about this in 2016 was the Green Party candidate, Jill Stein. That's the closest I've heard, I think, to an aspiring politician, let's say, talking about canceling all outstanding…. At that time, it was $1.3 trillion. It adds up quickly. But I'm not aware of anyone on the Hill, elected official, who's talked about or introduced legislation to do anything this ambitious.

SHARMINI PERIES: That seems remarkable. Why do you think that is?

S. KELTON: Well, because it's so audacious. I mean, I don't know that anybody

Subscriber Feedback

January 26, 2018

Dear Bill,

When I get requests for funds I include a note about COMER and the Bank of Canada and the website. I do the same with phone calls. Almost always it's the first the person has heard about it.

I can't thank you enough for your persistence in this cause which could help us all so much.

I wondered about Amanda Lang's interview with Rocco Galati.

It's the only time I've ever heard anyone raise the subject….

Best wishes to you all.

Yours sincerely,

Margaret

has thought through…. Certainly Jill Stein had not thought through the mechanics of how to actually do this, and that's a big part of what we do in this paper. It's a 75, 80-page paper. It's got some very wonky bits, lots of balance sheets and description of the mechanics because when she was proposing this, she sat down in some interviews and I remember her being asked "Exactly how do you go about doing this?" She didn't have the answer to the question.

She said, "Well, it's like what the Fed did with QE, quantitative easing." I think at one point she said "It's sort of magic. You just poof and it disappears," and that is not actually how you go about it. It's really a lot more nuanced than poof and it's gone. You've got to be able to trace through the balance sheets and the mechanics and explain how do you get the student loan debt that currently resides on the balance sheets of 44 million people moved off of their balance sheets, put somewhere else, who absorbs the losses? How does it actually work? That's what we did in this paper, but I don't know that anybody currently elected has thought to go that far.

SHARMINI PERIES: You would think this is something that the student movement would take up in a big kind of way, but yet they haven't. I know that there are people in the movement who are talking about student debt cancellation but it really hasn't taken root. Why is that?

S. KELTON: Well, I don't know that they've had a partner. I don't know that they've had a blueprint. In a sense, this paper serves as that blueprint. Now, we, again, we didn't right the paper to promote the policy. We wrote the paper as an intellectual experiment. What would happen? We were curious. But now that we've done the work and you've got a document in place that traces out not just the economics, not just the cost and the impacts of it, but the mechanics of how to actually go about doing it, I think what we're seeing is some groups like Strike the Debt and other student groups who are beginning to latch on to this as a document and say, "This is how to do it. This is what we want, and this is how to go about doing it."

SHARMINI PERIES: Right. Stephanie, that's incredible, what you've done here with your colleagues. I congratulate you and thank you so much for coming on The Real News Network and talking about it. I'd like to keep this conversation going and feed the student movement and the people in the movement who want to fight this issue in terms of debt cancellation and to the legislators who are out there and the politicians who can put this on their platforms. I think it could really take off, so hope you're part of that with us.

S. KELTON: Thank you so much.

SHARMINI PERIES: Thank you. Thank you for doing the paper, and thank you for joining us here on The Real News Network.

Stephanie Kelton is a Professor of Public Policy and Economics at Stony Brook University. She is also the former Chief Economist on the US Senate Budget Committee and Economic Advisor to the Bernie 2016 presidential campaign.

Our Comment

Student debt slavery prompts many a question. For anyone of my vintage, the first has to be, "How has this come to be?" In my student days, even though one might have grown up poor, it was possible to go to university for five years and graduate debt free.

Why, one might wonder, would anyone hesitate to cancel all student debt, given the examples of other countries who have benefited from policies like those of Finland and Germany, and, in the light of new evidence uncovered in the Levy Economics Institute's in-depth study?

How to account for policies that would burden "44 million young people with the fastest growing form of debt in the United States, and [impact] probably up to around 100 million Americans"?

How justify "[making] it easier for debt collectors to go after students"?

If not *"resistance,"* what word might best describe the failure of politicians to seriously address what they recognize as a problem? Why would they have to be *"ambitious"* to suggest anything more than "[making] it easier for [students] to get out of these loans?

Well, what if there were not *one*, but *two* economies – two *competing* economies?

What if one of those economies, designed originally to *support* the other, were to take on a life of its own – one at cross purposes with the original economy – and develop a dynamics all its own? *But*, no need to continue hypothetical – we can get real!

In *J is For Junk Economics: A Guide to Reality in an Age of Deception,* Michael Hudson explains that, "Domestic private sectors are composed of two distinct systems. These are often conflated to mean "The economy," but their dynamics are quite different.

1. The *"real" economy* of current production and consumption, wages and industrial profits account for only part of the economy.

2. The *FIRE sector* (finance, insurance and real estate) consists of land, monopoly rights and financial claims that yield *rentier* returns in the form of interest, financial fees, economic rent (unearned income) and monopoly gains, plus asset-price gains ("capital" gains). Within the FIRE sector, the relationship between banks and real estate is dominant.

"Since the 1980s, banks have created credit to lend mainly into the FIRE sector, not to businesses in the 'real' economy of tangible investment and employment. This long credit buildup has inflated prices for real estate, stocks and bonds, leading borrowers to anticipate that capital gains will continue indefinitely."

Most of the FIRE sector's financialized "wealth" – the asset side of its balance sheet – is held by the *rentier* class. The magnitude is much larger than the GDP. Its debt counterpart on the liabilities side of the balance sheet consists mainly of mortgage debt, a financial overhead for homeowners and commercial real estate. Since World War II, the "real" economy has spent more and more income on real estate, insurance and payments to banks, pension funds and other financial transactions.

Bubbles are created when speculation on credit enters the phase in which debts rise as rapidly as asset valuations. When these financial bubbles burst, negative equity results as asset prices fall back, plunging below the face value of mortgages, bonds and bank loans attached to real estate and other assets. The post-2008 collapse is the result of the "real" economy having to pay down the debts it had run up, deflating consumer spending along with housing prices" (page 232).

In *The Bubble and Beyond*, Hudson "traces how industrial capitalism has turned into finance capitalism. The finance, insurance and real estate (FIRE) sector has emerged to create 'balance sheet wealth' not by new tangible investment and employment, but financially in the form of debt leveraging and rent-extraction. This rentier overhead is overpowering the economy's ability to produce a large enough surplus to carry its debts. As in a radioactive decay process, we are passing through a short-lived and unstable phase of 'casino capitalism,' which now threatens to settle into leaden austerity and debt deflation" (page 529). He goes on to explain that "today's post-industrial strategy of 'wealth creation' is to use debt leveraging to bid up asset prices. From corporate raiders to arbitrageurs and computerized trading programs, this 'casino capitalist' strategy works as long as asset prices rise at a faster rate than the interest that has to be paid. But it contains the seeds of its own destruction, because it builds up financial claims on the assets pledged as collateral – without creating new means of production. Instead of steering credit into tangible capital formation, banks find it easier to make money by lending to real estate and monopolies (and to other financial institutions). Their plan is to capitalize land rent, natural resource rent and monopoly privileges into loans, stocks and bonds" (page 529).

He asserts that "this is not a natural and even inevitable form of evolution."

Much has been written about finance capitalism. John McMurtry, for example, has described it as, *The Cancer Stage of Capitalism*, stressing that his title is not merely allegorical, but that it signifies a real process. Hudson has explored that process in, *Killing the Host.*

The point, of course, is that the system is unsustainable and bound to self-destruct.

Hudson cites the financialisation of education as a process whose result is that, "instead of being treated as a public utility to prepare the population for gainful work, the educational system has been turned into an opportunity for banks to profiteer from a debt market guaranteed by the government."

The student debt crisis is an excellent opportunity to face up to the need to deal with the reality that neoliberal economics has sacrificed the real economy to the financial economy.

The 2007-08 financial crisis was an opportunity to deal with financialization that was ignored by those who, instead, *"solved"* the problem by bailing out those who had created it. The student debt crisis is an opportunity none of us can *afford* to pass up – a possible spring board to essential monetary and economic reform – that will

NDP Needs a Radical Makeover

By James Laxer, Toronto Star, September 6, 2017

As inequality grows, the NDP needs to think about remaking Canadian society from the bottom up by putting the focus back on democratic socialism.

With the selection of a new leader in a few weeks, the federal New Democratic Party will place a fresh face in its shop window.

This is far from enough, however. The NDP needs a radical makeover.

The greatest virtue and vice of the NDP have the same source. The party is solid and enduring. For more than 80 years, Canadian social democrats have sought a more equitable social order, no mean achievement on a continent notable for constant motion, a continent that bestows its laurels on those who have made it, often at the expense of others. It's not that Canadian social democrats are immune to the tides of historical change. There are, however, times when social democrats perceive the onset of new historical forces much too slowly. At such moments, a capacity for endurance becomes a barrier to change, so much so that the very solidity of the party threatens its survival.

This is such a moment.

For decades the NDP and its predecessor, the Co-operative Commonwealth Federation (CCF), expressed the view that capitalism was an inherently exploitative system and that the alternative to it was democratic socialism. The initial program of the CCF, the Regina Manifesto, did not mince words. It declared that "no CCF government will rest content until capitalism has been eradicated." Over the long term, the idea was that socialists would strive to place the ownership and control of large enterprises in the hands of the community at large or more.

In fits and starts over the last half century, however, the NDP has migrated away from its socialist origins on a journey to the political centre. Indeed, at a convention in 2013, the party went so far as to drop the word "socialist" from its statement of principles. The NDP was announcing to Canadians that it would be satisfied with making the present order of things fairer without changing it fundamentally.

The dropping of socialism came at a time that was particularly unpropitious, even ironic. During the last few years, socialism has been coming back into fashion, especially among the young in Europe, and most remarkably, in the United States. Today the capitalist system of wealth creation and distribution is regarded by many millions of people around the world as a failed system. The reason for this is not obscure. Those who have presided over the present global division of labour have enriched themselves more lavishly than any class of rulers in the history of the world.

The generation of millennials, who are aged 20 to 35, are grappling with the effects of inequality. The analysis of Thomas Piketty in his groundbreaking book *Capital in the Twenty-first Century* exposes the emergence of a deeply unequal capitalism in the advanced countries that is more reminiscent of the late Victorian and Edwardian age and the 1920s than it is of the post-Second World War decades. Other studies have shown that in terms of employment and income, the young face the clear prospect of ending up worse off than their parents.

A major political consequence of the crisis of the system is the rise in both Europe and North America of right-wing extremism. Racist, xenophobic, anti-immigrant, the signal triumphs of the extreme right to date have come in the vote in the United Kingdom in favour of Brexit and, even more importantly, in the election of Donald Trump as president of the United States.

Democratic socialism is the authentic alternative to exclusionist populism. It embraces the proposition that wealth is created by those who work for a living and not by those who control capital.

At a time when the division of wealth and power grows ever more unequal, the NDP needs to shift to a more radical position. It has been decades since the NDP encouraged basic thought about remaking Canadian society from the bottom up. Let that begin by taking democratic socialism out of the attic and putting it front and centre. From that can come a set of policies to create a Canada that is egalitarian, green and sovereign.

