How The Debt Based Monetary System Functions in Canada

(Presentation by Connie Fogal at a conference October 2004 at Great Britain's Bromsgrove Group on monetary reform)

Recent figures from Statistics Canada and the Bank of Canada show that the total debt of all levels of Canadian government, individuals, and corporations is 2.27 trillion dollars on which interest must be paid. Canada has a total money supply (credit supply) of 800 billion dollars. Therefore, the debt owing is three times larger than the amount of money we have to pay it off.

Of the $800 billion money supply, only $38 billion is legal tender (bank notes in circulation) which are created by the Bank of Canada interest free. The remainder ($762 billion) is credit created by the major chartered banks as loans (mortgages, credit card loans, home equity loans, business loans, etc) which are considered as deposits and on which interest must be paid.

Thus the Canadian economy is run on a debt based monetary money system, where legal tender amounts to 5% of the money supply and credit amounts to 95%.

Part of the legitimacy of the Canadian Action Party is to raise the debate on a number of points. We must ask ourselves, our Members of Parliament, and the governor of the Bank of Canada the following:

1. How do we pay off a $2.27 trillion debt with a total money supply of $800 billion of which only $38 billion is legal tender?
2. Why do we have only $38 billion of legal tender in a money supply of $800 billion?
3. What would happen to the Canadian economy if all Canadians stopped borrowing and started saving instead at the same time?

Canada is part of a world debt-based monetary system controlled and managed by bankers rather than sovereign governments. It was that world debt based monetary system that was responsible for the Great Depression of 1929. It is that world debt- based monetary system that today is creating the same conditions that lead to the 1929 crash.

John Kenneth Galbraith, in The Great Crash of 1929, chronicled the day by day, week by week, month by month, year by year events leading up to October 24,1929, the day of the crash. He describes the manipulation of the markets by the banks, brokers, and corporate leadership. He describes malfeasance, larceny, and embezzlement that took place in 1929 followed by WWII. They parallel the horror stories of today.

In recent years, millions of the world's people have lost all, or nearly all, of their retirement savings. Corporations and individuals have gone bankrupt. Millions have lost their jobs and homes. Governments have cut spending. Several nations around the world are trying to stave off banking and economic collapse. Over 4 billion people live on $3.00 a day or less.

By 1929, bankers, brokers, and corporate leadership ran the economic systems into collapse. As a result of their damage to the world's economy, governments , economists, and other individuals came together to analyze, debate, and determine the causes of the crash, and then develop solutions to prevent the situation from happening again.

In Canada , part of the solution was the nationalization of our Bank of Canada. The nationalized Bank of Canada did not materialize without work, struggle and deep political debate.

In Canada one such political person was Gerry G. McGeer. During 30 years of political life, he was a BC Liberal, a member of the B.C. Provincial Legislative Assembly, a Member of Parliament, a Senator. He was Mayor of Vancouver City in 1935 and 1936.In 1936 McGeer published a book called Conquest of Poverty, or Money, Humanity and Christianity. In it he exposes with cold and simple logic the ruthless exploitation of humanity and Christianity by the money power that was wrecking capitalism and was threatening to destroy constitutional democracy and Christian progress.

In the preface of his book he wrote:

"Ever since the passage of The English Bank Act of 1844, the creation, issuance, and the regulation of the circulation of the current medium of exchange, though being duties that constitute the most conspicuous and sacred responsibilities of government, have been in large measure delegated in blind faith and absolute confidence to bankers and financiers."

"The complete collapse of the economic structure under banker management in a withering blight bankruptcy that brought on a veritable welter of destitution and chaos, proves that the private control of credit is fundamentally unsound. The failure of the private monetary system has been more disastrous then the most bitter opponents had ever dared to prophecy."

"Necessity now compels all to recognize that the creation and issuance of the medium of exchange, the monetization of public credit, the circulation of the medium of exchange, and the general supervision of the monetary system must be restored to government."

