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AN OPEN LETTER TO THE MINISTER OF FINANCE BILL MORNEAU

The Hon. William F. Morneau
Minister of Finance
House of Commons
Ottawa, ON K1A 0A6

Dear Minister:

I am writing in respect to your official response to petition 421-00858 sponsored by Elizabeth May, member of parliament for Saanich-Gulf Islands, BC, calling upon the Government of Canada to restore the use of the Bank of Canada (BoC) to make interest-free loans to governments for "human capital" expenditures. In your reply dated November 12, 2016, you said to do that "would require the Bank of Canada to either borrow the funds it loaned to the Government, or create new Canadian currency."

The first alternative is a non-starter and can be dismissed out of hand. The second suggestion of creating new Canadian currency makes perfect sense, but you dismissed it unconditionally on the basis that it would result in "excessive inflation," and without any evidence to support your statement. That, minister, is not correct, and I have been looking for an easy way to avoid saying that it is a lie, but my conscience finally dictated that there was no escape. You lied to the House of Commons, and you must know that under British parliamentary precedents you are expected to resign your portfolio forthwith.

Also, I must admit that I was not thrilled by your inference that Canadian politicians might be irresponsible. Why did you not say that when Canadian politicians relied heavily on Bank of Canada funding, the inflation rate was comparable to countries that relied exclusively on private banks for their funding? These are the facts.

In 1938 there were no jobs available in Canada. None. Then, in 1939, World War II began and it wasn't long until everyone was either in the armed forces, or working in factories to build the tanks, trucks, airplanes and ships required to support a really magnificent war effort. Unemployment dropped to an historic low of one percent.

You may wonder where the Canadian government got the money to initiate this unprecedented economic miracle. The answer is that the Bank of Canada printed it. The

Bank bought government of Canada bonds and paid for them with newly minted cash. The government paid the Bank of Canada interest on the bonds which then, because the government owned 100% of the Bank shares, was returned as dividends, with only the cost of administration deducted. It was near zero cost money that produced such wondrous results.

The newly created money that the government spent into circulation wound up in the private banks where it became what the economists called "high-powered money." High-powered money was really "legal tender" money, or "real money," that the banks could use as "cash reserves" which the law allowed them to leverage into bank loans equal to 12½ times their reserves. So if $10 million of what was literally government-created money was ultimately deposited in one of the commercial banks, the banking system was able to create an additional $125 million in book-entry or "virtual" money.

The commercial banks were able to lend this money to help businesses build factories, develop essential products, help Canadians buy "War Bonds," etc. These large infusions of first government-created cash, followed by bank-created credit, made it possible for Canada to be transformed in a few short years from a largely agricultural and resource-based economy into a significant mixed economy that included a strong manufacturing, industrial and scientific base.

What made this all financially possible was a sharing of the money-creation function between government and the commercial banks. That enabled Canada not only to play a larger-than-life role in the war effort, but also to extend the miracle into the post-war years.

As a member of parliament and cabinet, I was aware that government-created money played a key role in many of our infrastructure projects like the Great St. Lawrence Seaway development, the Trans-Canada Highway, new airport terminals and port facilities. It also enabled the federal government to assist the provinces and municipalities with many of their major public works ranging from bridges to sewage-disposal systems, and including the building of schools, universities and colleges.

Another marvellous benefit that government-created money helped make possible was the establishment of a social security network to help citizens in times of distress. Some of us who had lived through the Great Depression of the 1930s were determined that never again would someone lose their home, farm or life savings due to a serious illness of one of the members of the family. Nor would someone be left destitute because he or she was unemployed. This led to universal pensions, unemployment insurance, and Medicare, all launched with help from the Bank of Canada.

So from 1939 to 1974 the Bank created very large sums of what you call "new Canadian currency" to facilitate a near miracle. With the exception of the wartime years when shortages of consumer goods made a certain amount of inflation inevitable, at no time during this 35-year period did the Bank of Canada create "excessive" inflation. The experience was comparable to the average of 15 OECD (Organization for Economic Co-operation and Development) countries.

