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Tapping Into "Magic" Money

The Public Bank Option: Safer, Local and Half the Cost

By Ellen Brown, Web of Debt Blog, November 4, 2017

Phil Murphy, a former banker who has a double-digit lead in New Jersey's race for governor, has made the state-owned bank concept a centerpiece of his platform. If he wins Nov. 7, the nation's second state-owned bank in a century could follow.

A UK study published on October 27, 2017, reported that the majority of politicians do not know where money comes from. According to City AM (London): "More than three-quarters of the MPs surveyed incorrectly believed that only the government has the ability to create new money….

"The Bank of England has previously intervened to point out that most money in the UK begins as a bank loan. In a 2014 article the Bank pointed out that 'whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money.'"

The Bank of England researchers said that 97% of the UK money supply is created in this way. In the US, the figure is about 95%. *City A.M.* quoted Fran Boait, executive director of the advocacy group Positive Money, who observed: "Despite their confidence in telling the public that there is 'no magic money tree' to pay for vital services, politicians themselves are shockingly ignorant of where money actually comes from.

"There is in fact a 'magic money tree,' but it's in the hands of commercial banks, such as Barclays, HSBC and RBS, who create money whenever they make loans."

For those few politicians who are aware of the banks' magic money tree, the axiom that the people should own the banks – or at least some of them – is a no-brainer. One of these rare politicians is Phil Murphy, who has a double-digit lead in New Jersey's race for governor. Formerly a Wall Street banker himself, Murphy knows how banking works. That helps explain why he has boldly made a state-owned bank a centerpiece of his platform. He maintains that New Jersey's billions in tax dollars should be kept in the state's own bank, where it can leverage its capital to fund local infrastructure, small businesses, affordable housing, student loans, and other state needs. New Jersey voters go to the polls on November 7.

That means New Jersey could soon have the second publicly-owned depository bank in the country, following the very successful century-old Bank of North Dakota (BND). Other likely contenders among about twenty public banking initiatives now underway include Washington State, which has approved a feasibility study for a state bank; and the cities of Santa Fe in New Mexico and Los Angeles and Oakland in California, which are exploring the feasibility of their own city-owned banks.

A Bank Is Not Simply an Intermediary

An article in *City Watch LA* critical of the idea of a city-owned bank observed that Los Angeles formerly had a bank that failed, closing its doors in 2003 due to insolvency. The argument illustrates the confusion over what a bank is and what it can do for the local government and local communities. The Los Angeles Community Development Bank was not a bank. It was a loan fund, and it was designed to fail. It was not chartered to take deposits or to create deposits as loans, and it was only allowed to lend to businesses that had been turned down by other banks; in other words, they were bad

Continued on page 2

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Magic *from page 1*

credit risks.

With a loan fund, a dollar invested is a dollar lent, which must return to the bank before it can be lent again. By contrast, as the Bank of England acknowledged in its 2014 paper, "banks do not act simply as intermediaries, lending out deposits that savers place with them." A chartered depository bank can turn one dollar of capital into ten dollars in bank credit, something it does simply by creating a deposit in the account of the borrower. If the bank's books don't balance at the end of the day, it borrows very cheaply from other banks, the Federal Home Loan Banks, or the repo market. It borrows at bankers' rates rather than retail rates, and that is one of the many perks that a publicly-owned bank can recapture for local governments. Borrowing from banks rather than the bond market actually expands the circulating money supply, stimulating the local economy.

Compelling Precedents

Public sector banks, while rare in the US, are common in other countries; and recent studies have shown that they are actually more profitable, safer, less corrupt, and more accountable overall than private banks.

This is particularly true of the Bank of North Dakota, currently the only publicly-owned depository bank in the US. According to *The Wall Street Journal*, it is more profitable than Goldman Sachs or JPMorgan Chase. The BND is risk-averse, lends conservatively, does not gamble in derivatives or put deposits at risk. It is able to lend at lower than market rates because its costs are very low.

The BND holds all of its home state's revenues as deposits by law, acting as a sort of "mini-Fed" for North Dakota. It has seen record profits for almost 15 years. It continued to report record profits after two years of oil bust in the state, showing that it is highly profitable on its own merits because of its business model. It does not pay bonuses, fees, or commissions; has no high paid executives; does not have multiple branches; does not need to advertise; and does not have private shareholders seeking short-term profits. The profits return to the bank, which either distributes them as dividends to the state or uses them to build up its capital base in order to expand its loan portfolio.

The BND does not compete but partners with local banks, which act as the front office dealing with customers. It does make loans that community banks are unable to service, but this is not because the borrowers are bad credit risks. It is because either the loans are too big for the smaller banks to handle by themselves or the smaller banks cannot afford the regulatory burden of lending in rural communities where they get only a few loans a year.

Among other cost savings, the BND is able to make 2% loans to North Dakota communities for local infrastructure – half or less the rate paid by local governments in other states. The BND also lends to state agencies. For example, in 2016 it extended a $200,000 letter of credit to the State Water Commission at 1.75% and a $56,000 loan to the Water Commission to pay off its bond issues. Since 50% of the cost of infrastructure is financing, the state can cut infrastructure costs nearly in half by financing through its own bank, which can return the interest to the state.

If Phil Murphy wins the New Jersey governorship and succeeds in establishing a New Jersey state-owned bank, expect a wave of public banks to follow, as more and more elected officials come to understand how banking works and to see the obvious benefits of establishing their own.

Ellen Brown is an attorney, founder of the Public Banking Institute, a Senior Fellow of the Democracy Collaborative, and author of twelve books including Web of Debt *and* The Public Bank Solution. *A thirteenth book titled* The Coming Revolution in Banking *is due out this winter. She also co-hosts a radio program on PRN.FM called* It's Our Money. *Her 300+ blog articles are posted at EllenBrown.com.*

The Growing Movement To Create City-Run Public Banks

By Adele Peters, www.fastcompany.com, January 8, 2018

As activists pressure governments to remove their deposits from banks that back bad policies, cities are considering a new option: become their own financial institution that serves the needs of the citizens, not investors.

When the movement to push the city of Los Angeles from keeping its money at Wells Fargo grew in 2017 – as in other cities that decided to pull money from the bank because of its fake accounts scandal and funding of the Dakota Access Pipeline – organizers of the campaign realized that they faced a challenge: where to put the

money next.

The largest city accounts are too big for small community banks to handle, so divestment from one major bank typically means moving money to another major bank that likely has social responsibility issues of its own. In addition, even ethical smaller banks aren't directly accountable to the public. LA, along with other US cities, is now considering another option: a public, city-owned bank that would keep money inside the community, and follow a socially and environmentally responsible charter.

"This started as a divest campaign," says Phoenix Goodman, cofounder and policy director for the activist group Revolution LA, which runs both Divest LA and Public Bank LA. "I was tasked with doing research on alternatives and what that would entail financially, and in looking into it, I realized, wait a minute, we have so much money that the only other banks that can handle our accounts are other huge Wall Street firms, all of which are complicit in this same system, more or less. Maybe Wells Fargo is the most egregious, but in a way it's a smaller victory, because we're just going to move to another big bank, and we're not changing the system, we're changing a symptom of the system."

A public bank, they realized, could be designed to bar unethical business practices. It could also save the city money. Los Angeles, for example, paid private banks more than $100 million in fees in 2016. Instead of taking out loans for infrastructure projects from major banks, and sending fees and interest outside the city, a public bank could handle the city's needs itself. Public banks can be set up to hold government deposits and give loans to the government and work as a "banker's bank" for smaller community banks; in another model, they can also be set up to take consumer deposits. The initial capitalization can come from a variety of sources, including long-term investments, bonds, and crowdfunding.

"That's our tax dollars that get siphoned off to profits on Wall Street," Goodman says. "If that same mechanism can be owned by the people themselves within the city, that interest can be reinvested as profits for the bank to be used and reinvested again into new projects, so it would be profit for the city rather than private interests. Because it can save money, fiscally conservative people have found value in that as well."