McGeer was a monetary reformer whose economic theories were based on the thoughts and words of Abraham Lincoln and the Holy Scriptures. He developed a system of managed currency and planned economy which he called National Credit. He believed this system of capitalism would offer the world peace, plenty, and ordered progress of humanity. He was a vigorous promoter of his system at all levels of government.. Although his system of National Credit was never implemented, many of its component parts were implemented with the establishment of the Bank of Canada as a publicly owned central bank.

McGeer’s insight into the debt based monetary system of the 20's and 30's and his persistent fight to change it was rewarded when the government of MacKenzie King in 1938 nationalized the Bank of Canada, returning to government the control of the creation of the nations’ currency and credit.

The legislated mandate of the nationalized Bank of Canada states:
“It is desirable to establish a central bank in Canada to regulate credit and currency in the best interest of the economic life of the nation to control and protect the external value of the national monetary unit, and to mitigate by its influence fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of Canada.”

This mandate was followed from 1938 until the mid 1970's, Canada’s best financial years in the interest of the citizens in financing our infrastructure, housing, and all our proud social programs. In the mid 70's, a change of policy took place which gradually gave back the control and creation of credit to the private banks- a return to the practice of delegating in blind faith and absolute confidence to financiers.

And so began our descent into a debt three times larger than our money supply.

It was the Conservative governments of Brian Mulroney that initiated the erosion of the legislative mandate of our Bank of Canada in a number of ways, but successive Liberal governments continued the abuse. The powerful mandate still remains, but government practice refuses to honour it.

What government practices have been eroding the mandate of our Bank of Canada and creating the massive debt that is three times larger than our money supply??

1. Its increasing failure to use our Bank of Canada. Since 1975, our governments have decreased the use of our Bank of Canada to hold Canada’s debt. Result? A dramatic increase of unnecessary interest. In 1975 the total federal debt was $37 billion. By the year 2000 it was $585 billion. This dramatic increase was due to borrowing money from foreign and domestic banks along with other foreign sources at market rates of interest, rather than borrowing from our own Bank of Canada at nominal rates of interest, the payment of which come back into government coffers as dividends.

   In 1975 our own Bank of Canada held about 22% of Canada’s debt. By 1991 it held only 8% of our debt. By 2000, only 5%. Borrowing at market rates ranging from 6% to 18% (in the 80's) from private banks and foreigners rather than at about 1% from our Bank of Canada when 1% comes back to us as dividends was and is foolish, if not treacherous.

   When the Liberals replaced the Conservatives in government in 1993, the debt was $408 billion. By the year 2000, the debt was $585 billion. By year 2004, the

Liberals reduced the debt to $510 billion. To effect this reduction, the Liberals viciously slashed social program spending, and created surpluses which they applied against the debt. They starved the people to feed the banks. Rather than going back to our own Bank of Canada to service the debt at low interest rates, i.e. repatriate the debt that our own government had caused, our government sucked money back from the people's programs to pay the banks.

2. "Price Stability". In the mid 80's the Mulroney government initiated a policy of "Price Stability", i.e., the control of money supply and inflation through the increase or decrease of interest rates rather than requiring the banks to increase or decrease their cash reserves (statutory reserves) with the Bank of Canada.
3. Deregulation of Banks. During the Mulroney years, the government further gifted the banks. They deregulated the banks. That is, government removed the firewalls between banking, stock markets, and insurance. The regulations were there in the first place to protect the public good and the public interest.

   Deregulation allowed the banks to gamble in derivatives (an aspect of securities, instead of the securities themselves), merchant banking (trading and warehousing in entire companies), underwriting (guaranteeing the distribution of a new issue of stocks), stock brokeraging (where many scams and misrepresentation take place), and insurance.

   With deregulation, banks could now access pools of capital previously unavailable to them. This process gave them inside information. It created conflicts of interest and unreliable service to clients as a result of banks now wearing many hats. Small business and farmers experienced increased difficulties in accessing loans, and the ordinary consumer faced disappearing local branches as banks lost their interest in providing much service to ordinary people. They preferred to gamble in the great casino of international finance (except when they got burned and came back topeddle more credit cards at home)

   In 1991 Canada's chartered banks suffered big losses due to their gambling. They came crying to our government to bail them out, and bail them out Mulroney did! In spades! He granted them the elimination of statutory reserves.