James Laxer is a professor of political science at York University. In 1971, as the candidate of the Waffle group in the party, he ran second in a field of five candidates for the federal leadership of the NDP. He is the author of The NDP Needs A Radical Makeover *on Kindle and Kobo.*

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Our Comment. Can Chameleon Politics so discredit a party that, even when their original principles are safe to endorse, it may be judged that the party is not? What will it take for the NDP to win back the right to carry the torch for democratic socialism? *Élan* address a broad spectrum of many other deepening social crises.

The impact of student debt cancelation would differ dramatically from one economy to the other. Whereas it could boost the real economy from income that would be *spent* into the economy – to the benefit of the society – it would eliminate the "second-greatest, fastest growing" source of household debt-based *unearned* income (rent), presently driving the financial economy, to the benefit of the *rentiers* (rentier: a person whose main income comes from interest on assets).

While the rentiers might welcome a one-time cancelation that bails them out, it's hard to believe they would accept free tuition as an ongoing policy.

Alas, the advantages of exploiting an

Everyone a Changemaker

By David Brooks, The New York Times, OP-ED, February 8, 2018

Bill Drayton invented the term "social entrepreneur" and founded Ashoka, the organization that supports 3,500 of them in 93 countries. He's a legend in the nonprofit world, so I went to him this week to see if he could offer some clarity and hope in discouraging times. He did not disappoint.

Drayton believes we're in the middle of a necessary but painful historical transition. For millenniums most people's lives had a certain pattern. You went to school to learn a trade or a skill – baking, farming or accounting. Then you could go into the work force and make a good living repeating the same skill over the course of your career.

But these days machines can do pretty much anything that's repetitive. The new world requires a different sort of person. Drayton calls this new sort of person a changemaker.

Changemakers are people who can see the patterns around them, identify the problems in any situation, figure out ways to solve the problem, organize fluid teams, lead collective action and then continually adapt as situations change.

For example, Ashoka fellow Andrés Gallardo is a Mexican who lived in a high crime neighborhood. He created an app, called Haus, that allows people to network with their neighbors. The app has a panic button that alerts everybody in the neighborhood when a crime is happening. It allows neighbors to organize, chat, share crime statistics and work together.

To form and lead this community of communities, Gallardo had to possess what Drayton calls "cognitive empathy-based living for the good of all." Cognitive empathy is the ability to perceive how people are feeling in evolving circumstances. "For the good of all" is the capacity to build teams.

It doesn't matter if you are working in the cafeteria or the inspection line of a plant, companies will now only hire people who can see problems and organize responses.

Millions of people already live with this mind-set. But a lot of people still inhabit the world of following rules and repetitive skills. They hear society telling them: "We don't need you. We don't need your kids, either." Of course, those people go into reactionary mode and strike back.

The central challenge of our time, Drayton says, is to make everyone a changemaker. To do that you start young. Your kid is 12. She tells you about some problem – the other kids at school are systematically mean to special-needs students. This is a big moment. You pause what you are doing and ask her if there's anything she thinks she can do to solve the problem, not just for this kid but for the next time it happens, too.

Very few kids take action to solve the first problem they see, but eventually they come back having conceived and owning an idea. They organize their friends and do something. The adult job now is to get out of the way. Put the kids in charge.

Once a kid has had an idea, built a team and changed her world, she's a changemaker. She has the power. She'll go on to organize more teams. She will always be needed.

Drayton asks parents: "Does your daughter know that she is a changemaker? Is she practicing changemaking?" He tells them: "If you can't answer 'yes' to these questions, you have urgent work to do."

In an earlier era, he says, society realized it needed universal literacy. Today, schools have to develop the curriculums and assessments to make the changemaking mentality universal. They have to understand this is their criteria for success.

Ashoka has studied social movements to find out how this kind of mental shift can be promoted. It turns out that successful movements take similar steps.

First, they gather a group of powerful and hungry co-leading organizations. (Ashoka is working with Arizona State and George Mason University.) Second, the group is opened to everybody. (You never know who is going to come up with the crucial idea.) Third, the movement creates soap operas with daily episodes. (The civil rights movement created televised dramas with good guys and bad guys, like the march from Selma.)

I wonder if everybody wants to be a changemaker in the Drayton mold. I wonder about any social vision that isn't fundamentally political. You can have a nation filled with local changemakers, but if the government is rotten their work comes to little. The social sector has never fully grappled with the permanent presence of sin.

But Drayton's genius is his capacity to identify new social categories. Since he invented the social entrepreneur category 36 years ago, hundreds of thousands of people have said, "Yes, that's what I want to be." The changemaker is an expansion of that social type.

Social transformation flows from personal transformation. You change the world when you hold up a new and more attractive way to live. And Drayton wants to make universal a quality many people don't even see: agency.

Millions of people don't feel that they can take control of their own lives. If we could give everyone the chance to experience an agency moment, to express love and respect in action, the ramifications really would change the world.

Our Comment

Just identifying "clarity and hope" as such a *need* is no mean contribution to a successful "historical transition."

The implications of Drayton's ideas for education are basically a shift from *what* to think, to *how* to think – and a recognition of the need to move from passive to active learning.

Events like schoolroom massacres, and suppressive patterns like the one that provoked the #MeToo movement are transforming people – young, and old – into changemakers who clearly recognize the political as well as the social and educational requirements for change.

We are *all* called to the task!

Élan

"appealing cause," all too seldom outweigh others afforded the ruling power.

The concern about the moral hazard incurred by student debt cancelation is specious – at best – considering the lack of attention paid to the proven moral hazard leading up to the 2007-08 collapse and the subsequent bailout.

In *Looting Greece*, Jack Rasmus attributes are growing inequality to this shift in "global capitalism" that, since the 1980s, has favoured "financial asset investment and financial securities speculation over 'real' investment." This has "[accelerated] capital incomes from finance," while "real investment…wage growth and…rates of productivity" have declined. Consequently, he points out, there has been "a drift toward deflation in real goods and services, while inflation and price bubbles in financial assets become more frequent and widespread."

This development, he explains, has generated "new financial institutions, sometimes called shadow banks"… or "capital markets – along with a spread of highly liquid financial markets globally and an explosion of new forms of credit – creating financial securities traded in those markets by those institutions."

"A new global finance capitalist elite manage these institutions who sell the new securities created for [the purpose] of generating profits via the expanding financial markets rather than via the real economy."

He notes that new technology has created "new non-monetary forms of credit that have been exacerbating the liquidity-debt explosion."

"What is up for grabs," says Hudson, "is how society will resolve the legacy of debts that can't be paid. Will it let the financial sector foreclose, and even force government to privatize the public domain under distress condition? Or will debts be written down to what can be paid without polarizing wealth and income, dismantling government, and turning tax policy over to financial lobbyists pretending to be objective trechnocrats" (Michael Hudson, *The Bubble and Beyond*, page 530)?

Hudson refers to the example of the housing bubble in the early 2000s that drew new buyers to invest in *that* debt-leveraged "wealth creation." He points out that after 2008, many were left with property worth less than the mortgage they still owed on it.

"A similar phenomenon, he says, has occurred as education has been financialized. Students must take on decades of student-loan obligations and pay them regardless of whether the education enables them to get jobs in an economy shrinking from debt deflation….

Instead of being treated as a public utility to prepare the population for gainful work, the educational system has been turned into an opportunity for banks to profiteer from a debt market guaranteed by the government (pages 531-2).

At issue, it would seem, is not the merits of student debt cancelation, but its feasibility, given the vested interest of the finance sector in a debt-driven, debt-dependent, schizophrenic economy.

Élan

Breitbart Billionaire Board Bashes Bannon

By Jack Rasmus, jackrasmus.com, January 7, 2018

Since the run-up to the election of 2016, the ruling elite in America who control the two wings of the single Corporate Party of America (CPA) – the Republican and Democratic Parties – have been battling it out with "right populist" challengers over who will define US policy in the decade ahead. Thus far in 2017 the elite have been clearly winning.

The likely sacking this coming week of Breitbart News's CEO, Steve Bannon – which follows his banishment from the White House earlier in 2017 – is but the latest example of the elite's post-election objective of bringing their right populist challengers to heel, and in the process herding Trump himself back under their policy umbrella.

The history of the traditional elite vs. right populist challengers goes back at least to the emergence of the so-called "Contract with America" in 1994 followed soon thereafter by their effort to impeach then president, Bill Clinton. Clinton's hard shift to the right after 1994 on economic, social and foreign policy deflated the challengers' offensive, albeit temporarily. Then there was the so-called Tea Party faction after 2001 that ran primary candidates and disrupted the elite's Republican wing electoral strategy. With the assistance of the Business Council and US Chamber of Commerce, the Tea Party version of "right populist" challengers were purged in 2014 from Republican primary races and candidacies.

The challengers were not defeated, however. With the financial and organizational aid of the power behind the so-called "populist right" – i.e., the Koch brothers, the Mercers, Adelsons, Paul Singers and other radical right big financial supporters backing them – they returned with a vengeance in the 2016 election backing Trump, who opportunistically welcomed their organizational, media and ideological support as the traditional elite consistently rejected him. They bet their Trump Card and gained the White House. The contest did not stop there, however.

In 2017 the contest with the Republican wing of the elite continued. The right populist mouthpiece within Congress, the US House Freedom Caucus, was able to prevail over other Republican colleagues and launch a full frontal assault on repealing Obamacare, the *Affordable Care Act*. They recklessly rolled the dice on their first toss… and lost. Check one for the traditional elite right out of the box in early 2017.

Another subsequent 2017 "win" by the Republican wing of the elite was to get Trump to go slow on reversing NAFTA and other free trade agreements. Another was the driving of Steve Bannon and his allies from their perch as White House advisers. Yet another elite 2017 success was to convince Trump to back off from campaign promises to reorganize NATO and reset relations with Russia, and instead to continue providing strategic weapons to east Europe and, most recently, the Ukraine. That policy shift is now in acceleration mode. Then there was the defeat of Moore for Senator in Alabama, who Trump and the right populists both endorsed. The Republican wing of the traditional elite – both in and out of Congress – abandoned Moore and joined with the Democrat wing to ensure Moore's defeat. To have supported Moore would have signaled that the Republican elite's strategy since 2014, a strategy denying right radicals from formal Republican (and Chamber of Commerce) support, was no longer in effect. A Moore victory would have brought even more radicals from the right demanding to run on Republican electoral tickets. The Chamber could not permit that again.

But the very latest event in the internal battle was last week's public rift between former right populist Trump election strategist and White House adviser, Steve Bannon, and Trump himself. A rift that, this writer predicts, will almost certainly lead to Bannon's sacking as CEO of the influential right populist media organ, Breitbart News, this coming week or soon thereafter.

The Bannon sacking will clearly reveal that Bannon is not the driving force behind Breitbart. Nor is the radical right populist movement itself an independent force. Bannon and Breitbart are but a mouthpiece. For what? For the real force behind the Breitbart media outlet, Bannon, and similar media organizations and talking heads pushing far right political alternatives and economic policies – i.e., the billionaire money interests that fund them and make the strategic decisions for them behind the scenes. It is the billionaires who sit on the Breitbart board, and other boards of similar right populist organizations who fund the Breitbarts, the Bannons, and those like them that came before and will come after.