In the US, at the moment, only one public bank exists: the Bank of North Dakota. "The whole idea of the Bank of North Dakota, when it was set up in 1919, was to keep North Dakota money in North Dakota for North Dakotans," says Ellen Brown, an attorney and founder of the nonprofit Public Banking Institute. Her interest in the model was piqued after the 2008 financial crisis. As Wall Street banks collapsed and most state treasuries went into debt, the Bank of North Dakota grew assets and profits because the model, Brown says, is more efficient than traditional banking.

Several cities are now considering the idea, driven in part by the same divestment movement at work in Los Angeles. Santa Fe, New Mexico, which began working on the concept earlier than most, completed a feasibility study in 2016. Washington, DC, has money allocated in the 2018 budget for a feasibility study. Seattle and Portland are considering the idea. Oakland is beginning a feasibility study, and a grassroots group of advocates is raising money for a business plan, the next step in the process. San Francisco is also pursuing the idea. New Jersey's new governor talked about his support for a state public bank as he campaigned (a state bank would work in a similar way, and could also work in conjunction with city banks).

In California, marijuana legalization is providing another push for public banks. Other banks won't give dispensaries accounts because of discrepancies with federal law. "The whole situation is ridiculous," says Susan Harmon, an advocate with Friends of the Public Bank of Oakland. "It's absurd. The cannabis industry in Oakland pays taxes to the city in cash. They deliver huge bags of cash in armored cars to the city." Harmon says that it takes city staff five hours to count taxes from Harborside, one large dispensary.

Once the city takes the cash to Chase, the bank can accept it; having a city-owned bank would remove the need to use cash at all. "The DOJ hasn't come down on Chase for money laundering," Harmon says. "So there's something about the magic hand of government touching this cash that launders it, in a good way. It somehow cleans it up and makes it respectable, and lets Chase accept it as a deposit, even though they wouldn't if Harborside went directly to Chase to try to open an account."

The problem of weed money will only grow, since recreational marijuana is now legal in California, as of 2018, along with medical marijuana. In 2017, the state treasurer said that the state should begin considering public banks as one option to deal with the hundreds of millions in cash that will be due in taxes.

In LA, organizers say that while they support the idea of using public banks for cannabis money, the idea can move forward with or without cannabis. A task force looked at the legal requirements for a public bank, potential regulatory barriers, and financial benefits and risks, and found the idea feasible on the surface; a next step will be a more detailed examination.

If it works, the city would also have to create a governance model to make the bank responsible. A charter might outline, for example, that profits will be reinvested for the public benefit, and list sectors that would be restricted from investment, such as fossil fuels and private prisons, along with sectors that would be prioritized in line with the city's goals, such as affordable housing and community land trusts. Bank policy could also limit executive pay and require governance from a board with expertise in issues like sustainable development.

"You can technically have a public bank that is still propped or beholden to the wrong interests, or incompetently run," says Goodman. "A public bank is not enough. It's just one pillar of the system that we're trying to create – one [pillar] is that it's public. Two is that it's beholden to the people in a transparent way, completely barred from unethical business practices and encouraged to follow socially and environmentally responsible business practices."

Goodman and other advocates are also in talks with legislators in Sacramento, pushing for a bill that would create a regulatory framework for public banks in the state as a whole. It's a step that isn't necessary, but would help city banks in the state work together in a more coordinated way. The biggest barrier, he says, is getting people to realize that another model is possible. "I think all we need is one victory," he says. "We think Los Angeles could be the first. I think it's going to be a chain reaction."

New Jersey could also potentially move quickly, says Brown. The state's recently elected governor, Phil Murphy, who talked about his support for public banks in his campaign, previously worked at Goldman Sachs. That understanding of the banking industry – and the fact that his background at such a lucrative institution might persuade some voters that government-owned bank could be well-run – could be key.

"It seems to me that the big issue is political will," Brown says. "Any state or city could do it if they had the political will. But

the problem is overcoming this resistance from politicians and from big banks, who will say things like 'politicians should not be bankers.' The politicians aren't going to be the bankers; you're going to hire the best bankers you can find, of course."

If it succeeds, the model could reshape the larger financial system. "What we're basically changing is the relationship between private financial firms and public entities like state and city governments," says Goodman. "By changing that relationship, we can have a tangible effect on the entire economy as a whole. Because everything emerges from banking. Every single thing needs funding, so the source of that funding will determine everything else that unfolds in the economy."

Adele Peters is a staff writer at Fast Company who focuses on solutions to some of the world's largest problems, from climate change to homelessness. Previously, she worked with GOOD, BioLite, and the Sustainable Products and Solutions program at UC Berkeley.

The Diverse Coalition Emerging around Public Banking

By Cindy Ann Cole and John M. Repp, The Retiree Advocate, January 2018

When the Seattle City Council passed the 2018 budget, it contained a $100,000 appropriation for a feasibility study for a Seattle Public Bank. The Council has a long, many-step process for deciding what gets put in the final budget. Public comment and testimony is part of the process. Several members of the Seattle Public Banking Coalition went to City Hall on November 1, 2017, to testify. There was a huge crowd there as we arrived, and we got slot number 87. The big issue was stopping the sweeps of homeless camps.

And we supported that.

In the course of the testimony of many young activists for all kinds of needs our "prosperous" city is not meeting, we heard informed and impassioned testimony for a public bank! That is when we realized that there is a diverse coalition emerging which understands what Wall Street banks are doing to destroy our country. And that a public bank has the potential to meet some of our city's needs. The next morning we heard that the first "balanced" budget did not have the money in it for a feasibility study. We immediately contacted our supporters to email their city council members, and so did activists of 350.org, Democratic Socialists and others. The City Council was flooded with emails. The next iteration and the final 2018 budget had the $100K appropriation in it.

On December 1, 2017, at the Economic Opportunity Institute, this emerging coalition got together face-to-face and on speakerphone to discuss next steps. Sitting around the table or on the phone were activists from Black Lives Matter, local tribal members of the Standing Rock Coalition, 350.org, Democratic Socialists, and MLK County Labor Council as well as several experienced bankers, retired government officials, and a law school teacher. We understand this type of emerging coalition is happening all over the country in our big cities with public banking, and hopefully other cross-class issues.

Now we know that a feasibility study is not a public bank. If we had to battle for $100K for a feasibility study, imagine how much we will need to battle for the capital of a public bank that is large enough to be a depositor for Seattle.

The Seattle City Council is committed to stop banking with Wall Street because they invest in deadly new fossil fuel infrastructure and practice fraud as a business model. We need a Seattle Municipal Public Bank that will invest in affordable housing, renewable energy, and other pressing needs for the good of all in our city.

Cindy Cole and John Repp are PSARA members.

Public Bank Fans Want to Get Portland City Council on Board

By Deonna Anderson, nextcity.org, December 28, 2017

In Portland, Oregon, a movement is slowly building to establish a public bank.

After debating divestment from companies whose practices might be harmful to people or the environment, the City Council voted in April to stop investing city money in *all* corporations. Portland is also one of numerous US cities that decided to stop banking with Wells Fargo, after the bank's fraudulent accounts scandal made headlines.

The Portland Public Banking Alliance, which advocates for a more equitable economy, has been pushing for a public bank for about two years. "Public banking is really taking off and there are efforts, particularly in California and in a number of places," says the Alliance's David E. Delk.

Philadelphia talked about establishing a public bank this year. In 2016, Santa Fe, New Mexico, completed a feasibility study for a public bank. Los Angeles, San Francisco and Oakland have been pursuing the possibility. In October, Seattle City Council Member Kshama Sawant wanted to allocate $200,000 – half of that was approved – of the city's budget for a public bank feasibility study. Washington, DC's 2018 fiscal year budget includes $200,000 for a feasibility study for a city-owned bank. The governor-elect of New Jersey expressed interest in establishing a state public bank during his campaign.

Delk says there are several good reasons that Portland should consider a public bank. He says the model would give the city more control over its finances, and allow it to avoid using local resources to assist the "too big to fail" banks that caused the great recession. He notes that he'd rather see banking benefit locals rather than Wall Street.

"My hope is that a public bank would be a profit-making institution except the profit would be for public purposes," Delk says, naming everything from addressing homelessness and affordable housing, to creating jobs and retrofitting homes to be more energy efficient. "The possibilities are limited really only by our imagination because the needs are so great."