In the 9 years from 1958-1966 Canadian prices rose 1.8% compared to the average of 3.1% for the 15 countries. Then from 1964-1991 prices rose 5.6% compared to the 5.85% average. So Canadian experience was neither better nor worse than the competition, and certainly not "excessive" by the norms for that period. Our big advantage was that our amazing performance was financed without accumulating a lot of debt. As I pointed out in an open letter to the prime minister on June 1, 2016, from 1867 to 1974 Canadians had financed two world wars and a very long list of major infrastructure projects while only accumulating an inconsequential $21.6 billion in debt.

The increase in inflation in the late '60s and early '70s was not classical monetary inflation in the sense of too much money chasing too few goods. Store shelves were loaded with produce, and there was only one commodity in short supply. The inflation was primarily due to the wage-price spiral when nominal wages rose by a multiple of productivity for 25 consecutive years – a critically important fact which hasn't yet made its way into the economic textbooks. Regrettably neither politicians nor economists had made any effort to educate the public concerning the simple fact that you can't consume more than you produce, and that there is a close correlation between nominal wages, prices and productivity.

Wage increases, with a few exceptions such as corporate executives, are no longer a problem. But there are other problems such as increasing taxes, and price increases due to the cartelization encouraged by globalization. They are of greater immediate concern than monetary inflation.

The system of money-creation sharing between the government and private banks worked splendidly for 35 years until 1974, when the Bank of Canada unilaterally changed the rules. As far as I know – and I and others have spent many hours in research without finding any evidence to refute it – this was done without either advising or obtaining the consent of the Canadian government that owns 100% of the Bank's shares.

The Governor of the Bank of Canada, Gerald K. Bouey, simply announced that the Bank was adopting "monetarism." There was no mention that this was being done to conform to a policy of the Bank for International Settlements (BIS), in Basel, Switzerland. Of much greater significance was the failure to disclose that the Bank was adopting the BIS's prohibition of providing low cost money to governments. In future, we would have to borrow in the market, and pay market rates.

The social and financial consequences proved to be disastrous. It has been downhill ever since. In 1974 there were no foods banks in Canada. Not one. The latest count is 2,108. This can be attributed to the change in policy which has cost Canadian taxpayers a fortune. From fiscal 1974/75 to fiscal 2013/14 we paid $1.17 trillion on federal debt alone – the equivalent to more than $13,000 for every family of four – almost all of it totally unnecessary. Just imagine what more than a trillion dollars could have accomplished if it had been spent on health care, education, keeping promises to our aboriginal brothers and sisters, the arts, research for clean energy and infrastructure.

To be overly kind to Gerald Bouey, he may have been influenced by the fact that the wage-price spiral peaked in 1974 and policy makers were looking for solutions. Bouey induced a minor recession in 1974-75 but a vastly more important one in 1981-82 in concert with Paul Volcker, Chairman of the Federal Reserve System, a devoted apostle of Milton Friedman and his classroom abstractions. Volcker came within hours of crashing the whole world financial system by pushing U.S. interest rates as high as 22 percent.

The results were disastrous both socially and economically. Tens of thousands of people lost their jobs, their homes and their businesses. Government revenues fell, while rising deficits were rolled over into debt acquired at astronomical cost. It was the beginning of a debt cycle from which we have never recovered. Central banks, which have never been known for their finesse, used interest rates as the bluntest of instruments – comparable to using a bulldozer to weed a vegetable garden. The tragedy is that a 12-month wage-price freeze on everything except commodities, would have reduced inflation to near zero without the loss of a single job.

Canada was just beginning to recover from the horrendous consequences of the 1981-82 fiasco when along came an even more evangelical believer in the infallibility of Central Banks, John Crow, who did it to us again in 1990-91.

As you suggest, 1991 was a critical year in Canada's monetary history. The Canadian chartered banks lobbied the government to remove the 8% cash reserve against deposits requirement, which had been in effect since the BoC was established. Governor Crow assured the then minister of finance that there were other ways of controlling the growth in the money supply. So the Bank Act was amended and cash reserves eliminated over 4 years. Today you are lucky if your bank has more than a cent or a cent-and-a-half in cash (legal tender) for every dollar you think you have in the bank.

