

OURS TO LOSE

The Bank of Canada and Closer U.S. Ties

A brief to the Citizen's Inquiry on Canada-U.S. Relations

Saskatoon, November 16, 2004

By COMER Saskatoon

The Saskatoon Chapter of the Committee on Monetary and Economic Reform thanks you and the Council of Canadians for taking the initiative of this Citizens' Inquiry. We share your conviction of the urgency of this matter, and of the absolute necessity of getting it out from the behind-closed-doors machinations that characterize our government's policy-making today.

You have chosen to focus your Saskatoon stop on the impact that closer integration with the United States will have on our health care system. Others will address this in detail. We would like to deal with the larger context in which the impact on health care will be played out.

One way that Canadians will be led to accept greater integration and ultimate annexation which inevitably will follow, is by creating frustration. We are being managed toward consensus by frustration. Border closings, trade harassments, travel restrictions, the high cost of foreign exchange, etc. Are making many Canadians readier to accept border erasure. The din of the right wing media helps, of course. Presumably, Canadians will eventually succumb to the pressure and give up on medicare, and everything else that makes us distinct and that annoys our neighbors to the south.

Our health care is costly - in part, unnecessarily so, but that's another discussion. However, we don't really have the problem that we keep being told we have. There is a secret: Canada CAN pay for the best medicare system possible. We already have in place the structure. We CAN fund anything that is desirable and necessary. The problem is one of political will, not necessity. Because Canada, like any sovereign nation, could create its own money supply, but is not doing so. So who does create our money?

When Graham Towers, first governor of the Bank of Canada, appeared before Parliament's Banking and Commerce Committee in 1939, he acknowledged under questioning that banks do indeed create money, adding, "That is banking business, just in the same way that a steel plant makes steel."

Somehow this always washes right over people's heads. Do we consider it legitimate that a privately owned bank can manufacture money, and consider it a crime for a counterfeiter to do the same? Or is it that we just don't believe it? Perhaps a small digression is in order. Let's look at exactly how banks create money in everyday business. "The process by which banks create money is so simple the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." (John Kenneth Galbraith, *Money, Whence it Came, Where it Went*, 1975)

When you take out a loan, say a \$100,000 mortgage, you sign papers and suddenly 100,000 appears in your account. Where was that money just before it appeared in your account? It did not exist. At one instant, the bank made a bookkeeping entry. It gave you credit for 100,000, (a liability for the bank) and at the same time the bank's assets grew by 100,000. No, the bank did not "lose" 100,000 when it gave you your mortgage loan; the bank gained 100,000 in that instant. It created that money, as credit. You can spend it as though it were cash, but it is simply a confidence game. However, you cannot repay that loan with a similar bookkeeping entry. You are obliged to pay real cash for your loan, a chunk of your monthly earnings every month, and you must pay interest, which will mean you will pay the bank two or three times the amount it created for you.

That is the mechanism by which over 95% of all Canadian money in circulation is created. The rest is created by the government, as coin and paper currency. But 95% of our money is created as DEBT, all of which has to be "repaid" and repaid with interest, to banks that merely made bookkeeping entries to create it in the first place.

Back to Graham Towers and that meeting with the Parliamentary Committee in 1939. He was then asked, "Would you admit that anything physically possible and desirable can be made financially possible?" to which he replied, "Certainly."

The next question was the most telling of all: "Will you tell me why a government with power to create money should give that power away to a private monopoly [that is, the chartered banks] and then borrow that which Parliament can create itself, back at interest?"

Powers replied, "Now, if Parliament wants to change the form of operating the bank system, then certainly that is within the power of Parliament."

This is the heart of the problem. For everything needed or desirable, we hear from our governments the same cry: there is no money! Can't afford it! Surely what we can't afford is to allow private corporate entities to create our money supply and then have to pay interest on all of that money creation. Powers clearly understood that Parliament does have the constitutional right to create and control our money supply. It is not something mystical or exalted. It is so simple, we refuse to believe it.

The 1934 Bank of Canada Act is probably the most unknown piece of legislation we have. The Act allows the Bank of Canada to lend money to all three levels of government, at virtually no cost, because it can lend at zero or very low interest, and all income of the Bank of Canada returns to its sole shareholder, the government of Canada. This power was used judiciously, and allowed the post-war burst of infrastructure building, the creation of nearly full employment to absorb the returning armies, and cost us minimally.

Today the Bank of Canada does almost nothing beyond setting interest rates. And today Canadian taxpayers shovel around \$40 billion dollars annually into the waiting vaults of

private banks on federal debt, and equally untenable amounts for provincial and municipal debt.

This unnecessary spending on interest on government debt makes the difference between maintaining those things good government should do for its citizens collectively, and losing them. As Towers said, anything physically possible and desirable can be made financially possible. We could finance medicare. We could finance municipal infrastructure. We could better finance education and provide “free” post-secondary education, the way enlightened nations do. At vastly less cost to ourselves. And the national economy would not collapse today, any more than it did between 1945 and 1970 when the Bank of Canada was providing financing..

BUT closer ties with the United States will definitely usher in a common currency, the U.S. dollar, and eliminate the Bank of Canada in favour of that private corporation of private bankers that is called the Federal Reserve. The idea has already been publicly floated, more than once.

That would end all possibility we have of creating our own well-being. Under that scenario, we assume the debt of the most indebted country in the world, along with our own debt. And the only word that describes the condition that will ensue is “slavery”, as Hilaire Belloc wrote already in 1936. Roughly, he said:

“If monetary reform were quite impossible of achievement it would not be worth while wasting breath or ink upon it...but it is not impossible to at least attempt the beginnings of a change. However, the odds against a reconstruction of economic justice in a society which has long acquired the practice and habit of debt slavery is difficult beyond any other political task. ...What I certainly know is that, failing such a change, our usurer dominated society must necessarily end in the restoration of slavery. The choice lies between reform and the restoration of economic justice on the one hand and slavery, public or private, on the other. There is no third way.”

In conclusion, we are being manipulated toward acquiescence to ever closer ties and eventual annexation by the U.S. and the only real way to counter that manipulation is by bringing the facts to the public, with continual efforts to educate. This inquiry wants to know what we are doing to counter a move to closer ties. We at COMER are doing what the Council of Canadians is doing: working to educate whomever we can reach. But that is not enough. We need to build a movement strong enough to counter the enormous power pushing for amalgamation; we can't afford to wait for someone else to do it. We at COMER urge you to step beyond education and take on the task of network building as well. We want to work with you and with all the other organizations and individuals who care about this country and about preserving and bettering it. We must be about coalition building, or we will be complicit in losing our sovereignty.

Thank you.

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