The Alliance imagines that the public bank would also partner with local credit unions and community development financial institutions (CDFIs) to provide loans to students for college.

Commissioner Chloe Eudaly, who was elected to Portland's City Council in 2016, has expressed an interest in investigating how the city might be able to establish a bank.

"We have one other person on the City Council who has made a supportive statement but we're not really sure if it came down to casting a vote, whether he would actually be with us or not," Delk says.

Marshall Runkel, Eudaly's chief of staff, told the Portland Mercury he has been looking into public banks and has asked the city attorney about the matter. The city attorney's initial stance was that establishing a public bank would violate the Oregon state constitution, which prohibits state banks.

Delk says the Portland Public Banking Alliance got a different opinion from another attorney and is awaiting a response from the city attorney's office based on that

feedback.

Establishing a public bank could take years – Delk estimates about five, "if all runs smoothly" – and will require securing funds for a feasibility study, conducting the study and then actually putting the bank in place. Delk says the Portland Public Banking Alliance plans to do more outreach in 2018 to raise awareness, and to discuss a public bank with all future City Council candidates.

Deonna Anderson is a Next City equitable cities fellow. A Brooklyn-based reporter with experience covering city government and social issues, she recently graduated from the CUNY Graduate School of Journalism with a concentration in urban reporting. Deonna formerly served in several public sector roles, as an assistant in a library and as a community relations officer at the transportation authority in Los Angeles, where she grew up. She interned at The Marshall Project, covering the criminal justice system, and at NYMag.com, where she currently freelances as a fact-checker.

Our Comment

Consistently, the widespread public-bank movement beats to the need for a banking system that will "follow a socially and environmentally responsible charter."

The growing support for public banks is reflected in Philip Murphy's successful election in the New Jersey Governor race.

This movement has a broader significance than its immediate goal. It demonstrates a new level of social cohesion, based on shared values, that is expressing itself locally, nationally and globally.

It was Jean Jacques Russeau, I believe, who suggested that if – when someone first drew a line in the sand and exclaimed, "This is mine!" – everyone present had laughed, it would have spared us a lot of trouble.

We have been accelerating and exacerbating privatization ever since the enclosures in Britain which herded those driven out of the commons, into the factories of the new Industrial Age.

The public-bank movement is a step towards regaining the most basic commons of our time – the money system.

Neoliberalism, "an ideology to absolve banks, landlords and monopolists from accusations of predatory behaviour" (Michael Hudson, *Junk Economics*, page 167), has been ruthlessly employed to advance privatization, since Margaret Thatcher proclaimed that, "There is no such thing as society."

The outstanding climatologist, Tim Flannery, in *Here On Earth*, traces Margaret Thatcher's neoliberal ideas to a deeply flawed interpretation of Darwin and "human nature" and declares that, "Either these ideas will prevail – or we will."

Élan

Top-100 CEO Compensation Hits $2,489 an Hour

By Jennifer Wells, Business Columnist, Toronto Star, January 2, 2018

At the hourly minimum of $14, an Ontario worker would have to labour 1.1 months to match 60 minutes of CEO pay.

It's three minutes to 11 in the am, the first working day of the New Year. You are about to purchase your second cup of coffee. There you are, standing in line, counting nickels. Perhaps you are contemplating the runaway costs of the seasonal festivities just past. Perhaps you are despairing of the way your income has not budged in years. Perhaps you're trying to remember whether any payroll deductions are front-end-loaded at the beginning of the year and whether the employee costs of any benefits have been bumped higher for 2018. How skinny will that first paycheque be?

Let's add this: as of 10:57 am, the average CEO who has made it into the ranks of the top 100 chief executives in the land will have earned what the average Canadian worker will make in the entire year.

Yes, this is another record. For the past 11 years, the Canadian Centre for Policy Alternatives has been monitoring the growing gap between average worker pay and that of the country's wealthiest CEOs.

The numbers: average worker pay rose by 0.5 per cent in 2016. That's a $228 increase, taking the annual income to $49,738. Canada's top 100 CEOs were luckier: an average 8% pay hike pushed their average pay to $10.4 million, the first time the centre's data-crunching has taken the total above the $10 million mark.

David Macdonald, senior economist at the CCPA, takes the numbers to a more granular level. "The minimum wage for the top CEOs is now $2,489 an hour," Macdonald says. "Which, incidentally, is about a month's work at minimum wage." True. At the newly instituted hourly minimum wage of $14 in Ontario, a worker would have to put in 1.1 months of labour to match what the richest CEOs make in a single hour.

"It's hard to give context to this," Macdonald acknowledges, particularly as we see the gap growing ever wider and become inured to the unpleasant annual news. Try this, Macdonald suggests: "If worker pay was the speed of a slow bicycle at 10 kilometres an hour, CEO pay would be the maximum speed of a CF-18 going Mach 2, twice the speed of sound." Does that help?

And one more number: in 2015, a CEO had to pull in $3.7 million to crack the ranks of the top 100. In 2016, the minimum threshold was $5.2 million. "So there was really a big increase in the minimum wage to get on the top 100 list," Macdonald says. "Yet, at the same time, the CEOs who are seeing huge increases in the minimum wage for themselves are often – and the organizations that represent them are often – the first ones out of the gate to say increases in minimum wage shouldn't happen for regular workers."

The causes that lie behind the growing disconnect are easy enough to pinpoint. CEOs have been incentivized increasingly over the past three decades through means other than straight pay. There's the conventional bonus. The odious fashion of back-dated stock options. Regular old stock options. Direct share awards. And so on. As Macdonald points out, any time there's an attempt to clamp down on one of these measures, the income will probably pop up in another area.

Sometimes, as we know, nothing happens. The evidence here is the undelivered promise by the Liberal government to close the stock option deduction. Cautious companies, weighing the possibility that the government would at last be good on its word, rejigged their rewards. "In this case it appears to have popped up in direct-share awards," Macdonald adds. "So instead of getting stock options to buy shares, you get the actual shares. And again, any increase in the value of the shares after you've obtained them would be considered a capital gain, and therefore taxed at half the marginal rate.

"I think what this speaks to is that this isn't a single problem," he continues. "It's an extensive problem that has built up over time. To get at it requires broader tax reform

to make it so that CEOs pay tax just like everybody else."

The implications for corporate performance should not be ignored. The voices championing investment for the long term remain few; rewards tied to short-term performance remain plentiful. Take mergers and acquisitions: "The Canadian corporate world is on a mergers and acquisitions boom in the neighbourhood of $100 to $200 billion," Macdonald points out. "The stock price goes up, everyone gets paid in the C suite and the companies are saddled with debt…. It's galling from an income and inequality perspective. It's also bad for the Canadian economy. It's bad for workers because they're often the ones who get stuck in the middle when a merger goes wrong and (companies) need to cut costs. Canadian workers are the ones going to be laid off for that. We're paying CEOs to do this."

And this: "A company can go bankrupt and still somehow CEOs will get their bonuses, despite the fact that the company has gone into insolvency."

The CCPA is light on the "big-picture approach" that needs to be taken to address the problem, and says little to nothing about institutional investor power or whether fixing the gender imbalance at the top could have some effect. It does seem to be the case that increased transparency in pay disclosure has resulted in CEOs being "benchmarked" against the ever-increasing rewards of their peers, with the obvious effect that pay continues to be pushed skyward.

Macdonald is bleak in his overall assessment. "Most Canadians go to work every day and do a hard day's work because they believe in a job well done. But CEOs aren't paid like that. They're paid as if they wouldn't do a hard day's work unless they got incentives to wake up every day and put one foot in front of the other."

In his heart of hearts does he expect next year's results to be anything other than another record-setting year for the executives on top? "I don't, unfortunately. I don't."

Now get that coffee and get back to work.

Jennifer Wells can be reached at jenwells@thestar.ca.

Our Comment. Inequality you say? *Élan*

THANK YOU FOR YOUR SUPPORT!

Public or Private Ownership of Banks: Which is More Efficient?

therealnews.com, January 16, 2018

Devika Dutt of PERI explains the gap between common economic thinking, which favors private ownership of banks, and the data.