4. Loss of Statutory Reserves. By law (statute) our chartered banks were required to deposit with our Bank of Canada a modest part of the short term deposits they received from the public. This deposit was called a "reserve". This "reserve" was the price that banks had to pay for the license (right) to be the ones to create most of our money supply, and to profit from that money creation by receipt of interest on that money they created. (The "license to print money".) We all have experienced the arrogance of financial institutions who act as if this privilege is a God-given inalienable superior right. It isn't. It is a gift from members of the community of Canada (citizens) via our government which gift we can control and/or revoke if we choose.

The reserves that were deposited with our Bank of Canada earned the banks no interest. That is, our Bank of Canada paid no interest to the banks for holding and using those reserves. Those reserves put at the disposal of our government over $120 billion of interest free money that would grow from year to year with the economy. (William Krehm, Committee of Monetary and Economic Reform Vol.16, #1, January 04). The quantum was even more when the amount of reserves, i.e. percentage of deposits, was higher. (Over the years, our government was decreasing the amount of reserves required until 1991 when the Mulroney government eliminated the reserves completely.)

In 1991 the banks came crying to Mulroney for a bailout from their problems arising from their gambling losses. They said they could not survive if they had to continue being deprived of the use of their deposits on reserve with our Bank of Canada. So Mulroney eliminated the statute that required the reserves. To make matters worse, then Mulroney's government, having lost the use of that reserve money, turned around and borrowed from those same banks, either directly or indirectly, the money it needed to make up for the loss of the deposits, and now pay those same banks $5 to $8 $billion per year on that money that previously had been interest free. (William Krehm, Ibid)

In other words, before the end of the period of statutory reserves in 1991, our government had the use of $120 billion dollars interest free; but with the end of statutory reserves, our government escalated our debt by a new annual interest fee. The Federal government then cut grants to provinces who then cut grants to the municipalities.

5. Further bailouts of banks. Bank deregulation and bank gambling resulted in the bankruptcy of a number of small Canadian banks. In the early'80's a number of minor banks went belly up in a cloud of scandal: Canadian Commercial Bank, Northland, Unity Bank and others. (Bank Heist, Walter Stewart, Ch.9). Depositors were caught. Business loans were caught. The government bailed out the banks paying off the protected deposits by underwriting deposit insurance, and negotiated payback amounts (called workouts) for damage caused by the disappearance of arranged lines of credit.
6. "Cooking the Books"- thereby undervaluing Canada's worth. Until 2004, the Canadian government was "cooking its books" - an accusation made by Canada's own Auditor General in 1999. Our government kept deceptive books. They used cash flow accounting when they should have been using accrual accounting (capital budgeting). They pretended that assets did not exist which did exist. For years, except for Crown corporations, governments did not show the full asset side of their balance sheet, but rather showed mostly the liabilities. What this meant was that the value of what Canada has was grossly misrepresented. They made it appear that we were more indebted than we actually were by failing to show the correct assets to balance or offset the liabilities. Government was writing off assets like a bridge or a building in one year, and then showing them on their books as $1.00 value. It was by this method that government pretended a

building or land was worth very little and then sold it off to private ownership at bargain basement prices.

In 1999 in a fight with the auditor general of Canada who refused to sign off on the books if Martin continued to “cook the books”, Martin agreed to using proper accounting procedures in two areas, environment and aboriginal matters, in addition to the Crown corporations. In the year 2004, our government has finally applied accrual accounting to all areas of Canada’s accounts.

Cooking the books for so many years grossly exaggerated current spending and exaggerated the debt by failure to balance the assets against the liabilities. They used these cooked books (1) to justify pushing up interest rates “to fight inflation due to the growing deficit and debt”; (2) to raise taxes unnecessarily to balance the hopeless bookkeeping and to pay the excessive unnecessary interest; (3) to justify slashing social programs as being unaffordable; (4)to justify feeding the greed of the private sector.