It is those billionaires in particular who have become super-wealthy since the 1990s by speculating in commercial property and trusts and shadow banking; the billionaires over-represented from the ranks of private equity firms, real estate REITs, hedge fund capitalists, asset management companies, etc. On the level of individual capitalists, it is the Adelsons, Paul Singers, the Mercers, the Mays, and others – all billionaires – who have been bankrolling the right populists from the very beginning, giving them a public soapbox with which to promote their views, ideology, and mobilize public opinion. More traditional economic sector billionaires, like the Kochs, are also among their ranks, of course. But they are especially over-populated with speculators and financial manipulators (much like Trump himself) who want a more deregulated, winner-take-all kind of capitalism they see as necessary to compete with challengers globally in the coming decades.

These billionaires are the election campaign financiers that all the major candidates for national office trek to every election cycle, genuflect before, hold out their hats to for donations. And with their money comes a Faustian bargain: they are allowed to define policies once their candidates get elected. They are the silent sources that Trump regularly calls in the early morning hours from the White House to ask their advice and input.

Late last week, the billionaire Mercer family, that bankrolls and finances Breitbart News let it be known it was breaking relations with Bannon. Bannon quickly and contritely offered a public statement supporting Trump and calling him a "great man," which Trump just as quickly retweeted. The Bannon retreat followed a reported statement he made to author Michael Wolf, who in his new book out last week quoted Bannon as saying Trump was psychologically unbalanced and "had lost it." Calls for Breitbart News to fire Bannon as its CEO quickly followed, and the Mercers statement was made public in turn.

So Bannon's days are numbered and perhaps in hours not days. He will be gone, relegated to the speech circuit for right wing demagogues, joining the Glenn Becks, Rush Limbaughs, and others that occasionally over-estimate their influence with the capitalist ruling elite and their usefulness to them. And then find themselves on the outside looking in.

What the Bannon sacking will represent is that the right populist movement will now ebb, albeit temporarily once more. It will be resurrected when needed, with another figure(talking)head replacing Bannon. The Becks, the Limbaughs, the Hannitys and the Bannons are all expendable, and replaceable with another cookie-cutter ideologue whenever the elite consider it necessary.

The Bannon development more importantly signals that more traditional Republican elite policies and legislation will now even further supplant the right populist initiatives in Congress. The Trump tax cuts just passed benefit clearly the wealthiest 1% and their corporations, and not the middle class, the embittered blue collar workers of the Midwest and Great Lakes, or any other voting constituency in America.

The demise of Bannon also signals that Donald Trump, if he wishes to continue as president, will agree to continue his shift toward policies adopted by the Republican wing of the elite. He has been in synch totally with the recent passage of the Trump Tax Cut act – the elite's #1 policy objective which is now achieved. Trump will now continue to back off of radical restructuring of free trade, especially NAFTA. He will fall in line with NATO and policies toward east Europe and Russia. He'll provide more advanced weaponry to eastern Europe and the Ukraine. He will be satisfied with a token Wall and back off from disrupting immigration relations. And he will continue to soft-pedal his tweeting with regard to North Korea and support trade deals with China the elite want him to deliver.

This does not mean Trump's troubles with the traditional elite are over, however. The events of the past year, culminating in the Bannon purge, only reflect Trump coming to terms with the Republican wing of the elite, as he tactically moves under their political protective umbrella. The Democrat wing of the elite will continue trying to build a case against him.

The Democratic wing of the elite will continue to exert pressure on Trump through its powerful media organs and its deep connections with and influence within the State bureaucracy (FBI, NSA, State and Justice departments, DEA, military intelligence arms, etc.). This second front against Trump and his former right populist allies is reflected in the on-going investigation into a Russia-Trump connection during the 2016 election cycle – which that wing of the elite hopes will lead, if not to outright collusion with the Russians, then to evidence of some form of obstruction of justice by Trump; or perhaps uncover in the process past criminal activity by the Trump business organization with regard to tax evasion or foreign bribes for contracts with Russian oligarchs and mafia. This second front has recorded some success over the past year, as former FBI director, Mueller, has been able to extract evidence from suspected principals, Michael Flynn, Paul Monafort, and Papadopoulos.

The second major development of the past week was the publication of the Michael Wolf book on Trump. With the publication a new issue has been thrown into the political hotpot: Now it is not just whether Trump has colluded with the Russians, or obstructed Justice to stop the Mueller investigation, or engaged in illegal bribes and deals with Russian oligarchs. Now the new mantra is Trump is psychologically unbalanced – as evidenced in his own Tweets and in the constant flow of leaked statements by his own administration about his basic "child-like character" (Senator Corker), his functioning at a level of a "moron" (Secretary of State Tillerson), or that he "has lost it" (Bannon).

In the months ahead the Republican wing – for whom Trump has nicely delivered in the form of tax cuts in the trillions of dollars and with whom Trump is now playing ball with regard to free trade – will circle the wagons on behalf of Trump. The Republican party wing of the traditional elite don't want to drive Trump from the White House. They want him tamed and continuing to deliver their policy agenda.

So they have already begun to circle the wagons on Trump's behalf – and to launch a counteroffensive in his defense. The past week's reopening of the investigation of Clinton's foundation and demands to indict the author of the "Trump dossier" published over a year ago are but two examples of the counteroffensive.

And watch what happens after Trump eventually fires FBI investigator, Mueller, should he provide evidence of obstruction of justice or, more likely, fraudulent Trump tax returns and/or bribes to Russian oligarchs. They'll block the appointment of an independent prosecutor once Mueller is gone. And that means there won't be any impeachment in 2018 regardless what Trump does. All that could change, however, should Trump's historic low approvals slip still further and result in the Republican loss of either the House or Senate in November 2018. Then watch the two wings of the elite unite in efforts to push Trump out and replace him with their preferred man, vice-president Pence.

Dr. Rasmus is the author of the August 2017 book, Central Bankers at the End of Their Ropes: Monetary Policy and the Coming Depression, *Clarity Press, August 2017. He blogs at jackrasmus.com and hosts the weekly radio show,* Alternative Visions*, on the Progressive Radio Network. His twitter handle is @drjackrasmus.*

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Our Comment. Sort of makes you feel more like a paying spectator than a player! Or, at best, some sort of a trophy; at worst, collateral damage! No wonder more and more people are opting to be *changemakers!*
Élan

Tax Havens and the Other Paris Agreement

By Joyce Nelson, Watershed Sentinel, January 18, 2018

Paradise and Panama papers, Canada and red herrings, and the international agreement on tax havens with "enough loopholes to drive a fleet of Ferraris through."

It's not clear whether the Bill Morneau/ Tax Revolt saga that roiled the media and Parliament throughout the last half of 2017 will continue in 2018, but it looks likely.

By mid-December pundits and politicians were calling for the Finance Minister to resign over conflict of interest charges connected with his shares in Morneau Shepell (his pension management company). Moreover, the Canadian Federation of Independent Business (CFIB) was complaining about the lack of clarity in tax changes to be introduced in January.

This brouhaha all started on July 18 when the Trudeau government announced plans to close three tax loopholes available to small business owners who incorporate their businesses as personal corporations, called Canadian-Controlled Private Corporations (CCPCs) – affecting quite a few upper middle-class professionals, from doctors, lawyers, and accountants to farmers and owners of small businesses. They were not about to take this lying down.

The CFIB took up their cause and put its own spin on things, arguing that business owners don't have the "huge" salaries and pensions enjoyed by civil servants to rely on for retirement. On September 5, the CFIB delivered a petition to Ottawa with nearly 14,700 signatures.

Interestingly, it was later revealed that the Canadian Federation of Independent Business is a client of Morneau Shepell.

There've been some funny moments in all the heated rhetoric, especially on September 19 when Trudeau faced questions about his own finances since he became party leader. He said, "I no longer have dealings with the way our family fortune is managed," which prompted Conservative MP Lisa Raitt to tweet: "Here's a tip – if you want to be seen as a man of the people try not to refer to your assets as 'my family fortune.'"

Tax experts estimated the most that would be collected per year from Morneau's original tax plan was about $250 million. Meanwhile, Canadians for Tax Fairness estimates that between $10 billion and $15 billion per year in Canadian taxes goes uncollected due to tax havens. This amount would be enough to fund Pharmacare, universal childcare, free university tuition, and infrastructure improvements in First Nations communities all at the same time.

Behind all the sound and fury, something else has been going on. In order to see it, we have to look at the timeline of events. And that leads to what I call "the other Paris agreement" – not the 2015 Paris Agreement on Climate Change but another Paris agreement, one few Canadians have heard about.

Paris Again

On June 7, 2017, a representative for Morneau's Finance Department, Ginette Petitpas Taylor (at the time, the parliamentary secretary to the finance minister) went to Paris for a mass-signing ceremony. Along with representatives from 66 other countries, she was there to formally adopt something called the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. This is usually referred to as the BEPS Agreement or the BEPS Initiative.

Don't let the boring name fool you. The BEPS Agreement is being touted as the first coordinated, international attempt to crack down on the trillions of dollars in corporate profits stashed away in offshore tax havens. As the official title indicates, governments across the planet have seen their tax base steadily eroded by multinational corporations shifting their profits into tax havens. Drafted by the G20 and the OECD (Organization for Economic Cooperation and Development), the BEPS Agreement is the result of several years of consultations (which are still ongoing, despite the formal signing).

Most tax experts agree that some of the biggest users of offshore tax havens are banks and the financial sector in general, along with multinational corporations engaged in resource extraction: forestry, mining, as well as the oil and gas sectors.

These havens are a huge issue, especially for Canada. A tiny NGO called Canadians for Tax Fairness, led by the intrepid Dennis Howlett, says that multinational corporations and the wealthiest Canadians are sending well over $250 billion per year to offshore havens to avoid paying taxes on it in Canada.

What better way to distract attention than to get Dr. Joe Blow Incorporated fighting with Dr. Jane Doe Unincorporated about income tax?

When the Panama Papers were leaked in April 2016 as anger about tax unfairness was rising worldwide, Bill Morneau told the press that Canada would become "a really strong voice" on the offshore tax haven issue, while PM Trudeau said, "It's certainly something we will be working on together as a community of nations" – apparently a reference to the forthcoming BEPS Agreement.

In signing the Agreement on June 7, 2017, Ginette Petitpas Taylor (now federal minister of health) announced that this puts Canada "at the forefront of global action to improve international tax rules, and work towards a more fair and transparent tax system."

There's only one problem (or several). According to tax experts, the BEPS Agreement has major weaknesses and enough loopholes to drive a fleet of Ferraris through. As well, the BEPS Agreement doesn't affect Canada's Tax Information Exchange Agreements (TIEAs), which were introduced and signed by the Harper government and (as we shall see) are unique, to say the least.

Not only have our international partners delivered a tepid BEPS Agreement, but the Trudeau government continues (as Alain Deneault puts it) "to fight tax fraud by legalizing it."

The OECD's tax policy director had already acknowledged in 2016 that Canada's TIEAs had caused a massive uptick in Canadian money flowing into tax havens, and he told the CBC that "we are dealing with" the issue in negotiations. But apparently, nothing was changed.