GREGORY WILPERT: Welcome to The Real News Network. I'm Gregory Wilpert, coming to you from Quito, Ecuador. Should financial institutions, mainly banks, be privately owned or publicly owned? A new study by PERI, the Political Economy Research Institute, written by Devika Dutt, has just been published, which relates the theoretical debates about this question among economists to actual empirical evidence. It shows that many economists are blinded by their ideological adherence to the private sector, even in the face of hard facts. The report is titled "Does Public Ownership in the Financial System Promote Superior Performance: A Study of the Literature." The economic crisis of 2008, which was discussed mainly as a financial crisis expanding to include all sectors of the economy, made this debate about public and private banking much more relevant. Back then, we spoke to professor Leo Panitch, who explained that there are limitations to what private banks to do.

LEO PANITCH Now in order to do that, it leads onto the next thing. In order to do that, yes, you probably do have to have a banking system that isn't just regulated, but is a public utility, is a repository of a democratic, accountable state which directs the funds that pass through the banking system in such a way that the climate crisis, the type of production we need in order not to be destroying nature, does in fact happen.

GREGORY WILPERT: Here to discuss the new PERI report is the author, Devika Dutt. She is a doctoral student at the University of Massachusetts, Amherst. Her work at PERI focuses on exploring alternative ways of organizing financial markets and financial market reform. She joins us from New Delhi, India. Thanks for joining us today, Devika.

DEVIKA DUTT: Thank you for having me, Greg.

GREGORY WILPERT: So according to the data you present in the report, immediately after 2008 financial crash, there was a sharp increase in public ownership of financial institutions around the world, mainly because governments bailed out banks and took them over. But in 2010, the ratio of publicly owned banks fell back to the ratio just before the crisis, so banks were privatized once again. What is the argument in favor of private ownership of the banking sector?

DEVIKA DUTT: So usually, economists have, the best way to put it is a bit of a distaste for publicly owned firms, and they typically argue that publicly owned firms of any kind, banks or otherwise, are typically inefficient and are prone to be operated according to the best interests of whichever politician is in power. And therefore, most of the economics literature does not look very favorably on publicly owned firms of any kind. So that is usually the argument in favor of privatization, that a private firm, because it's operating according to the discipline of the market, is going to operate in the most efficient manner. However, as we have seen that, especially in the case of banks, and in the case of other firms, but since banks and other financial institutions are somewhat different than other firms, I think it's safe to say that it's not such a clear-cut distinction that private firms are necessarily operating in a more efficient and necessarily better manner.

I feel that, and I think overwhelming evidence also shows that the experience of the crisis is sort of a testimony to that, in which large privately owned financial institutions are operating in whatever we define as an efficient manner, sort of wreak havoc on the financial system.

GREGORY WILPERT: So a quick look at the map in your report shows that the country with the highest proportion of private banks also tend to be the countries that are wealthier and have a higher per-capita income, such as Western Europe, North America, and Australia, and public banking is more common in China, Russia, India, Latin America and the Middle East. Wouldn't this be an argument for privatization of banks, or is it wrong to assume that a cause-and-effect relationship between private banking and increased wealth?

DEVIKA DUTT: Well, I think it's a bit more heterogeneous than that. I don't think that's an entirely correct argument. In fact, if you're looking at necessarily advanced

nations, Germany has a very high degree of public ownership, and Germany is one of the most advanced nations of the world, and is for the most part, not as badly affected by the crisis as all these other countries that you have mentioned. So while there might be a correlation in terms of richer countries in general with some notable exceptions like, as I said, Germany, having lower public ownership and poorer countries having higher public ownership, I would hesitate to call it a cause-and-effect relationship, that higher public ownership is causing slower economic growth, and therefore slower growth per capita incomes. In fact, there are several studies to show, which I cite, that that is in fact not observed in the data, that higher public ownership in the banking system is not related to lower GDP growth or a lower growth of per capita income. So I would not agree with that statement.

GREGORY WILPERT: So to what extent would you say then, that the choice as to who to lend money to is a political choice, and what is the difference between a private bank and a public bank with regard to making a choice about where to lend money?

DEVIKA DUTT: So the biggest difference with being a private bank – and I want to qualify this statement by saying that usually, since the nature of public institutions is very heterogeneous, and if you can see it in my paper, I've outlined all the different kinds of banks which deal with different kinds of objectives – but in general, I think it's safe to say that while private banks operate primarily to maximize their profits, public banks usually have other objectives that they seek to fulfill. So while they might not necessarily be operating on a loss-making basis – which we would not want them to, because that would be a drain on any taxpayer's money – however, they operate in a fashion that would likely also be serving other objectives other than profit maximization. For instance, small businesses are credit-constrained almost all over the world.

What I mean by saying, when I say credit-constrained is that usually, the normal banking system, or the normal financial system, the private financial system, is unable to serve their credit needs, and more often than not, it is public banks or government programs that allow for lending to the small and medium businesses, which generate lots of jobs and lots of growth. For instance, in the United States, the Small Business Administration has a program that encourages private banks to, because the United States has very few public banks, to…so the program of the Small Business Administration encourages private banks to lend to small businesses. Clearly, the government thinks it's worthwhile to make sure that credit is available to small and medium businesses, which has not otherwise been provided by the private financial system. So this is an example of what I mean by other objectives. So I think that is the main difference between private banks and public banks, is that private banks only want to maximize profit, and public banks want to do other things as well, which would have welfare effects for the society at large.

GREGORY WILPERT: So can privatization reduce opportunities for corruption in the public sector, because public officials have fewer opportunities to wield public institutions as their own personal system?

DEVIKA DUTT: I think that's also a fraught point because privatization, in my mind, does not ensure lack of corruption. In fact, there's research to show that pretty much no matter what form, if you're politically connected, regardless of whether your ownership is private or public, you can have influence. You can pay lower taxes and enjoy the benefits of having friends in the government. So while it would be foolish to deny that public ownership does not necessarily mean that to some extent we will find those forms being used, as you said, the personal fiefdom of whatever politician is in charge. However, I would want to say that there is a lack of research to show how much this is the case of private firms. We often hear that disputes between a big multinational corporation like Deutsche Bank – when it ran into trouble with US [inaudible 00:09:28] financial regulators, you would hear news reports in which Anglo-America is sort of intervening in their behalf.

So in that sense, it may not be the same, but I think it's not clear or it's not a plain link to say that privatization would reduce corruption, or would reduce, improve operations and reduce sort of less political favors being handed out, and I don't think there's enough research to show the extent of private corruption to show if it's necessarily less. But once again, I think you're right, and as I said, it would be silly to deny that there is no corruption in the public sector or in publicly owned firms. However, how it compares to privately owned firms or corruption with private firms, or how they link up to the political establishment, is something that has not been systematically studied, and therefore, it's a hard comparison to make if privatization would necessarily reduce opportunities for corruption.

GREGORY WILPERT: And what kind of evidence did you find about how publicly owned banks and privately owned banks and insurance companies and other financial institutions operate differently in times of crisis?

DEVIKA DUTT: Right. So there is a large body of literature, and I cite all of it in my paper, which says that during the financial crisis, while privately owned firms, privately owned banks are contracting lending because they're in trouble and maybe their loans are defaulting, maybe their capital ratios aren't healthy at the time, and therefore, while they're reducing lending – therefore making the recession worse – there are several studies to show that government-owned banks or public banks are actually playing a stabilizing role, by either increasing or not decreasing lending during times of crises. And in the face of private firms, reducing private banks, reducing credit in times of crises, and this provides a great stabilizing role so that the recessionary forces are somewhat mitigated.

And in some cases, again, this effect varies across the context and institutions, and I think when countries in which institutions are more robust, the way we define that, the rule of the law is more prevalent – and when they say rule of the law, I think they're talking about how their future, their checks and balances on corruption which are more than in, say, other countries, the effect is almost, sometimes even counter-cyclical. Which by that I mean that public banks might be increasing lending in times of crisis, which once again, provides them to be a stabilizing force. However, it's also important to note that public banks are, over the business cycle, in general, bound to have smoother lending, and by that I mean that it's not like they're exploding lending during good times, which is then collapsing during bad times. So they're sort of maintaining a more steady lending pattern in comparison, which once again, provides a stabilizing influence to the economy as a whole.