Why have our governments been acting so contrary to the interest of its own citizens? Why are they failing to assert the sovereignty of our country in the interest of our citizens and the public good? Why are they submitting to the slavery of the debt based monetary system? It is because we have had leaders and parties in control who are part of and agree completely with the New World Order, i.e., globalization. They are willing participants and major players in the international financial regime being imposed on the world by the International Monetary Fund (IMF) and the World Bank They are submitting Canada to the regime of “structural adjustments”- the process of removing government from its role in the economy-, and “privatization” - the process of wholesale sellout of public assets and government responsibilities.

In 1995, Paul Martin as Finance Minister was congratulated by the head of the World Bank for his progress in reducing government intervention in the economy of Canada. In 1995 Paul Martin slashed federal health care transfers to the provinces by $28 billion. Sheila Copps, a former MP in the Chrétien government cabinet, recently revealed that in 1995 Paul Martin was lobbying the Chrétien government hard to scrap the medical care program. In the June 2004 election campaign, Martin promised to return a mere $9 billion to health care. Martin’s years of starving our once proud health care system are still ricocheting as provincial governments dismantle and privatize the services.

Between 1999 and 2003, in addition to slashing funding for health care, our Canadian government slashed funding for education, unemployment insurance and various other social programs. The results for people have been deaths, debts, drop outs, poverty, homelessness, marriage breakdown.

The result for government has been massive surpluses. Between 1999 and 2003, the Canadian government accumulated a surplus of $46.7 billion. (Alternative Budget of the Canadian Centre for Policy Alternatives citing sources from the federal budget).The surpluses were as follows: 1999-2000= $12.7 billion; 2000-2001= $18.1 billion; 2001-

2002= $8.9 billion;2002-2003=$7 billion. The official projected surplus for that period was $10.5 billion but it became $47 billion.

In 1995 Martin, as Finance Minister, promised that once there was a surplus after all his cuts, that 50% of the surplus would go back to social programs and 50% would go to pay down the debt. That did not happen. Most of the surplus has been applied against the debt, (debt that government created unnecessarily.) By abandoning their sovereign power and control over the creation and control of money and credit, our government is impoverishing us and making us slaves to debt.

Canada is in the process of being "structurally adjusted". It is just that the process cannot be accomplished so easily here as in underdeveloped countries. We are a people "too well educated" and we have an "excess of democracy". The phrase "structural adjustment " is a euphemistic one created by the IMF (International Monetary Fund). When countries need financial assistance they go to the IMF who in turn demand "structural adjustment" (the process of removing government from its role in the economy)and "privatization" (the process of wholesale sellout of public assets) in return for the money. The IMF debt and growing interest rates take all the profits out of the country. This impoverishes the people as their resources are stolen out from under them. One structural demand is that national central banks be removed so that there is no national power to create and control their own money supply. Herein lies the explanation of why our governments refuse to use the power of our own Bank of Canada. They are complicit participants in the IMF regime and are moving Canada by stealth into the regime. They are deliberately trying to impoverish us. The truth is, we are still a very rich country- rich in natural and human resources. Uncooking the books shows that.

So what is to be done? As we witness again the collapse of the world economic structure arising in the return to banker management and control, we must work even harder to force a debate like those of the '30's that did successfully shape the economic structure in Canada for 50 years. We must work to get people and political parties imbued with a knowledge and comprehension of the power inherent in the control of money and credit. It is important to understand how the money issue is an integral part of globalization and the very means responsible for impoverishing the people of the world.

We have to inform people that they have a choice about money. Money can be their master, or money can be their servant.People can be sovereign, or they can be slaves. Right now we are slaves to a debt based money system. This will not change until we have politicians, i.e. true representatives of the interest of the people, who understand the issue of monetary sovereignty v.s. monetary slavery; and more importantly, who have the will to say NO to monetary slavery.