Before the BEPS Agreement was formally signed, an independent organization called the BEPS Monitoring Group issued a statement saying that the Agreement "fell short of providing a comprehensive and cohesive approach to reform of international tax laws."

While most corporate media outlets in Canada simply ignored the BEPS Agreement signing ceremony of June 7, the *Toronto Star* (to its credit) published a critical article on June 8. Written by Marco Chown Oved, the article pointed out that Canada leads the world in the number of tax treaties and agreements that allow multinational corporations to escape the taxman. Oved interviewed tax authorities who said the BEPS Agreement is vaguely worded and has so many loopholes that nothing much will change, especially for Canada.

Apparently, the so-called "community of nations" has come up with a tepid agreement. Even more important, Canada has gamed the system in favour of corporate tax cheats.

Those TIEAs

The *Watershed Sentinel* (November-December 2011) was one of the first Canadian media outlets to blow the whistle on Canada's TIEAs, noting that the "new TIEAs are being touted as a means for more 'transparency' about tax avoidance, but there is little to justify this claim…with the new TIEAs, a corporation can repatriate those offshore profits tax-free, leaving no trace of the deferred taxes."

This is how it works: a corporation makes its profits in Canada but can set up subsidiaries in a tax haven (usually nothing more than a PO box). The corporation can shift its profits to the tax haven (where it pays no or low taxes) and keep its losses in Canada (where they are tax deductable). The corporation can then repatriate the profits (without being taxed) as dividends for shareholders, mergers and acquisitions, share buy-backs, fat bonuses and salaries, etc.

As I wrote in 2011, tax havens are a way to "starve the beast" of government, in order to foster privatization and deregulation. What I didn't know at the time was that the Harper government had actually changed the tax code to facilitate this tax avoidance and repatriation of profits tax-free.

Canada leads the world in the number of tax treaties and agreements that allow multinational corporations to escape the taxman.

That fact didn't come out until 2015, when Alain Deneault, a Canadian expert on tax havens and the author of two books about the issue, wrote that Canada had "made a travesty" of TIEAs (created by the OECD) by adding "a provision of its own" through "section 5907 (11) of Canada's Income Tax Regulations."

Deneault noted that this "new loophole" created by a tax code change was endorsed by a 2008 federal advisory panel which "included an ex-chairman of the board of the Royal Bank of Canada and an ex-CEO of SNC Lavalin Group, a retired Scotiabank executive who was a director of Barrick Gold and Rogers, an international tax expert from Pricewaterhouse Coopers, and a retired Shell Canada executive."

As Deneault bluntly put it, "While claiming to fight tax fraud, Ottawa legalizes its every aspect. At the same time, its honour is untarnished in that it actively looks for TIEAs to sign and can therefore boast of being part of the international initiative instigated by the OECD. Fighting tax fraud by making it legal: this is truly Orwellian."

As far as I can determine, no other country has this arrangement.

Both the CBC and the *Toronto Star* reported this Orwellian situation in 2016 and stated that the Trudeau Liberals had done nothing to change it. In June 2017, the day after Ginette Petitpas Taylor signed the other Paris agreement, the *Toronto Star* again raised the issue.

I suspect that the Liberal government, which had said that Canada would be "a really strong voice" on the offshore tax haven issue, felt there might be a need to distract attention from the matter, before the whole issue of tax havens could further galvanize Canadian taxpayers.

What better way to distract attention than to get Dr. Joe Blow Incorporated fighting with Dr. Jane Doe Unincorporated about income tax? Six weeks after the BEPS Agreement was signed on June 7, Morneau's Finance Department released the plan to remove those three tax loopholes benefitting incorporated professionals – sparking outrage throughout the summer and autumn.

Driving the Narrative

Before Morneau's alleged conflicts of interest became an issue in mid-October, the pundits had a field day. For example, *The Globe and Mail's* Campbell Clark wrote (September 6) that this is Morneau's "first real fight" and he's "eager" to take it on. "He wanted this. He wants to take on the argument that if the government does not stop the use of private corporations for personal tax advantages, Canada will have a two-tier tax system for incorporated business people and everybody else – and that gap will grow bigger over time." As Morneau told reporters in Vancouver on September 6, "We want to make sure…that we're not creating an ongoing tax advantage for a privileged few."

Such things were being said with a straight face as Morneau and Trudeau metaphorically put on their Robin Hood costumes.

During the height of the rhetoric, Conrad Black called Morneau's tax plan "a seismic lurch to the left." Actually, the original tax plan fits rights into the neoliberal economic agenda of shifting the tax burden further away from multinational corporations.

So what was the one thing that almost never came up? I followed the issue (in print) from mid-July to the end of October and found only three articles that referred to tax havens. In each instance it was an NDP member of Parliament that raised the offshore issue.

Various tax experts estimated that the most that would be collected per year from Morneau's original tax plan (most of it later rolled back) was about $250 million. Meanwhile, Dennis Howlett of Canadians for Tax Fairness (CTF) was estimating in September that because of offshore tax havens, at least $8 billion in Canadian taxes on multinational corporations goes uncollected annually.

During the height of the rhetoric, Conrad Black called Morneau's tax plan "a seismic lurch to the left." Actually, the original tax plan fits rights into the neoliberal economic agenda of shifting the tax burden further away from multinational corporations.

After the November 5 release of another tax havens data-leak called the Paradise Papers, CTF revised its estimate to between $10 billion and $15 billion per year in Canadian tax losses due to tax havens. In their important November 2017 report, "Bay Street and Tax Havens: Curbing Corporate Canada's Addiction," CTF stated that this amount would be enough to fund Pharmacare, universal childcare, free university tuition, and infrastructure improvements in First Nations communities all at the same time.

On November 8, PM Trudeau tried to quell the uproar about the Paradise Papers by telling the press, "We have done much in regards to tax avoidance and tax evasion, including working with international partners."

It's a tired old line that we've heard before. Not only have those international partners delivered a tepid BEPS Agreement, but the Trudeau government continues (as Alain Deneault puts it) "to fight tax fraud by legalizing it."

Good News

As a *Toronto Star* editorial (November 8, 2017) noted, "The Paradise Papers are doing nothing to soothe those who worry about the unseemly intertwining of money and power in politics or about the extent to which the economy is rigged by the few against the many. The government can do something about that. It can, for instance, close unfair and ineffective tax loopholes and collect what's owed. Or it can sit back, defend the current arrangements and watch the cynicism grow."

The good news is that the BEPS Agreement is still being negotiated internationally and could be rewritten to take much stronger action against tax evasion and tax avoidance.

Similarly, the tax code changes that the Harper government added as a provision to TIEAs could be eliminated.

Both of these changes would need a loud, concerted and immediate push from the Canadian public. In other words, this is no time for either apathy or cynicism.

Joyce Nelson's latest book is Beyond Banksters: Resisting the New Feudalism. *The sequel,* Bypassing Dystopia, *will be published by Watershed Sentinel Books in March 2018.*

Our Comment

And as if all this were not enough!

In *The Panama Papers*, Bastian Obermayer, and Frederik Obermaier report that, "the offshore industry is not only about avoiding unwanted taxes, but also about avoiding unwanted laws, regulations or obligations " (page 185).

They quote Nicholas Shaxton, the British author of *Treasure Islands: Tax Havens and the Men who Stole the World,* who writes that "offshore is a project of wealthy and powerful elites to help them take the benefits from society without paying for them," and that the offshore world is the "biggest force for shifting wealth and power from poor to rich in history" (page 185).

The panama papers chronicle "the largest leak in the history of journalism…." "What followed was a thrilling and secret year-long journalistic collaboration across more than eighty countries" (page VIII).

Germany's *Süddeutsche Zeitung*, a paper based in Munich, received an anonymous message in early 2015, offering data. The paper "has an excellent track record of working on difficult and important investigations" (page VIII).

The enormous task of processing the data, and the account of the collaborative project that carried it through is a testament to an extraordinary example of positive investigative journalism.

Add to that the efforts of organizations like Canadians for Tax Fairness, publications like *The Guardian* and *The Watershed Sentinel*, and investigative journalists of the calibre of Joyce Nelson – and we are lucky indeed in our resources!

Let's support their efforts and spread the word!

Élan

Part II: Student Debt Slavery — Time to Level the Playing Field

Part I of this article appeared in the November–December 2017 issue of ER.

By Ellen Brown, Common Dreams, January 5, 2018

The lending business is heavily stacked against student borrowers. Bigger players can borrow for almost nothing, and if their investments don't work out, they can put their corporate shells through bankruptcy and walk away. Not so with students. Their loan rates are high and if they cannot pay, their debts are not normally dischargeable in bankruptcy. Rather, the debts compound and can dog them for life, compromising not only their own futures but the economy itself.

"Students should not be asked to pay more on their debt than they can afford," said Donald Trump on the presidential campaign trail in October 2016. "And the debt should not be an albatross around their necks for the rest of their lives." But as Matt Taibbi points out in a December 15 article, a number of proposed federal changes will make it harder, not easier, for students to escape their debts, including wiping out some existing income-based repayment plans, harsher terms for graduate student loans, ending a program to cancel the debt of students defrauded by ripoff diploma mills, and strengthening "loan rehabilitation" – the recycling of defaulted loans into new, much larger loans on which the borrower usually winds up paying only interest and never touching the principal. The agents arranging these loans can get fat commissions of up to 16 percent, an example of the perverse incentives created in the lucrative student loan market. Servicers often profit more when borrowers default than when they pay smaller amounts over a longer time, so they have an incentive to encourage delinquencies, pushing students into default rather than rescheduling their loans. It has been estimated that the government spends $38 for every $1 it recovers from defaulted debt. The other $37 goes to the debt collectors.

The securitization of student debt has compounded these problems. Like mortgages, student loans have been pooled and packaged into new financial products that are sold as student loan asset-backed securities (SLABS). Although a 2010 bill largely eliminated private banks and lenders from the federal student loan business, the "student loan industrial complex" has created a $200 billion market that allows banks to cash in on student loans without issuing them. About 80 percent of SLABS are government-guaranteed. Banks can sell, trade or bet on these securities, just as they did with mortgage-backed securities; and they create the same sort of twisted incentives for loan servicing that occurred with mortgages.

According to the Consumer Financial Protection Bureau (CFPB), virtually all borrowers with federal student loans are currently eligible to make monthly payments indexed to their earnings. That means there should be no defaults among student borrowers. Yet one in four borrowers is now in default or struggling to stay current. Why? Student borrowers are reporting widespread mishandling of accounts, unexplained exorbitant fees, and outright deception as they are bullied into default, tactics similar to those that homeowners faced in the foreclosure crisis. The reports reveal a repeat of the abuses of the foreclosure fraud era: many borrowers are unable to obtain basic information about their accounts, are frequently misled, are surprised with unexpected late fees, and often are pushed into default. Servicers lose paperwork or misapply payments. When errors arise, borrowers find it difficult to have them corrected.

Abuses and fraud in handling student loans have brought the Education Department's loan contractors under fire. In January 2017, the Consumer Financial Protection Bureau sued Navient, one of the largest contractors, alleging that the company "systematically and illegally [failed] borrowers at every stage of [student loan] repayment."