GREGORY WILPERT: Okay, very interesting. I was speaking to Devika Dutt who joined us from New Delhi, India today. She's of the Political Economy Research Institute. Thanks again, Devika, for having joined us today.

DEVIKA DUTT: You're most welcome, Greg. Thanks for having me.

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

Devika Dutt is a PhD candidate in Economics in the Department of Economics at the University of Massachusetts Amherst. She is also a research assistant at the Political Economy Research Institute. Her research explores alternative ways of organizing financial markets and financial market reform.

Our Comment

In *Central Bankers at the End of their Rope?* Jack Rasmus analyzes Greenspan's Bank and clearly demonstrates that his underlying faith in the "Efficient Markets Hypothesis" – that is the notion that markets self-correct and can do no wrong – blinded him to the folly of financial deregulation. He points out that, "Greenspan's generation of business and academic economists were preoccupied for decades with analysis of…'real' data, and still are," and that this bias "led to a kind of financial instability myopia" that resulted in "decades of very poor Fed forecasting, and culminated in the "failure to understand how the global financial structure had changed," a failure shared by his successor, Ben Bernanke, that would contribute to Fed policies that allowed – indeed contributed – to the banking and credit system crash of 2008" (Chapter 5).

Élan

Tim Horton's Most Important Contribution to Canada's Psyche

By Linda McQuaig, Toronto Star, January 18, 2018

No doubt the offspring of the Tim Hortons business empire regret their clumsy attempt to make themselves just a little bit richer.

After years of the coffee chain being feted as some sort of national icon, its heirs managed to erase much of that goodwill faster than you can pick up a drive-thru double-double, and in the process solidify support for the province's controversial hike in the minimum wage.

Apparently thinking nobody would find out, the daughter of hockey player Tim Horton and the son of his business partner Ron Joyce, who are married to each other in a plot twist worthy of the *Game of Thrones*, sent a note to their grossly underpaid employees from their winter home in Florida informing them that their benefits – including 40 minutes a day of paid breaks – were being clawed back to compensate for the new $14-an-hour minimum wage.

Jeri-Lynn Horton-Joyce and Ron Joyce Jr. – whose father has a net worth of $1.4 billion – expressed "great regret" for the clawbacks, apparently convinced there was no other option. The market made me do it!

Short of Donald Trump himself striding into a Tim Hortons and insulting the serving staff, it's hard to imagine a more effective way to galvanize support for the higher minimum wage.

Even Conservative leader Patrick Brown feels obliged to support the hike, although he wants to delay the move to a $15 minimum from next year to 2022.

Minimum wages have long been a favourite whipping boy of business commentators, who insist they result in job losses.

But Tim Hortons doesn't hire and retain workers out of generosity or goodwill; it does so because it needs them to serve customers.

And it can't avoid higher wages by moving its business to some offshore country; its customers are here and they like their coffee served hot.

Indeed, despite fear-mongering about job losses when Alberta began hiking its minimum wage in 2015, jobs in its low-wage service sector actually grew by 12,400 last year, along with the rest of its economy.

Business advocates protest minimum wages for interfering with the "free market." They make it sound like the market is some sort of natural system that operates according to basic, natural laws – like the laws of gravity – and that we tamper with it at our peril.

In fact, the market is nothing more than a set of human-made laws – governing property, contracts, labour, taxes, etc.

Rather than being based on natural principles, the laws of the marketplace simply reflect the power structure of society. Those with power are able to bend the laws in their own favour.

Premier Kathleen Wynne's decision to raise the minimum wage merely rebalances things a tiny little bit in favour of those at the bottom, after decades in which the increasingly powerful business elite has managed to tilt things ever more to its own benefit.

If Wynne had wanted to seriously address the tremendous imbalance created by growing corporate dominance, she would have gone farther by, for instance, strengthening labour laws so workers in franchise operations like Tim Hortons are more able to unionize, as Marty Warren argued in the Star last week.

Once we acknowledge that the market is not a natural phenomenon – but rather something we as a society collectively create – we start to realize we're not stuck with a market that only serves the interests of a few at the top.

In a thoughtful piece in *Maclean's*, political scientist David Moscrop argues that the minimum wage debate is really about how we want to treat our most vulnerable citizens.

Business advocates want us to believe that we will pay a steep price in terms of economic well-being for paying attention to these sorts of soft-hearted concerns.

But the Scandinavian countries have amply demonstrated this isn't true. They've created highly successful market economies that are routinely ranked among the Top 10 in global competitiveness by the World Economic Forum in Geneva, yet they've virtually eliminated poverty and have income distribution far more equal than ours.

Maybe we're not yet ready to embrace the Scandinavian model; admittedly, six weeks paid vacation would take some adjustment.

But my guess is many of us are ready to shift the power balance further down the food chain.

For helping us move in this direction, we have the Tim Hortons heirs to thank. For once, I'm inclined to agree with the hoopla about the important contribution of Tim Hortons to our national psyche.

Our Comment

Good for those who have exposed and denounced the absurdly mean reaction of a business like Tim Hortons to so small a move towards economic justice!

In drawing attention to the opposition of business advocates to minimum wages, and the free-market myth that is their excuse. Linda McQuaig goes to the ultimate significance of the matter – the importance of recognizing that the market is man-made.

Élan

Fraser Institute Offers High School Students Cash Prize for Essays Bashing Minimum Wage

PressProgress, January 18, 2018

Ottawa-area school board circulates Fraser Institute contest offering cash prizes for anti-minimum wage essays.

A right-wing think tank bankrolled by wealthy interests is offering high school students thousands in cash incentives to write essays bashing minimum wage hikes.

According to internal e-mails reviewed by PressProgress, the Ottawa-Carleton District School Board recently circulated materials promoting an "essay contest" organized by the right-wing Fraser Institute to principals and office administrators at high schools across Ottawa.

According to contest guidelines, high school students are being offered prizes up to $1,500 for essays exploring why "increasing the minimum wage" is a "bad policy" (see Figure 1).

The Ottawa-Carleton District School Board did not immediately respond to a request for comment from *PressProgress.*

The promotional document encourages students to visit *StudentEssayContest.org* where the Fraser Institute portrays "the idea of raising the minimum wage" as a "contentious topic" and claims minimum wage increases primarily harm "young people and immigrants."

The Fraser Institute also supplies students with anti-minimum wage talking points from a discredited Fraser Institute report that falsely portrays minimum wage earners as "young adults," who are mostly "living with their parents or other relatives."

As *PressProgress* reported in 2016, the Fraser Institute report actually counts middle-aged and married individuals among those living with "parents or other relatives" and misleadingly suggests "benefits from a higher wage go to non-poor households."

And Statistics Canada data shows less than one-third (32%) of Canada's minimum wage workers are teenagers between the ages of 15 and 19. (See Figure 2.)

In fact, Statistics Canada data shows that among Canadians earning less than $15 per hour – in other words, people who would see an immediate raise following a $15/hr minimum wage increase – the vast majority of low-wage workers (59%) are actually 25 years or older. (See Figure 3.)

School boards might want to carefully vet materials from the Fraser Institute.

The right-wing organization's Executive Vice President once told a workshop funded by a network of wealthy Republican donors that includes the Koch brothers that the Fraser Institute's work on school rankings is designed to serve a political "communications agenda" aimed at promoting the privatization of schools.

The Fraser Institute has actually received millions in funding from the Kochs along with mining magnate Peter Munk, a Canadian billionaire and former CEO of Barrick Gold, "the world's largest gold mining company."

In fact, Munk donated $5 million to the Fraser Institute in 2016, establishing the Peter Munk Centre for Free Enterprise Education, an arm of the institute that runs workshops for teachers, produces anti-climate change propaganda for classrooms and, apparently, offers teenagers lucrative cash incentives to write essays.

The Fraser Institute's anti-minimum wage essay contest is listed as a program of the Peter Munk Centre for Free Enterprise Education. (See Figure 4.)