What a lovely Christmas present for the banks, billions of dollars a year additional profit because they no longer had to keep cash on hand that wasn't earning interest. And what a slap in the face to taxpayers who, after being robbed of the benefit of low cost BoC-created money in 1974, lost the benefits of seignoriage (the profit from printing the cash that the banks had to keep as reserves.)

This was the end of the so-called "partial reserve" system of banking. It was replaced by a new "norm" called "capital adequacy." Banks were required to maintain about 5 cents in invested capital for every dollar of new loans they create. The new system should have been called "capital inadequacy" because after the meltdown of 2007/08 all the banks, including Canadian banks, had to be bailed out by taxpayers and/or their central bank, or both.

Even more disconcerting was Governor Crow's attempt to have the Bank of Canada Act amended to limit its role to preserving the purchasing power of the currency at the expense of encouraging job creation and economic growth for the people. Fortunately members of parliament refused to be bulldozed. The compromise was that the BoC should adopt policies designed to limit inflation to 2 percent. That was a de facto change in the preamble of the BoC Act, to eliminate the final section which reads, "to promote the economic and financial welfare of Canada."

You say concerning the 2% inflation rule, "This is the best contribution monetary policy can make to solid economic performance." I doubt that you are kidding anyone but yourself. It is 180% opposite to the de facto preamble established by the first, and arguably most progressive and enlightened, of BoC governors. In response to questions from the Commons Finance Committee he assured members that the BoC would finance the war effort up to the physical limits of the economy. He kept his promise, both during and after the war. It was the policy that gave us the best 35 of the last 100 years. Since 1991 it has been "austerity economics" designed to shrink the real economy to fit the blueprint of the financial economy.

In 1995 the government of the day introduced a draconian budget that ended the Canada we knew. Some federal responsibilities were downloaded to the provinces, which in turn downloaded on the municipalities which had to cut corners and raise taxes. Cash strapped provinces began to build casinos and promote gambling, which is just another tax on the poor. Commercial advertising was encouraged everywhere, including some of Toronto's beautiful new streetcars being plastered with paint. New charges were applied to formerly free public spaces. Thousands of public service jobs were contracted out in order to save a few dollars in the short run, while establishing a liability for increased costs in their retirement years. Most discouraging of all is to see a whole generation of young people who believe they can't have a life as good as their parents. It should be the other way around.

The banking and financial system is broke! Private banks have persuaded politicians to give them a monopoly on money creation even though it is the people who own the patent, and the banks are only licensees. But bank-created money is all created as debt – debt that has to be repaid with interest. Unfortunately, however, no one creates any money with which to repay either principal or interest. So we find ourselves in the unhappy position of having to raise taxes, which are already too high for many people to pay, or borrow more, and go further and further in debt. The system is at a dead end, and anyone who can't see that must be numerically challenged.

So what has been your proposed solution, minister? It is to borrow more and put us further in debt? Even your own department is concerned. The numbers released quietly at the end of 2016 paint a bleak picture of Canada's future – one filled with decades of deficits.

An article posted by Andy Blatchford of The Canadian Press, on January 5, 2017, reads in part:

“The report, published on the Finance Department website two days before Christmas, predicts that, barring any policy changes, the federal debt could climb past $1.55 trillion by (2050-51) – more than double its current level.”

“The projection comes as the federal Liberals proceed with plans to run annual deficits over at least the next six years as a way to help Ottawa fund an economy-boosting effort that includes infrastructure investments.”

Wow! By 2050 my great-grandchildren will be adults, and you plan to leave them with an anaemic economy and a debt of $1.5 trillion or more. What if the banking cartel, which controls central banks, decides to raise interest rates to 10 percent? They would crash the system and buy up our children’s assets for pennies on the dollar.

Which brings me, finally, to your proposed Infrastructure Bank – a Trojan Horse if ever there was one.