Getting a Fair Deal

The federal government could relieve these debt burdens, given the political will. A stated goal of the changes being proposed by the Trump Administration is to simplify the rules. The simplest solution to the student debt crisis is to make tuition free for qualified applicants at public colleges and universities, as it is in many European countries and was in some US states until the 1970s. If the federal government has the money to lend to students, it has the money to spend on their tuition (capped to curb tuition hikes). It would not only save on defaults and collections but could turn a profit on the investment, as demonstrated by the seven-fold return from the G.I. Bill. (See Part 1 of this article.)

Alternatively, the government could fund tuition costs and debtor relief with a form of "QE for the people." Instead of buying mortgage-backed securities, as in QE1, the Fed could buy SLABS and return the interest to students, making the loans effectively interest-free (as were the $16+ trillion in loans made to the largest banks after the 2008 crisis). QE that targeted the real economy could address many other budget issues as well, including the infrastructure crisis and the federal debt crisis; and this could be done without triggering hyperinflation.

> **About Our Commenter**
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> 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.

Needless to say, however, the government is not moving in that direction. While waiting for the government to act, there are things students can do; but first they need to learn their rights. According to a new survey reported in November 2017, students are often in the dark about key details of their student loan debt and the repayment options available to them.

Under the Borrower's Defense to Repayment program, you can if you can prove they were based on deception or fraud. That is one of the alternatives the Administration wants to take away, so haste is advised; but even if it is taken away, fraud remains legal grounds for contract rescission. A class action for treble damages against offending institutions could provide significant financial relief.

Students also have greater bankruptcy options than they know. While current bankruptcy law exempts education loans and obligations from eligibility for discharge, an exception is made for "undue hardship." The test normally used is that paying the loan will prevent the borrower from sustaining a minimum standard of living, his financial situation is unlikely to change in the future, and he has made a good faith effort to pay his loans. According to a 2011 study, at least 40 percent of borrowers who included their student loans in their bankruptcy filings got some or all of their student debt discharged. But because they think there is no chance, they rarely try. Only about 0.1 percent of consumers with student loans attempted to include them in their bankruptcy proceedings. (Getting a knowledgeable attorney is advised.)

For relief as a class, students need to get the attention of legislators, which means getting organized. Along with degree mill fraud and contract fraud, a cause of action ripe for a class action is the student exclusion from bankruptcy protection, a blatant violation of the "equal protection" clause of the Fourteenth Amendment. If enough students filed for bankruptcy under the "undue hardship" exception, just the administrative burden might motivate legislators to change the law.

States to the Rescue?

If the federal government won't act and individual action seems too daunting, however, there is a third possibility for relief – state-owned banks that cut out private middlemen and recycle local money for local purposes at substantially reduced rates. The country's sole model at the moment is the Bank of North Dakota, but other states now have strong public banking movements that could mimic it. A November 2014 article in *The Wall Street Journal* reported that the BND was more profitable even than J.P. Morgan Chase and Goldman Sachs. The profits are used to improve education and public services.

According to its 2016 annual report, the BND's second largest loan category after business loans is for education, with nearly a third of its portfolio going to student loans. As of December 2017, the BND's student loan rates were 2.82% variable and 4.78% fixed, or about 2% below the federal rate (which ranged from 4.45% to 7% depending on the type of loan), and about 5% below the private rate (currently averaging 9.66% fixed and 7.81% variable interest). The BND also acts as the servicer of these loans, bypassing the third-party servicers abusing the system in other states.

In 2014, the BND launched its DEAL One Loan program, which offered North Dakota residents a unique option to refinance all student loans, including federal, into one loan with a lower interest rate and without fees. DEAL loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the BND.

The BND also makes 20-year school construction loans available at a very modest 2% interest. Compare that to the Capital Appreciation Bonds through which many California schools have been forced to borrow to build needed infrastructure, on which they have wound up owing as much as 15 times principal.

The BND's loan programs have helped keep North Dakota's student default rates and overall student indebtedness low. As of January 2017, the state had the second lowest student default rate in the country and was near the bottom of the list in student indebtedness, ranking 44th. Compare that to its sister state South Dakota, which ranked number one in student indebtedness.

The public banking movement is now gaining ground in cities and states across the country. A number of cities have passed resolutions to pull their money out of Wall Street banks that practice fraud as a business model. In New Jersey, Governor-elect Phil Murphy has made a state-owned bank the funding basis of his platform, with student loans one of three sectors he intends to focus on. If that succeeds, other states can be expected to follow suit.

We need to free our students from the system of debt slavery that has financialized education, turning it from an investment in human capital into a tool for exploiting the young for the benefit of private investors. State-owned banks can make the loan process fair, equitable and affordable; but their creation will be fought by big bank lobbyists. An organized student movement could be an effective counter-lobby. Historically, debt and austerity have been used as control mechanisms for subduing the people. It is time for the people to unite and take back their power.

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

Our Comment

The inequitable treatment of "bigger players" and students is in no way justifiable – especially given that students are such a singularly important social investment that students shouldn't have to borrow in the first place, to buy a post-secondary education.

The hypocrisy pointed out by Matt Taibbi, and the exploitation of student debtors by agents and by banks is a disgusting evidence of a failed society.

Surely, the lack of political will springs from the lack of an understanding of the money system for, otherwise, why on earth would parents ever tolerate this extraordinary injustice to which their children are being subjected?

No wonder the University of Toronto has had to establish a counselling service for students seriously considering suicide!

The *best* alternative to student debt slavery – and to all debt slavery – must come from a public understanding of the truth about money and power.

Ellen Brown is a giant among those who understand that truth, and is able to successfully share that understanding with others.

Élan

Carillion and the Latest Privatisation Scandal

Public Goods, John McDonnell and We Own It, January 16, 2018

This week 20,000 Carillion workers and many more in the supply chain have had their livelihoods put at risk. The responsibility lies with this shambolic Tory government and mismanagement by Carillion's fat-cat bosses.

The collapse of Carillion, embarrassing for a government that had championed the company and awarded it contract after contract, represents another significant blow to the "private knows best" economic dogma.

Nothing has come to symbolise the worship of free-market solutions – often against all the evidence – more than the persistent belief that key public services would be better provided by profit-seeking companies. As the journalist Robert Peston put it, the collapse of Carillion represents the definitive end of a 25-year love affair with the private provision of public services.

Revealing Details

The end of the affair has revealed some unedifying details about some of the participants in it: the apparent reliance by Carillion's management on "low-balling" bids to win them, then sweating suppliers and workers to squeeze a profit; Chris Grayling's insistence on awarding Carillion the High Speed 2 (HS2) contract even after its first profit warning; David Cameron's decision to appoint Carillion's chairman, Philip Green, as an adviser on corporate responsibility.

The former chancellor George Osborne declared as recently as 2014 that the deal he signed to help Carillion win business in Dubai was a key part of the coalition's "long-term economic plan." Since Osborne left parliament, the firm he now advises reportedly took out bets on Carillion's downfall. And yet in his *Evening Standard* editorial Osborne preferred to pass responsibility to civil servants, rather than the elected politicians who signed off deals with Carillion.

It's hard to imagine a more perfect example of the grubby nature of the Tory establishment than a career that goes from signing off deals with Carillion, to advising a company that has sold their shares, to using your media platform to blame the people who worked under you.

Of course, Osborne is not alone at the Treasury in his commitment to Carillion. At Treasury questions, Liz Truss confirmed that the Treasury signed off on spending decisions. The chancellor, Philip Hammond, is among those who need to account for why Carillion continued to be given contracts even after it was clear the company was in trouble. That is why I called for a full public inquiry so that we can get to the bottom of this matter.

Labour Against Privatisation

Jeremy Corbyn and I have long opposed and campaigned against the privatisation of core government services. It's many years too late, but hopefully the government will finally admit the utter failure of its economic model and its consequences for public services.

Since Corbyn became leader of the Labour Party, he has put decisive opposition to the private finance initiative (PFI) and outsourcing at the centre of our plans for an efficient and accountable public sector.

It's why Andrew Gwynne, the shadow communities secretary, announced that the next Labour government would make delivering local services in-house the default option.

It's why Corbyn said from the start that we would sign no new PFI deals when in government.

And it's why I announced last September that we would move to bring existing deals in-house by taking ownership of the special purpose vehicles to deliver savings for the taxpayer.

The government could move now to bring an end to the scandalous rip-off of outsourcing. It could refuse to allow PFI projects to pay dividends to offshore fund shareholders, for example – with nearly half of all PFI contracts owned by nine offshore funds, that would be a significant start. Or it could recoup dividends paid out by construction firms that have admitted partici-

Continued on page 18

What a Year It Was!

By Bernie Sanders, Reader Supported News, January 2, 2018

Maintaining a vibrant democracy based on principles of justice has never been easy. In these dangerous and unprecedented times, it may be more difficult than ever.

Yes. We all know that we have seen a president take office who is the most dishonest, bigoted, divisive and reactionary president in the modern history of our country.

We have also seen a right-wing extremist, Republican Congress attempt to throw up to 32 million Americans off of the health care they have, give hundreds of billions in tax breaks to the richest people in our country and the largest corporations, destroy environmental legislation and work overtime to deny women the right to control their own bodies.

Yes. We have seen all of that and much more. But we are also seeing something else that, from an historical perspective, is far more important. We are seeing the American people come together, fight back and win important victories all across the country.

During my campaign for president in 2016 I stated over and over again that the future of our country was dependent upon our willingness to make a political revolution. I stressed that real change never occurs from the top on down. It always happens from the bottom on up. No real change in American history, not the labor movement, the civil rights movement, the women's movement, the gay rights movement, the environmental movement or any other movement has ever had success without grassroots activism, without millions of people engaged in the struggle for justice.

That's what I said when I ran for president. That's what I believe now and that's what millions of us have been working to accomplish over the last several years. At a time of massive and growing income and wealth inequality, when our nation moves closer and closer to an oligarchic form of society, we are working hard and effectively to create an unprecedented grassroots political movement to defeat the greed of the billionaire class and the politicians they own.

And the good news is that we're making progress. In state after state ordinary Americans are successfully taking on establishment politicians who are more concerned about protecting their wealthy campaign contributors than the needs of the middle class or working people they are supposed to represent.

In 2017 we made progress when millions of people, in every state in the country, took to the streets for the Women's March in opposition to Trump's reactionary agenda. We made progress when an unprecedented grassroots movement elected a young African-American as mayor of Birmingham, Alabama. We made progress when tens of thousands of Americans turned out in rallies and town meetings to successfully oppose the Republican efforts to repeal the *Affordable Care Act*, and we're making progress when more and more Americans are joining the fight for a Medicare-for-all, single-payer program.

We're making progress when governors and local officials in every part of the country announce, in response to student demands, tuition-free public colleges and universities. We're making progress when states and communities from coast to coast adopt legislation which provides a minimum wage of $15 an hour.

We're making progress when, on Election Day, November 7, 2017, in local and state elections all across the country, Trumpism suffered a major defeat as hundreds of progressive first time candidates from every conceivable background ran for school board, city council, state legislature and other local offices – and many of them won.