UPDATE: *Following publication of this story, school board trustees announced the OCDSB has pulled the Fraser Institute's essay writing contest from Ottawa-area high schools.*

Our Comment. Why, as a retired secondary school teacher, might I find this shocking?! *Élan*

Figure 1: Fraser Institute Promotional Materials Circulated to OCDSB High Schools.

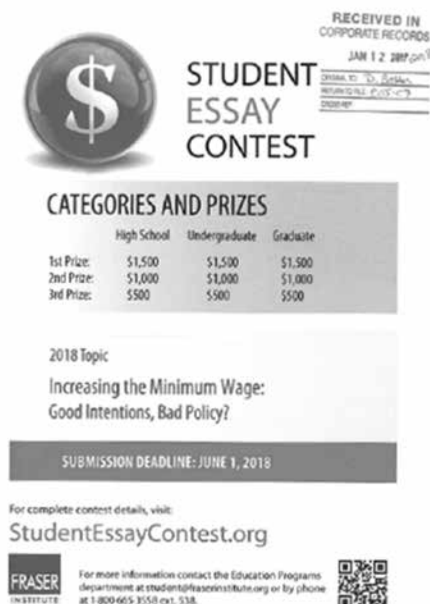


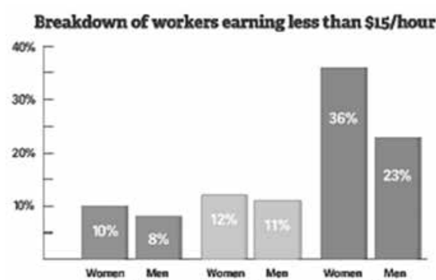
Figure 2: Fraser Institute's Essay Contest Instructions

2018 Essay Contest – *Increasing the Minimum Wage: Good Intentions, Bad Policy?*

The idea of raising the minimum wage in Canada and in some jurisdictions in the United States is a contentious topic. Proponents of a higher minimum wage tout that such increase will be an effective tool for helping those in poverty. But a recent study by the Fraser Institute found that 88% of minimum wage earners in Canada do not actually live in low-income households. In fact, nearly 60% of these earners are young adults aged 15-24, most of whom are living with their parents or other relatives. Additionally, research has found that about 70% of the benefits from a higher wage go to non-poor households in Canada.

Beyond the misperception that the majority of the benefits from an increase in the minimum wage would go to low-income earners and the most vulnerable, raising the minimum wage has been shown to lead to reductions in employment, particularly for young people and immigrants.

Figure 3: Breakdown of Workers Earning Less Than $15/hour



Source: Statistics Canada LFS Microdata, 2015

Figure 4: Fraser Institute 2016 Annual Report

Here Are the Jobs with the highest — and Lowest — Wage Growth in Canada

By Erica Alini, National Online Journalist, Money/Consumer Global News, November 10, 2017

When it comes to making ends meet, having an income that keeps up with living costs is key. So what are the best jobs to be had in Canada, when it comes to wages and inflation?

Global News did some digging through the numbers. What we found is that there are at least two main stories to be told about the winners and losers of the Canadian labour market over the past 20 years or so.

The first one is that your best bet if you want a constantly growing paycheque is to become a manager. The second story is that your second-best bet for the past decade would have been to go into the resource sector or housing.

The Boss Has It Good

When we looked at which jobs performed best and worst compared to inflation, [Table 1 shows] what we found.

Managers are the clear winners here – and that tends to hold true across sectors.

"Managerial occupations registered much higher wage growth than any other occupation," according to a Statistics Canada study that examined similar data between 1998 and 2011. That trend seems to have held up since then.

Table 1: Cost of Living – Wages Compared to Inflation 1997-2016

Inflation went up 42%

Best jobs	
Management occupations	+95%
Care providers and educational, legal and public protection support occupations	+88%
Professional occupations in nursing	+83%
Worst jobs	
Retail sales supervisors and specialized sales occupations (bellow inflation)	+33%
Labourers in processing, manufacturing and utilities (bellow inflation)	+33%
Assemblers in manufacturing (bellow inflation)	+37%

Source: Global News calculations based on Statistics Canada Data. Wages growth reflects normal median weekly wages.

And why have managers fared so well compared to everyone else? Economists aren't entirely sure, said René Morissette, one of the authors of the study and research manager at StatsCan's Social Analysis and Modelling Division.

Managers tend to be more educated than other types of employees, but neither those extra qualifications nor seniority tell the whole story, according to Morissette.

Most of that wage growth remains unexplained, but, according to some, part of it might have to do with a "greater ability for managers to extract rent," said Morisette.

Certainly, Canada has had its share of headlines about exorbitant pay for senior executives.

But whether it's stock options and generous bonuses or something else, one thing seems clear: Being at the top of the corporate food chain (or somewhat close to it, anyway) pays off more today than it did in the past.

At the other end of our chart are retail and manufacturing jobs that don't require much schooling. For workers in those occupations, wages didn't even keep up with inflation over the past two decades.

But lack of a university degree didn't stop Canadians in other sectors from enjoying massive wage growth.

When Your Paycheque Goes "Boom"

When you look at wages by industry, the impact of the commodities and housing booms become apparent (see Table 2).

Regardless of education and tenure, if you've been working in mining, the oil and gas sector or the construction industry, you're likely to have done quite well.

Table 2: Cost of Living – Wage Growth* 1997-2016

Best industries:	
Mining, quarrying, and oil and gas extraction	+32%
Public administration	+26%
Wholesale trade	+22%
Construction	+22%
Worst industries:	
Manufacturing	+3%
Information and cultural industries	+8%
Transportation and warehousing	+9%

**Median hourly wages for full-time employees, adjusted for inflation*

Source: Statistics Canada

Wages in the resource sector rose by over 30 per cent between 1997 and 2017, net of inflation, according to data provided to Global News by StatsCan. That's more than twice the across-industry average of 14 per cent.

Unsurprisingly, the wages of government employees also grew at a healthy clip of 26 per cent.

But tied for third place you'll find the construction industry, where wages climbed on the back of soaring housing prices.

(As for wholesale trade, what drove the wage growth remains a bit of mystery. None of the experts consulted by Global News were able to provide an explanation.)

At the opposite end of the wage-growth spectrum is manufacturing, where wages barely kept up with inflation, the information and cultural industries (which includes the movie, publishing and broadcasting industries, among others), and transportation and warehousing.

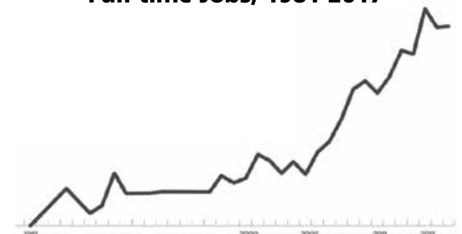
The Resource Boom Was a Pay Boom for Canada

Both the resource and the housing boom put fat paycheques in the pockets of some Canadians. But the resource boom had much wider spillover effects.

To gain an idea of the magnitude of those spillovers, it's useful to look at Canada's wages in aggregate. Figure 1 shows the percentage growth of Canada's median hourly wage for full-time employees between 1981 and 2017.

Canada's median wage rose by around 15 per cent over the period, but nothing much happened in the 1980s and 1990s. It

Figure 1: Median Hourly Wage for Full-time Jobs, 1981-2017



Source: Statistics Canada (Global News), adjusted for inflation

isn't until, roughly, 2005 that wages start on their upward trajectory.

About half of that growth is attributable to the resource boom, according to new research published by Morissette along with David Green of the University of British Columbia and Benjamin Sand of York University.

The resource boom created a number of well-paid jobs that didn't require a university degree just as the manufacturing sector kept shedding good jobs, according to Green. But it also improved the bargaining power of many Canadian workers who didn't move to the oilpatch.

Using Cape Breton Island in Atlantic Canada as a case study, Green, Morissette and Sand found that local wages rose by 13 per cent just as the oil boom was in full swing in Alberta.

"As many as one in eight men commuted from Cape Breton to Alberta for work at the time, with frequent direct flights from nearby Halifax to Fort McMurray," Green noted in a recent interview with UBC.

That allowed others in Cape Breton to bargain for better wages by threatening to leave for the oilpatch.