Do you know who you are getting into bed with? The head of your advisory panel provides a direct link to the folk who have been ripping off the people of the world for three centuries. They put up 1,200,000 pounds of gold and silver when the Bank of England was chartered in 1694 and lent it all to King William at 8% per annum, a very high interest rate for a government guaranteed loan. The King, either to show his appreciation, or to fulfil a promise – we may never know which, allowed them to PRINT 1,200,000 pounds in bank notes and lend them to their rich friends. In effect, they were allowed to lend the same money twice, once to the King and once to their friends, and collect interest from each. A leverage of two to one.

Over the years due to their avarice, and the cooperation of the politicians, they have managed to get the leverage up to 20 to 1 which is nothing less than a global fraud of gargantuan proportions. The flip side, of course, is that they can buy up the world’s assets for 5 cents on the dollar, and they have been. Three years ago 88 families owned half of all the wealth in the world. A year later the number was 80 families, and in 2016 it was 62 families, so the concentration of power and influence continues.

That is a fact I find difficult in getting my mind around. I make a list of all the big cities I can think of, and then try to comprehend that 62 families own the equivalent of every second one, lock, stock and barrel. They achieved this by persuading naïve politicians to give them a monopoly to create money.

The same group was responsible for the Great Depression, with all its incalculable misery. (See the U.S. Senate Finance Committee Pecora Report.)

Of course there was method in their madness. Most of the small banks went bankrupt and property values plummeted so the big boys could buy up assets real cheap.

Every recession offered opportunities to buy assets at low prices and the Great Recession of 2007-08 (another inside job) produced another year-round clearance sale which has been going on for almost as long as the Great Depression, and there is no end in sight. There is street talk to the effect that there might be another meltdown in the offing, but whether it happens or not, the mere knowledge that the cartel could do it, if and when they decide to, is quite upsetting.

Worse than that, the same folk may be planning a total crash of the whole world financial system so they can introduce a single virtual currency that would give them the same complete control over each one of us as individuals that they now exercise over our countries. They have to be cut off at the pass, now, or it is going to be game over!

There have been many monetary reformers over the last century or so, but no one has succeeded in informing the public due to a brainwashed academy and a disinterested press. But the situation is getting more desperate now. World debt is at an all time high, as is the number of unemployed worldwide. The situation will deteriorate further because robots are beginning to eliminate many jobs, especially in the "tax producing" sector of the economy. A major source of new jobs will have to come from the public sector, the "tax consuming" sector. So a new revenue stream is essential to provide the financial flexibility to meet the needs of an aging population.

There is a fast rising concern about the future, and a number of possible solutions are being put forward such as "positive money" in the United Kingdom, and helicopter drops in several countries. But the best one I have seen so far is one my colleagues and I developed in 2013 that meets the essential criteria.

It provides a major infusion of government-created debt-free money to dilute the ocean of debt in which we are drowning. It would end 43 years of underfunding essential services. It provides for a smooth transition from the present volatile and unpredictable system to one that is stable and meets the essential needs of all parties concerned. It changes the balance of power between the richest fraction of the wealthy one percent in favour of the 99%, which is long overdue! It is called:

"A Social Contract Between the Government and People of Canada."

So, speaking on behalf of the millions of underdogs, we demand that the federal parliament use its constitutional power over all matters pertaining to money and banking by forthwith taking the following action to benefit all Canadians. The figures suggested, which are based on 5% of bank deposits, are a bit out of date, but they are close enough for all practical purposes.

1. The government of Canada should print fifteen non-transferable, non-convertible, non-redeemable $10 billion nominal value Canada share certificates.

2. Simultaneously the Justice Department should be asked for a legal opinion as to whether the share certificates qualify as collateral under the Bank of Canada Act. If not, legislation should be introduced to amend the Act to specify their eligibility.

3. The government should then present the share certificates to the Bank of Canada that would forthwith book the certificates as assets against the liability of the cash created, and deposit $150 billion in the government's bank accounts. The federal government should immediately transfer $75 billion to the various provinces and territories in amounts proportional to their population, with the understanding that they would help the municipalities, as appropriate, so there would be no need to cut back on essential services, or sell valuable assets.