We're making progress when, on December 10, 2017, a strong Democrat was elected to the US Senate from Alabama, one of the most conservative states in the country.

The truth is that the American people are far more united than the media allows us to believe. They get it. They know that over the last 40 years, despite a huge increase in worker productivity, the middle class has continued to shrink while the very rich have become much richer. They know that, for the first time in the modern history of the United States, our kids will likely have a lower standard of living than their parents.

Our job, in 2018 and beyond, for the sake of our kids and grandchildren, is to bring our people together around a progressive agenda.

Are the people of our country deeply concerned about the grotesque level of income and wealth inequality that we are experiencing? You bet they are. Do they believe that our campaign finance system is corrupt and enables the rich to buy elections? By overwhelming numbers.

Do they want to raise the minimum wage to a living wage and provide pay equity for women workers? Yes they do. Do they think the very rich and large corporations should pay more in taxes so that all of our kids can have free tuition at public colleges and universities? Yup. Do they believe that the United States should join every other major country and guarantee health care as a right? Yes, again. Do they believe climate change is real? You've got to be kidding. Are they tired of the United States of America, the wealthiest country in the history of the world, having a crumbling infrastructure with roads, bridges, water systems, wastewater plants, airports, rail, levees and dams falling apart? Who isn't?

Further, a majority of the American people want comprehensive immigration reform and a criminal justice system that is based on justice, not racism or mass incarceration.

Today, what the American people want is not what they are getting. In fact, under Republican leadership in the House, Senate and White House, they are getting exactly the opposite of what they want.

The American people want a government which represents all of us. Instead, they are getting a government which represents the interests and extremist ideology of wealthy campaign contributors. They want environmental policies which combat climate change and pollution, and which will allow our kids to live in a healthy and habitable planet. Instead, they are getting executive orders and legislation which pushes more fossil fuel production, more greenhouse gas emissions and more pollution. They want a nation in which all people are treated with dignity and respect, and where we continue our decades long struggle to end discrimination based on race, religion, gender, sexual orientation or nation of origin. Instead, they have a president who seeks to win political support appealing to those very prejudices.

Maintaining a vibrant democracy based on principles of justice has never been easy. In these dangerous and unprecedented times, it may be more difficult than ever.

As a result of the disastrous Citizens United Supreme Court decision, billionaires are now able to spend hundreds of millions in ugly TV ads demonizing candidates who dare to stand up to them. Republican governors and legislatures are working to suppress the vote, making it harder for people of color, poor people and young people to vote. Republican state legislatures have created incredibly gerrymandered districts which unfairly protect Republican candidates.

Yes, I know. These are painful and frightening times. Many friends have told me that they have given up reading the papers or watching TV. But let us be clear. Despair is not an option. Not today. Not tomorrow. Not anytime. That is exactly what our enemies want. Also, please never forget that the struggle we are engaged in is not just for us. It is for our kids and grandchildren. It is for the future of the planet.

So here is a New Year's resolution I hope you will share with me. In 2018 we will not only intensify the struggle against Trumpism, we will increase our efforts to spread the progressive vision in every corner of the land. Yes. We will create a vibrant democracy where the voices of all people are heard. Yes. We will create a nation which leads the world in the struggle for peace, and for economic, social, racial and environmental justice.

The struggle continues.

Our Comment

What a time to "negotiate" a trade treaty with the US!

When the American people are themselves engaged in such a struggle for social justice, what sort of *fair* trade might we expect at the hands of the present US administration?

Might we not better serve ourselves and our American friends by daring to risk standing on our own two feet, and trying to resume the social progress we enjoyed before the global neoliberal takeover?

Élan

Surfing the Economy

Exposing the Risks of Global Finance: Peter Dittus on "Playing with Fire"

theREALnews.com, March 5, 2018

Former BIS chief, author of Revolution Required*, praises the insights of Akyuz's book,* Playing with Fire*, notably in uncovering the current state of financial fragility triggered by the G7, worsened by the absence of international mechanisms to recover from systemic debt fall-outs.*

LYNN FRIES: For The Real News, I'm Lynn Fries in Geneva with a report on the state of the global economy and finance based on a shoot that I did at the United Nations Geneva on *Playing with Fire*, a new book by South Centre Chief Economist Yilmaz Akyüz. This segment features comments on *Playing with Fire* by Peter Dittus, who was Secretary General of the BIS, the Bank for International Settlements, from January 2005 through December 2016.

We open with an introduction by a prominent figure from the Global South, Dr. Y.V. Reddy, former Governor of the Reserve Bank of India.

Y.V. REDDY: The first question we should ask ourselves: Is there such a divide about the opinion, our opinion, and the opinion in G7 countries about what's happening? Is there? I'm afraid, there's not that much of a difference in some ways. And I'll read out something, a few paragraphs, and then you should guess where it is from.

First: "The global financial system remains fragile. The world economy struggles to recover. Climate change accelerates. Digitalization and globalization depress wages. Income inequality is on the rise. Geopolitical turbulences are spreading. Lies are presented as truths. Truth remains unspoken. And people are angry. Karl Marx thought that capitalism was sowing the seeds of its own destruction eventually leading to a revolution. We believe that rather than anonymous forces, it is the policies of the G7 counties that are now undermining the foundations of the market economy. The G7 policies in the domains of monetary policy, fiscal and macro-economic policy, prudential policy, defense and climate change policy have a common feature: They are lax, reckless, and irresponsible."

Next: "Not only G7 central banks have no lasting impact on potential growth but their unconventional monetary policies may actually lead to resource misallocation in favor of low productivity sectors."

Then it says, this book: "A monster has been created which is still not under control. Increasingly it seems as if the 2008 great financial crisis may only have been a dress rehearsal for a worse crisis which lies ahead. It will come as the result of the excessive use of the monetary printing press, the build-up of asset price bubbles, the debt accumulation created by low and negative interest rates."

It is from the book written by Peter. The title of the book is *Revolution Required: The ticking time bombs of the G7 model.* So you have two books here. One is called *Revolution Required* and the other is called *Playing with Fire.* So you have to read them together. And this one, again it says: "Deepened Financial Integration and Changing Vulnerabilities of the Global South." There's the difference. This says vulnerability of the South. This says vulnerability of all.

LYNN FRIES: We turn now to a com-

mentary on *Playing with Fire* by Peter Dittus.

PETER DITTUS: It's extremely timely, before, because it analyzes some of the fragilities that will make the next crisis as it's building up very, very difficult. But, it says so before the crisis is coming. And I think that's a huge value. I look at the book, I think it has, if you read all the chapters, it has a very compelling logic. And the logic, in my mind…. I mean, everyone reads with his own mind, if you read a novel or a piece. So with my mind, the logic in the book is first, it describes and analyzes in a lot of detail and richness, the integration and the financial integration, in particular, between emerging and developing countries and advanced economies. What is very strong and most of – I don't know how many are economists – most people sort of look at these issues with a little bit of a sort of superficial view. And most of them look at what's the net asset position and, well yes, we are too highly indebted.

And the great strength of the book is, in my view, is that it looks at cross-positions. Because behind every position, everything may net out to zero, but the cross positions will be huge. And the cross-positions don't net out between the same people. There are different actors, different types of instruments, different residencies, different countries, different exchange rates, different base currencies behind. And even if on the basis of a net analysis you come to the conclusion: This country is fine. There's no reason to worry. If you look at the cross-figures and what is behind, then you may very quickly get worried even if the net figures are zero.

Now, what does that lead to? Now, if you look at this detailed analysis, it leads to a situation where actually the vulnerabilities of emerging economies have actually increased. Despite the fact that, yes, you have floating exchange rates. You have a reserve accumulation to try to cover yourself. You have much better fiscal positions than we have had in the past. But the bottom line is due to this – huge cross-assets both on liability and the asset side – the fragility and the potential exposure to crisis in the world has actually increased and the policy options to deal with it have decreased. And I think that's a very strong message in this book. And if you boil it down, in the current situation it's basically, it's not the governments, it is the private and corporate debt that has increased tremendously and where we understand very little about the structure and the developments of that part because much of it is even inter-enterprise. So that it doesn't appear in any of the usual statistics.

Now, so far this has been rather for the good. It's like someone, there's someone…. It reminds me of the joke – someone is sort of in a high-rise building looking out of the window at a guy who is flying, falling down. And he asks him, "How is it going?" And the guy says, "Well, so far so good." And I think a little bit this is what's happening. So far this has been pretty much to the good. I mean, everything looks good. It's a sunny, sunny day. It's a sunny season. It's wonderful, but why has it been so wonderful?

And this is I think where we come to the darker part of the picture. Well, it has been…this is what is described in the initial part of the book, chapters one and two. The reason why it has been so sunny, despite all these built up vulnerabilities, is that in the advanced economies, and in particular the US, the Eurozone and Japan, the monetary policy has been extremely loose. Lots of actually financial instruments are traded at negative rates. So people who want to make some money, they don't find possibilities to make money. So the funds are chasing yield. And that means that there are tremendous financial flows to emerging economies and the risk appetite has increased tremendously.

How is that going to develop further? Well, we don't really know. But sort of the book has a big question mark and a big caution for us. And if we look at where this all comes from, it's not so encouraging. So let me just spend a few minutes on where this has all come from.

Well there's a saying that the road to hell is paved with good intentions. And I think that's actually how it started. Because when we had the big financial crisis of 2008, basically central banks all over the world, they pulled out the stops and said: Well, let's not have a Great Depression as we had in 1929/30 but let's prevent this. We have learned from history. Well, they learned from history, that's great. And they rolled out quantitative easing programs and said: Well, and once it has stabilized and the confidence has rebuilt we are going to, of course, to normalize the policies.

Now, why are we still in 2017 in a situation where we have huge QE programs and negative rates? Well, I think there are two reasons. One is as you mentioned already, that the central banks, rather than matching financial analysts trying to figure out what the central banks are doing, central banks are trying to figure out what financial markets are doing. And as soon as you try to normalize policies you have a temper tantrum. Or you can see it currently in the UK where Marconi tries to raise the rates – inflation is running at 3 percent – all the financial markets come out saying: It's not the time. Times are difficult. The economy is not so strong. Brexit. Let's wait another bit. And it's always, let's wait. So and the central banks have become, I would say, in some countries, hostage to financial markets.

But they have also become hostage to governments. Because behind the scenes, what has happened during all this low interest rate period is that there has not been a lot of consolidation and debt reduction. And this is also described very aptly in the book. What has happened is that debt has been built up. And it has been built up to levels in the advanced countries that are quite unprecedented for peacetime. During wars, you have seen these levels of debt, in peacetime, not. And for example, in the Eurozone, the government indebtedness from 2008 to now has risen from 72 percent of GDP to 109 percent of GDP. So that's not a small figure. What has happened at the same time is that asset prices have risen. Now you can look across the spectrum of asset prices. Let me just quote one figure. That is if you look at the price-earnings ratio [P/E ratio] – sort of normalized to take out fluctuations so the Schiller Price-Earnings Ratio – in the States, this is now higher than it was before the Great Depression in 1929. And it has never been higher before, with one exception, and that was in 2000-2001.