"Long distance commuting for work in resource extraction can spread the effect of a boom over a much wider geographic region than previously suspected," Green noted.

That's not, generally, what happens with housing booms, which seem to have a more localized impact.

Mining and oil and gas extraction doesn't generally happen anywhere near densely populated areas, which creates the need to ship in workers from far-flung parts of the country, said Green.

A housing boom, on the other hand, simply prompts more people who live in the area to take up jobs in construction and affiliated sectors rather than gigs in other industries.

So, should you drop out of university to take up a low-skill job in a booming sector?

After having a look at wages in the resource sector and the construction industry, you might be wondering if there's any point in attending university. After all, why bother with years of extra school and costly tuition if there are well-paid jobs out there that don't require a degree?

Tellingly, in Alberta, Saskatchewan and Newfoundland and Labrador, Canada's three oil-producing provinces, the rate of enrolment of young men in higher education started flat-lining right around the start of the latest commodity-price boom, an analysis provided by Morissette to Global News shows. Many men either dropped out of school or decided not to pursue further education in order to go work in mines and oil fields.

In the short term, that is "a perfectly rational decision," said Green.

But housing and resource booms go bust, he added, and in the long run higher levels of education are associated with higher wages and university degrees pay off better than technical diplomas.

So while taking up a richly paid gig as an oilsands truck driver or as a housing contractor in Vancouver may make sense for many, it's important to have a plan in place for the post-boom phase of your working life, said Green.

And that plan will likely entail going back to school.

Our Comment

Of course, education should be about much more than jobs – increasingly so as we move through the 21st century.

Élan

Here Are the Pay Perks You'd Enjoy If You Were a CEO in Canada

By Erica Alini, National Online Journalist, Money/Consumer Global News, November 22, 2017

The typical Canadian CEO makes $8 million a year, 140 times the average private-sector salary, according to new research by the Montreal-based Institute for Governance of Private and Public Organizations (IGOPP). In the banking sector, that ratio is even higher, with the median CEO compensation at $10.5 million.

Things, though, weren't always so. In 1998, Canada's CEOs were making 62 times the average Canadian salary – still a big gap, but one less than half the size what it is today.

The trend toward higher and higher CEO compensation has drawn sharp criticism over the past 20 years, and much of it justified, according to Yvan Allaire, executive chair of IGOPP and author of the report.

But the public outcry seems to have done little to curb exorbitant executive pay. Instead, it has largely led companies to adopt a highly complex system for justifying such compensation levels, the research suggests.

That system, designed by compensation consultants, "has now become the standard and the norm" across very different businesses and industries, according to the report.

In 2000, companies would take six pages on average to describe their CEO's compensation. Today, that number has ballooned to 34 pages.

But all the additional ink has hardly translated into a better pay model, Allaire told Global News.

Here are some of the pay perks you would likely enjoy if you were the CEO of a publicly traded company in Canada, according to the report:

You're on a Pay Escalator

Companies tend to set CEO pay by looking at the median executive compensation in their sector. The idea here is that you need to keep paying your CEO a little more than competitors in order to avoid them being able to poach your top dog.

But if everyone sets their pay higher than the median, the median itself will keep increasing, Allaire noted.

"This self-imposed requirement is the weakest link in the current system of compensation setting," reads the report.

But can CEOs always easily switch jobs and hop from one company to another?

In Canada, many large businesses compare their executive pay to that of around 20 other companies, whereas "it seems quite unlikely that 20 companies on average are truly comparable to any Canadian company; that is, 20 companies operating under the same market contingencies and in competition to attract the same management talent," writes Allaire.

You are Virtually Guaranteed Your Annual Bonus

Bonuses make up 22 per cent of Canadian CEOs' annual pay package on average, according to the report. In theory, the premium can vary between 0 per cent and

Continued on page 13

BlackRock's Message: Contribute to Society, or Risk Losing Our Support

By Andrew Ross Sorkin, The New York Times, January 15, 2018

On Tuesday, the chief executives of the world's largest public companies will be receiving a letter from one of the most influential investors in the world. And what it says is likely to cause a firestorm in the corner offices of companies everywhere and a debate over social responsibility that stretches from Wall Street to Washington.

Laurence D. Fink, founder and chief executive of the investment firm BlackRock, is going to inform business leaders that their companies need to do more than make profits – they need to contribute to society as well if they want to receive the support of BlackRock.

Mr. Fink has the clout to make this kind of demand: his firm manages more than $6 trillion in investments through 401(k) plans, exchange-traded funds and mutual funds, making it the largest investor in the world, and he has an outsize influence on whether directors are voted on and off boards.

"Society is demanding that companies, both public and private, serve a social purpose," he wrote in a draft of the letter that was shared with me. "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."

It may be a watershed moment on Wall Street, one that raises all sorts of questions about the very nature of capitalism. "It will be a lightning rod for sure for major institutions investing other people's money," said Jeffrey Sonnenfeld, a senior associate dean at the Yale School of Management and an expert on corporate leadership. "It is huge for an institutional investor to take this position across its portfolio." He said he's seen "nothing like it."

In a candid assessment of what's happening in the business world – and perhaps taking a veiled shot at Washington at the same time – Mr. Fink wrote that he is seeing "many governments failing to prepare for the future, on issues ranging from retirement and infrastructure to automation and worker retraining." He added, "As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges."

It is a refrain that we're hearing more and more from various pockets of the business community, and in fact last year company leaders found themselves taking stands on issues like immigration policy, race relations, gay rights and more.

But for the world's largest investor to say it aloud – and declare that he plans to hold companies accountable – is a bracing example of the evolution of corporate America. Mr. Fink says he is adding staff to help monitor how companies respond; only time will tell whether BlackRock truly uses his firm's heft to influence new social initiatives.

Part of Mr. Fink's argument rests on the changing mood of the country regarding social responsibility. He contends that if a company doesn't engage with the community and have a sense of purpose "it will ultimately lose the license to operate from key stakeholders."

Companies often talk about contributing to society – sometimes breathlessly – but it is typically written off as a marketing gimmick aimed at raising profits or appeasing regulators.

Mr. Fink's declaration is different because his constituency in this case is the business community itself. It pits him, to some degree, against many of the companies that he's invested in, which hold the view that their only duty is to produce profits for their shareholders, an argument long espoused by economists like Milton Friedman.

"What does it mean to say that 'business' has responsibilities? Only people can have responsibilities," Friedman wrote, almost rhetorically, back in 1970 in this very newspaper. "Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades."

Until recently, companies like BlackRock have traditionally been passive investors and have done little to pressure the leaders of companies they invested in; in fact they were known for rubber stamping management's plans.

It was active investors who sought to hold companies accountable – either by agitating for change or by selling their shares to express their displeasure.

Indeed, Mr. Fink has in the past denounced "activist" shareholders as too focused on the short term. "If you asked me if activism harms job creation, the answer is yes," he told me back in 2014. Now he is changing his stripes.

Over the past two years, for example, BlackRock quietly became a thorn in the side of Exxon. In 2016, the firm withheld support from two directors as a protest against Exxon's "non-engagement" policy, which barred independent board members from meeting with shareholders like Mr. Fink.

Then, in 2017, BlackRock supported a shareholder proposal to enhance the company's disclosures on climate, in part because Exxon's policy prevented the firm from getting a full understanding of its long-term strategy and risk exposure.

The climate disclosure proposal ultimately passed, and just last month Exxon agreed to publish climate impact reports. Perhaps even more notably, Exxon also changed its policy of non-engagement, and now permits meetings between shareholders and independent directors.

BlackRock has even begun siding with activist investors themselves, something it hasn't publicized. One of its funds voted in favor of the activist Nelson Peltz last year in his proxy fight with Procter & Gamble. It also voted in favor of Bill Ackman against ADP. BlackRock voted in favor of activist-led proposals in 19 percent of proxy fights last year and that number is likely to rise.

In a surprising twist, even activist investors are taking up social causes. Jana Partners and Calstrs, the huge California retirement system that manages the pensions of the state's public schoolteachers, wrote a letter to Apple last week demanding that it focus more on the detrimental effects its products may have on children.