4. Amend the Bank Act to reverse the 1991 amendments that eliminated the requirement for the Canadian chartered banks to maintain cash reserves against their deposits, and provide the Minister of Finance, or someone acting on his or her behalf, the power to set the level of cash reserves for banks and other deposit-taking institutions up to a maximum of 34%, provided the increase is not less than 5% per annum until the new 34% has been established in 7 years. <u>This will ensure that there will be no inflation resulting from the government-created money</u>.

5. The government should repeat the action prescribed in Sections 1 and 3 every year for 7 years or until bank cash reserves reach 34% of their total assets.

6. Once the transition has been made the Governor of the central bank shall, each year, estimate the amount of increase in the money stock required to keep the economy growing at its optimum with the number of job openings being roughly equal to the number of job seekers. He/she shall then acquire, on a predetermined schedule, shares from the federal government in exchange for cash up to 34% of that amount.

7. In the event of a disagreement between the Governor and the Minister of Finance in respect of the amount by which the money supply should be increased, or the rate of interest to be charged by the bank on overnight lending, the view of the Minister shall prevail. In any such case, however, a direction from the Minister shall be in writing and made public forthwith, in accordance with Section 14 (2 & 3) of the Bank of Canada Act. This procedure is consistent with the principles of democracy, and should eliminate future cases of monetary and fiscal policies being at odds rather than working in harmony.

These measures will at least double the rate of economic growth and reduce the level of unemployment by half in less than 2 years. The amount of debt-free money is sufficient to restore all segments of the economy.

Almost every day I read in one of the papers, or hear on radio or TV, of projects desperately in need of funding. I will only mention two. An article in the *Toronto Star* on January 17, 2017 by Jennifer Pagliaro and Emily Mathieu read as follows.

"Toronto Community Housing is on track to board up one unit per day in 2018 if more funding for repairs can't be secured, the head of the social housing corporation told the Star.

An estimated 425 units are already slated to close in 2017, pushing the total number of boarded-up subsidized housing units to nearly 1,000 with more than 177,000 people on the wait-list in Toronto – enough for three sold-out crowds at the Rogers Centre."

Shame on us!

Another article in the *Toronto Star* of March 4, 2017 entitled "Indigenous justice program faces cuts." Despite 43% drop in recidivism, federal initiative will get less funding this year.

"Ottawa – A federal justice initiative to help indigenous offenders and victims of crime doesn't have enough money to meet demand, can only hire "minimal staff," and isn't available in most communities, a new government review has found."

These are just two examples of hundreds of needs waiting to be properly funded. We might even have to pick up the U.S. portion of the Great Lakes clean-up which seems to be in jeopardy. The program must go on!

It just so happens that Canada is the only country in the G20 group of countries that is in a position to act quickly. Parliament could enact the few necessary changes in the statutes in a few weeks – certainly less than a month. So we have not only the good fortune, but also a profound responsibility to the rest of the world, to show what can be done. So by all that is holy we must not fail! You never know, it is just possible that when the U.S. sees how well the system works they may want to use it to solve their own financial problems rather than beggar their neighbours.

It is sad, minister, that you have to pass the torch because you are considered a really nice man. But in the league in which you have been playing, nice guys finish last. The budget will have to be postponed long enough to go from negative to positive, and cut out the middle men who want to buy or mortgage more of our country.

Most important of all, notice has to be given to all Canadians that the financial famine has ended, and hope has been reborn.

Yours sincerely,

Paul T. Hellyer

N.B. See Appendix A for a breakdown of payments to the provinces and territories.

APPENDIX A

Rounded Distribution of Transfers to Provinces and Territories

Government of Canada	$75 billion
Provinces and Territories	$75 billion
Newfoundland & Labrador	$1.10 billion
Prince Edward Island	$314 million
Nova Scotia	$2.04 billion
New Brunswick	$1.625 billion
Quebec	$17.319 billion
Ontario	$29.040 billion
Manitoba	$2.724 billion
Saskatchewan	$2.322 billion
Alberta	$8.329 billion
British Columbia	$9.939 billion
Yukon	$77 million
Northwest Territories	$93 million
Nunavut	$72 million
	$74,994,000,000

(Based on Statistics Canada 2012 Numbers)