And, finally, another element of this is because one of the reasons why we have these policies is, of course, well, at least the economy is doing well. And this is also described very well in the book. The economy is not doing so well. This has not led to a big investment boom. Investment is actually very low. What is big is investment in share buybacks and financial engineering. But in real investment, it's very low. Productivity is very low. I don't have the time…if you don't want to go into this in greater detail, I guess, right now here. But basically, we have huge debt, high asset prices, low investment in the real activity. And at some point, this is going to blow up. Now, we don't know how it's going to blow up and when. And it may be much, much longer than we actually think.

I think coming back to reading the book, I think is very helpful because basically the book looks also at some of the mitigating factors. When the crisis hits, what could one do? And it says: Well, don't trust that someone else is going to do it for you. Because, it says, the international mechanisms that one could think of to deal with them – whether it's in the IMF or multilateral organizations – the international mechanisms are totally inadequate to deal with a major crisis and the fallout on your country. And it doesn't matter which country, just any country. It says: Well, prepare for the crisis because you can look in the statistics and you can see you are hugely exposed. And on a sort of deeper note perhaps let me just finish, it also says: Well, think about how you manage this integration before going out and saying, well, it's great. Money is flowing in. Think about more deeply, what do you really want out of integration? And integration, it's not…I mean, financial flow is not a natural phenomenon like airflows. You decide in the policy space: What do you want to get out of it? And you set the rules. And I think one shouldn't be afraid of actually doing that and setting the rules. So one gets a benefit out of these flows and is not a kind of hostage to these flows. Thank you.

LYNN FRIES: On that note, we round things off with a further quote from the book co-authored by Peter Dittus.

"People sense something is wrong with the way political and economic elites in the G7 countries are discharging their responsibilities. The current trajectory of economic policies in the G7 countries, we believe, is leading to a systemic crisis that will call into question many of the beliefs that the capitalist system is built on. No one can know when this tectonic shift will occur, nor what will emerge from it. We believe it will be a major turning point. The trigger for this revolution will be the loss of confidence in the Alice in Wonderland world, when suddenly people will realize that the accumulated debt in G7 countries cannot be serviced and that asset values were artificially boosted by monetary policies that cannot continue."

This concludes Part 1 of our report. We'll be back with another segment featuring Yilmaz Akyüz as an author's commentary on *Playing with Fire.* Special thanks to the South Centre as organizer and moderator of this event. And to UNCTAD as host at the United Nations, Geneva. And thank you for joining us on The Real News Network.

Yilmaz Akyuz is the Chief Economist of the South Centre. He was previously Director of the Division on Globalization and Development Strategies at the United Nations Conference on Trade and Development (UNCTAD) when he retired in August 2003. He was the principle author and head of the team preparing the Trade and Development Report, and UNCTAD coordinator of research support to developing countries (the Group-of-24) in the IMF and World Bank on International Monetary and Financial Issues. Dr. Akyuz has published extensively in macroeconomics, finance, growth and development. His most recent book is Playing With Fire, Deepening Financial Integration and Changing Vulnerabilities of the Global South.

Peter Dittus is the owner of arCandide consulting and currently working as a consultant to public organizations. Previously Dr. Dittus was Secretary General of the Bank for International Settlements from 2005 to 2016. He joined the BIS in 1992 as an economist and since 1995 had assumed increasingly senior responsibilities in the Bank. In 2000, he was appointed Deputy Secretary General and became a member of the Bank's Executive Committee. Before joining the BIS, he worked as an economist at the World Bank and OECD.

Yaga Venugopal (Y.V.) Reddy was Governor of the Reserve Bank of India from 2003 to 2008. Dr. Reddy was Chairman of the Fourteenth Finance Commission in 2013-14. Previously, he worked in the Government of India as Secretary in the Ministry of Finance, and in the Government of Andhra Pradesh as Principal Secretary. Dr. Reddy is also a recipient of the Padma Vibhushan, India's second highest civilian award. Currently, he is Honorary Professor at the Centre for Economic and Social Studies in Hyderabad. He is also a member of the Board of the South Centre.

Our Comment

What if the market economy *is* the problem? As Jack Rasmus argues in *Central Bankers at the End of Their Rope? Monetary Policy and the Coming Depression*, traditional economists are stuck on *real*-economy data, and don't recognize that tools that worked there, are not a viable option in dealing with the globally financialised economy.

Quantitative easing flooded the finance sector with liquidity that went mostly into the same alchemy that brought the system down in 2007-8. That money led to the same sort of debt-driven finance orgy that traditionally ends another "bust," because the real economy is meanwhile starved of the liquidity essential to production and employment that enable workers to pay their debts.

Peter Dittus' advise is *extremely* timely. NOW is the time to educate ourselves to proposed alternatives – and they are out there! Future issues of the COMER Journal will carry articles dealing with the need for 21st century options.

Excellent resources, like the books referred to in this issue, are available through your local book store. But this challenge will require a cooperative approach. We need to find ways to share the task – reading groups, for example, whose members could be responsible for a chapter or two, and who could meet regularly to discuss the material. Attending seminars, and monitoring websites like The Real News Network are other good ways to clue in!

This is an investment we can *all* afford – one that *none* of us, in fact, can afford to neglect. *Élan*

2017 a Banner Year for Corporate Mergers, Which Further Deepens Inequality

The REAL news.com, January 2, 2018

Low interest rates, "quantitative easing," and the mitigation of antitrust laws led to more mergers and acquisitions in 2017, but that's only going to fuel greater wealth inequality and tighten the corporate grip on the political system, explains economist Michael Hudson.

Transcript:

GREGORY WILPERT: Welcome to The Real News Network. I'm Gregory Wilpert coming to you from Quito, Ecuador. The year 2017 is turning out to be another banner year for the centralization of capital, that is, according to an article in the Financial Times this week, "Global mergers and acquisitions exceeds three trillion dollars for the fourth straight year." The article goes on to point out the following: Faced with the prospect of Amazon's entry into the pharmacy business, the US's biggest drugstore chain, CVS Health, agreed to acquire health insurer, Aetna for about $69 billion. Encroachment by Facebook and Netflix into sports, media and film production led Rupert Murdoch to sell most of his 21st Century Fox empire to Disney in a $66 billion deal.

The US remained the most active region for mergers and acquisitions with $1.4 trillion in deals. The numbers of US deals struck in 2017 combined climbed above 12,400 for a record figure. The largest deal in 2017 has yet to be resolved as Broadcom pursues a hostile $130 billion bid for rival chip maker, Qualcomm. Joining me to analyze the causes and consequences of this massive centralization of capital in 2017 is Michael Hudson. Michael is a distinguished Research Professor of Economics at the University of Missouri–Kansas City. He's author of several books. The most recent among them is *J is for Junk Economics.* Welcome back, Michael.

MICHAEL HUDSON: Good to be back here.

GREGORY WILPERT: So, what at heart is causing all of this frenetic activity for companies to gobble up one another and thereby creating and ever greater centralization of capital?

MICHAEL HUDSON: Well, it's part of the neoliberal strategy to inflate the wealth of the 1%, basically by inflating the stock market and the real estate and the bond prices. At the same time, the central banks are pursuing quantitative easing that offer money at almost zero interest rates. You have the tax system, tax giveaways, to the… sector, which are encouraging these mergers and acquisitions by, essentially, dismantling the antitrust legislation that has been in place since the New Deal, and the tax giveaways that make it possible for all of this huge, hundreds of billions of dollar tax giveaways in the Republican tax law of two weeks ago that enables companies that have kept hundreds of billions of their earnings tax-free in offshore banking enclaves and tax avoidance centers.

Since 2004, all this money can now be replaced under the name of the head companies instead of their just-pretend foreign affiliates in these tax avoidance centers. So, the companies are going to be very tax rich. They've anticipated most of this and essentially, you can look at these mergers and acquisitions as part of an arbitrage operation. If you can get money at about 1%, if you're a hedge fund, a bank or a large corporation, if you can borrow at 1%, then you can borrow stocks that are yielding 10% or even more. Or, for that matter, even less and you can make up all the difference between the 1% you pay and the stocks whose dividends pay a higher rate of return, 5, 6, 7, 8, or 9%.

So, when you buy enough stocks to give you control of a target company, that's called mergers and acquisitions or corporate raid, and hedge funds have been doing this, corporate financial managers have been doing this. And essentially, with borrowed money, you can even borrow to take over or to raid a foreign company. So, you're having a whole consolidation process and that's pushed up the market. Because in order to buy a company, to have a merger, you have to offer more than the market price is. You have to convince existing holders of a stock to sell out to you by paying them more than they'd otherwise get.

But suppose you're a company and you don't want to be bought out. Suppose you're a corporation that is trying to defend yourself from this merger and acquisition movement. What you do is what they've done since the 1980s, and that is you take a poison pill by using your earnings to buy your own stock, or some companies even borrow to buy up their own stock, or they simply increase their dividend payouts so much that that pushes up the stock and leaves nothing in the corporate treasure chest to be raided by these raiders. So, on the part of attackers and defenders alike, you have a process that bids up the stock prices and since the vast majority of stocks are owned by the 1%, and certainly by the 10%, the effect is to increase the wealth of the 1 to 10% in comparison to the wages the bottom 99% get.

So, that, basically, is the financial and fiscal war in a nutshell.

GREGORY WILPERT: Just a quick question. You're saying that low interest rates and quantitative easing are among the key factors here, but aren't those policies also good for the bottom 90%? I mean, since it keeps interest rates low for ordinary borrowers such as people who have mortgages or credit cards to pay off and also that it helps keep unemployment low? Isn't that, perhaps, I mean, what would be the alternatives if you don't want to cause unemployment to go up by raising interest rates?

MICHAEL HUDSON: Why on earth would the 1% want to help the 99%? No, it hasn't helped them at all. If you're a member of the 99%, you don't get to borrow at 1%. Banks and hedge funds get to borrow at 1%. If you're a credit card customer, you're paying the same credit card rate as you're always paying and if you miss a payment, even to a utility company, then your rate still goes up to 29% or whatever. And if the bank won't lend you, you still have to pay 50% or 100% or 500% to the payday loan people. So no, the 99% have not benefited from quantitative easing. Quantitative easing is only to benefit the 1%, not to benefit the rest of the economy.

We're living in a world that's divided into two economies: the economy of the 1%, and the economy of the bottom 99%. I guess you could say, the top 10% versus the bottom 90%, but there's very definitely a stratification at work here.

GREGORY WILPERT: The *Financial Times* quotes analysts, also, who say that they expect mergers and acquisitions to

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Scandal *from page 13*

pating in blacklisting trade unionists, which includes Carillion.

It was never true that private was always better. But the obsession with outdated dogma, and a cosy relationship between a handful of powerful people, means this sordid love affair between big business and the public purse has gone on far longer than it ever should have.

As Corbyn said on Monday: "this scandal represents a watershed moment. We need to put an end to the rip-offs and failures of the outsourcing model."

And we need a Labour government committed to delivering much-needed investment in public services through an accountable and transparent funding structure. If the Tories won't wake up to the reality of the changing economic landscape, it's time they stood aside and let us take over. •

John McDonnell is shadow chancellor. This article first published by The Guardian.

After Carillion Collapse, Services Should Be Made Public

We Own It

After the collapse of the worldwide privatisation giant Carillion, political and public service leaders from Ontario and around the world are calling for its services to be brought back under public management and control.

"Carillion was a mess, and its sudden demise puts services, workers, and the public at needless risk," said OPSEU President Warren (Smokey) Thomas in a news release. "We have to protect ourselves from privatisation disasters like this by bringing these services back in-house."

In the release, Thomas points out Carillion's long track-record of problems in Ontario:

• In 2004, Carillion led the privatised design and construction of the William Osler Health Centre, which the Ontario Auditor General later said cost us a half-billion too much.

• In 2014, the company was fined $900,000 for failing to fulfil its contractual duties in highway maintenance.

• In 2016, the company pleaded guilty to illegally dumping oil and toxic paint coating.

• In 2017, the corporation abandoned its snowplowing contract in the Huntsville area after a string of complaints from the public.

"I'm demanding that our government face these facts and begin bringing privatised services back under public management, where they belong," Thomas said.

In the UK, where Carillion is based, Labour Party leader Jeremy Corbyn called the collapse a "watershed moment."

"It's time to put an end to 'rip-off' privatisation policies," Corbyn said in a video statement. "It's time we took back control. We not only need to guarantee the public sector takes over the work Carillion was contracted to do – but go much further and end contracts where costs spiral, profits soar and services are hollowed out."

Here in Ontario, *Postmedia* reports in the article Fears Over Ontario Highway Safety after Carillion placed in liquidation, that the provincial government paid Carillion more than $125 million for highway snowplowing services last year.

Ontario transportation minister Steven Del Duca told *Postmedia* that for the future of snowplowing, all options are being considered.

John McDonnell is shadow chancellor and the Labour MP for Hayes and Harlington, UK. This article first published by We Own It.

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Our Comment. Let us hope that Robert Peston is correct that, "the collapse of Carillion represents the definitive end of a 25-year love affair with the private provision of public services." *Élan* accelerate even more in 2018, and you touched on this when you mentioned the tax reform, the Republican tax reform. So, would you basically agree with that, that will probably accelerate and what are some of the underlying causes for a further continuation of this process of centralization?

MICHAEL HUDSON: Well, there are two underlying causes. For one thing, now that the Republicans are in power in the United States, and I don't think it would matter if Hillary's Democrats were in power, they're not enforcing the antitrust regulations. So, what deterred a lot of mergers and acquisitions in the past was, you'd be creating a monopoly and the antitrust laws prevented you. Now, they're saying, make a monopoly just to make sure the 99% pay through the nose from quantitative easing. You can make a monopoly, and you can charge the 99% more for monopolized prices. So, what you're having is an economic revolution. The aim of the 1% isn't to make money by profits, by employing labor. It's to make economic rent. It's to make monopoly rent, land rent and financial rent.

So, if you end, for instance, ending internet neutrality and permitting mergers of the big information technology corporations, that's a form of rent seeking. It's a political revolution. Now, another part of the tax law that is going to encourage the mergers and acquisition is the 100% depreciation write-off and what that does is, suppose, usually if a company makes a capital investment in either a building, or in a railroad, or an airplane, you get a credit to recover your capital expense. You only pay income tax on the profits, not on the return of capital.

However, now, instead of taking maybe 5% of the cost of this investment in an airplane, or a railroad, or track, or a building for a year, you can take 100% of it off, up to 100%, in any given year. What this does is make the corporations tax exempt altogether because now, suppose you're a company that actually simply lives on rent or even makes a profit but isn't investing much and as we all know, corporate investment is scaled way back because corporations aren't using their earnings to invest. They're using 92% of their revenue for stock buybacks or for dividend payouts in the last five years.

So, now all of a sudden the companies can use these earnings to buy, say, a capital spending company, like a railroad, a trucking company, an airline that's going to buy airplanes and by merging with this company, all of a sudden they get tax exemption on all of their other income that they earn because it's such a huge gusher of tax write-offs for the immediate 100% depreciation. Now, the pretense of Donald Trump was, "Oh, this is going to encourage capital investment." But the objective, the neoliberal objective, is not to make any real capital investment at all, not to employ any more labor at all, but just to get pseudo-investment by something that the tax law counts as an investment. And we don't know whether they're going to include research and development in this or market research. We don't really know how widely and broadly they're going to even define this capital investment write-off.

And of course the other point I mentioned is the ability to bring all this money back form offshore banking enclaves into the head office. That is going to be a flood of cash even greater than the quantitative easing at 1%, so the result is that there's going to be a free-for-all as companies just try to absorb as many other companies, especially capital-intensive companies like in the transport industry, as they can.

GREGORY WILPERT: So, as the centralization effect continues, what effect do you see this having on politics, that is, how do you expect people to react at the voting booths? And then, what might the Democratic and Republican parties, the Republican Party probably won't do anything since they're the ones who perpetrated this particular latest change in the tax law, but what do you expect the Democratic Party to do if they were to come into power?

MICHAEL HUDSON: Well, my answer may seem counterintuitive. I think the Republican tax law is so bad that it almost guarantees a Republican victory because it's so bad. But the seeming irony is, it's so bad that it enables the Democratic Party to think, "A-ha, it's so bad that all we have to do is be the lesser evil. We can now kick out all the supporters of Bernie Sanders, kick out anyone who supports Elizabeth Warren. We can now declare war on the pro-labor part of the Democratic Party whereas the Republican Party is the party of the 1%, we can be the party of the 10%, and we can all agree that we're against the 90%." And there's going to be such a bloodbath in the Democratic Party as the Hillary supporters fight against the Bernie supporters, fight against labor, fight against unionization, fight against consumers. That's basically the Democratic program and this is going to end up fracturing the Democratic Party.

I can't believe that Bernie and Elizabeth and the others are going to stand by and let the Democratic Party be captured by the donor class that controls it now, and I think there's going to be a bloodbath that is probably going to take more than four years. Finally, my hope is that the Democratic party will split, the donor class will go where it belongs with the rest of the Republican Party, leaving a rump party to become a new democratic party, either a democratic socialist party or something like the British Labour Party became when it threw off the Tony Blair overhead. That's what it looks like is going to happen in America. The lesser evil policy of the Democrats isn't going to wash much as really, a campaign against the awful Trump tax giveaway.

GREGORY WILPERT: Okay. Well, we're going to leave it there for now. I was speaking to Michael Hudson, Professor of Economics at the University of Missouri–Kansas City. Thanks again for having joined us today, Michael.

MICHAEL HUDSON: It's good to be here. Thanks.

GREGORY WILPERT: And thank you for joining The Real News Network.

Michael Hudson is a Distinguished Research Professor of Economics at the University of Missouri, Kansas City. He is the author of many books, including The Bubble and Beyond, *and* Finance Capitalism and its Discontents, Killing the Host-How Financial Parasites and Debt Destroy the Global Economy, *and most recently,* J is for Junk Economics: A Survivor's Guide to Economic Vocabulary in an Age of Deception.

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Our Comment. Imagine what 12 trillion dollars invested in the real economy could have accomplished! *Élan*

How the Americans Could Save Us from Ourselves on Free Trade

By David Orchard, Ottawa Citizen, January 18, 2018

In 1854, the Canadian colonies entered a free trade agreement with the United States. In 1866, the Americans cancelled it, believing that the Canadian colonies had become so dependent on the US economically that they would ask, or beg, for entry into the American Union.

Instead, the Canadians decided to take the bold step of independence. They negotiated a union of the Canadian colonies and began building a Canadian-owned and controlled economy, including the world's longest railway.

Canada's next major free trade agreement with the US was in 1988 (FTA), later expanded to include Mexico in 1994 (NAFTA). Under their terms, much of Canada's economy has been bought up by American owners – everything from Hudson's Bay Company to Tim Hortons and Stelco. Whole industries have been taken over by US investors, including both our national railways. US corporations have the right to sue Canada for any law or regulation that causes them loss or damage and which they feel contravenes the spirit of NAFTA. (Canada has been sued three dozen times and paid out more than $200 million in NAFTA penalties.)

However, the US government may again save us from ourselves.

The US is demanding even greater concessions from Canada in a "renegotiation" of NAFTA, including sweeping rights to buy up what is left of Canada's economy. It has stated that it is ready to trigger the six-month cancellation clause of NAFTA. In response, the Canadian government has spent millions trying to convince it not to do so.

As in 1866, Canada has a choice: to integrate itself even further into the US economy, giving up the dream of Canadian independence, or it can do what it did in 1866: step forward and build a Canadian-owned, world-class economy. It can stop pleading with the US to keep NAFTA and emerge as a significant competitor to our neighbour, not its colony.

Before Canada signed the FTA and NAFTA, it traded with the US and the rest of the world under the General Agreement on Tariffs and Trade (GATT), now the World Trade Organization (WTO). If the FTA and NAFTA were terminated, Canada would automatically return to trading with the US under the WTO, under whose terms we did much better than under the FTA and NAFTA.

Under the GATT/WTO, Canada has allies and the US was not able to impose punishing tariffs on our softwood lumber exports or our aircraft industry. It was unable to destroy our wheat marketing system, buy up our railways or shut down our steel industry.

Norway, much smaller than Canada, declined to enter the European Union although it was under great pressure to do so. It retained control of its oil and gas and other industries through publicly owned corporations. The result for Norway is no debt, no deficit, free child care and university education, virtually non-existent homelessness, free dental care for all under 18, generous old age pensions and a $1 trillion surplus in its sovereign wealth fund.

Canada by contrast, after almost three decades of "free trade" with the US, has more than $1.2 trillion in federal and provincial debt, large deficits at every level, no national child or dental care, high university tuition, miserly old age pensions, years of massive budget cuts, and giveaway prices for its exports of oil, gas, timber and minerals.

For 150 years, great Canadian leaders have warned that without an economic border with the Unite States, we would soon no longer have a political border.

We once owned the world's largest farm machinery maker, Massey Harris, headquartered in Toronto; built the world's largest and most respected marketer of wheat and barley, the Canadian Wheat Board, based in Winnipeg; created a great transcontinental railway system, beginning in Montreal, which tied our country together; and saw Vancouver's shipyards produce the beautiful Fast Cat ferry.

Instead of spending hundreds of billions on foreign-made machinery, electronics, automobiles, ships, fighter jets and passenger aircraft (even payroll systems for federal employees!), we can build our own, both for the domestic and export market.

We once designed and built the world's most advanced jet interceptor, the Avro Arrow, so we know it can be done. With Canada's resources and ingenuity, it could create a prosperous, domestically controlled economy that would give Canadians multiple benefits, security and pride of ownership. All that is required is some of the will that drove our ancestors to create an alternate power in North America. As George-Étienne Cartier, the great Québécois Father of Confederation, put it, "Now everything depends on our patriotism."

David Orchard was twice a contender for the leadership of the Progressive Conservative Party of Canada. He is the author of The Fight For Canada: Four Centuries of Resistance to American Expansionism. *He can be reached at davidorchard@sasktel.net.*

Our Comment

It was clear from the start! NAFTA has always been less than *free* and more than *trade!* And has continentalization, the possible ultimate consequence of "free trade," ever seemed less attractive?!

Élan