The chief executive of Whole Foods, John Mackey, once referred to Jana as "greedy bastards" when the firm was attacking him. But here was Jana espousing the importance of issues like public health, human capital management and environmental protection, and saying that "companies pursuing business practices that make short-term sense may be undermining their own long-term viability."

"In the case of Apple," Jana wrote, "we

believe the long-term health of its youngest customers and the health of society, our economy, and the company itself, are inextricably linked." (Side note: it isn't clear why Jana went after Apple, considering that it has better tools to manage the use of its products by children than anyone else in the industry; but the general idea of technology companies paying more attention to children's health is a good one.)

Mr. Fink makes a point in his letter that the recent corporate tax cut could bring out the kind of activist investors he once denounced. "Tax changes will embolden those activists with a short-term focus to demand answers on the use of increased cash flows," he said, "and companies who have not already developed and explained their plans will find it difficult to defend against these campaigns."

Despite Mr. Fink's insistence that companies benefit society, it's worth noting he's not playing down the importance of profits and, while it's a subtle point, he believes that having social purpose is inextricably linked to a company's ability to maintain its profits.

On that score, Mr. Fink and Friedman aren't that far apart. "It may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government," Friedman wrote in 1970, adding that this approach may make it easier to attract desirable employees along with "other worthwhile effects."

But he also added a dollop of reality to the debate. Noting "widespread aversion" to things like capitalism, profits and the "soulless corporation," he wrote that social responsibility is "one way for a corporation to generate goodwill as a byproduct of expenditures that are entirely justified in its own self-interest."

About Our Commenter

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

Our Comment

If you have read Joyce Nelson's book, *Beyond Banksters,* you will know a thing or two about BlackRock, and its co-founder and CEO, Larry Fink. She quotes *Fortune,* reporting that, in 2008, even though he was "an early and vigorous promoter [of] the same mortgage-backed securities responsible for the crisis…now his firm is making millions cleaning up these toxic assets." She notes that, according to *The Economist*, BlackRock is so influential that governments of the US, the UK, and Greece sought its advice on what to do, "with toxic assets from crashing banks."

Of particular interest here is the information that, "BlackRock is the biggest shareholder in Exxon Mobil (majority owner of Imperial Oil and Shell Oil), two of the tar-sands producers pushing for pipeline access to tidewater on Canada's coasts."

I wonder how these companies will, "respond to broader societal challenges" – like environmental issues.

I wonder how much the recognition of "widespread aversion to things like capitalism, profits, and the soulless corporation" will prove an incentive to social responsibility, and to what extent it will prove a shallow strategy prompted by "seeing the writing on the wall."

Élan

CEO *from page 11*

150 per cent of CEO pay depending on performance compared to targets, but in reality, "the probability of 0 per cent incentive is nil as the history of past premiums paid shows that it was never the case." In fact, many companies establish a floor for minimum bonus pay.

Technically, a Big Chunk of Your Compensation Is "At Risk" — But That Risk Is Low

On paper, 80 per cent of Canadian CEOs' total compensation is so-called "at risk" pay, money that is contingent on meeting results and performance metrics. Salaries are the only guaranteed part of the compensation package.

In practice, however, executives are very likely to cash in a large chunk of that "at risk" money, according to Allaire.

And that's not just because CEOs will almost certainly receive some kind of bonus every year. It's also because they are increasingly being paid in stocks.

This was in large part the result of a shift away from using stock options, which give company employees the option to buy stock in the company at a set price, the so-called exercise price. Options meant executives could reap huge gains if stock prices soared above the exercise price. But they would make no money if stocks dipped below the exercise price.

The financial crisis triggered a widespread rethinking of the use of stock options for executive pay, with research suggesting that it encouraged executives to take excessive risks in order to pump stock prices.

That's why companies are increasingly using stocks, rather than stock options, to pay their CEOs.

But if this has reduced the motivation for CEOs to take daredevil gambles, it also increased their chance to cash in on at least some of their "at risk" pay, noted Allaire.

The value of a company's shares, after all, may go up or down but rarely goes to zero.

CEOs who receive a large part of their compensation in company shares can use a number of financial maneuvers to boost stock prices – and their own pay – in the short term, even if that won't necessarily benefit the business in the long term.

Share buy-backs, whereby a company buys back a portion of its outstanding stocks from investors, are one such maneuver that can be used to temporarily prop up the price of a company's shares.

Company takeovers and mergers are another well-tested trick to drive up stock prices, at least in the short term.

By contrast, investing in things like research and development is often a riskier proposition that might only benefit the company in the long term, said Allaire.

Boards of directors should minimize the incentive to use financial maneuvers such as share buy-backs and asset sales as pay-boosting gimmicks by ensuring that CEOs won't directly benefit from them.

As it is, the standard model for setting executive pay in Canada is "deeply flawed," the report concludes.

Our Comment

The hike from 62 times the average Canadian salary to 140 times, will be reflected in the rising price of whatever miracle a CEO produces. What happened to the concern about inflation?

Élan

Check out the COMER bookstore at www.comer.org

Ready or Not for the Next Recession?

By Barry Eichengreen, Project Syndicate, January 10, 2018

Policymakers normally respond to recessions by cutting interest rates, reducing taxes, and boosting transfers to the unemployed and other casualties of the downturn. But, for a combination of economic and political reasons, the US, in particular, is singularly ill-prepared to respond normally.

Copenhagen – A sunny day is the best time to check whether the roof is watertight. For economic policymakers, the proverbial sunny day has arrived: with experts forecasting strong growth, now is the best time to check whether we are prepared for the next recession.

The answer, for the United States in particular, is a resounding no. Policymakers normally respond to recessions by cutting interest rates, reducing taxes, and boosting transfers to the unemployed and other casualties of the downturn. But the US is singularly ill-prepared, for a combination of economic and political reasons, to respond normally.

Most obviously, the US Federal Reserve's target for the federal funds rate is still only 1.25-1.5%. If no recession is imminent, the Fed may succeed in raising rates three times by the end of the year, to around 2%. But that would still leave little room for monetary easing in response to recessionary trends before the policy rate hits zero again.

In the last three recessions, the Fed's cumulative interest-rate cuts have been close to five full percentage points. This time, because slow recovery has permitted only gradual normalization of interest rates, and because there appears to have been a tendency for interest rates to trend downward more generally, the Fed lacks room to react.

In principle, the Fed could launch another round of quantitative easing. In addition, at least one of US President Donald Trump's nominees to the Federal Reserve Board has mooted the idea of negative interest rates. That said, this Fed board, with its three Trump appointees, is likely to be less activist and innovative than its predecessor. And criticism by the US Congress of any further expansion of the Fed's balance sheet would be certain and intense.

Fiscal policy is the obvious alternative, but Congress has cut taxes at the worst possible time, leaving no room for stimulus when it is needed. Adding $1.5 trillion more to the federal debt will create an understandable reluctance to respond to a downturn with further tax cuts. As my Berkeley colleagues Christina and David Romer have shown, fiscal policy is less effective in countering recessions, and less likely to be used, when a country has already incurred a high public debt.

Instead of stimulating the economy in the next downturn, the Republicans in Congress are likely to respond perversely. As revenues fall and the deficit widens even faster, they will insist on spending cuts to return the debt trajectory to its previous path.

Congressional Republicans will most likely start with the Supplemental Nutrition Assistance Program, which provides food to low-income households. SNAP is already in their sights. They will then proceed to cut Medicare, Medicaid, and Social Security. The burden of these spending cuts will fall on hand-to-mouth consumers, who will reduce their own spending dollar for dollar, denting aggregate demand.

For their part, state governments, forced by new limits on the deductibility of state and local taxes to pare their budgets, are likely to move further in the direction of limiting the duration of unemployment benefits and the extent of their own food and nutrition assistance.

Nor will global conditions favor the US. Foreign central banks, from Europe to Japan, have similarly scant room to cut interest rates. Even after a government in Germany is finally formed, policymakers there will continue to display their characteristic reluctance to use fiscal policy. And if Germany doesn't use its fiscal space, there will be little room for its eurozone partners to do so.

More than that, scope for the kind of international cooperation that helped to halt the 2008-2009 contraction has been destroyed by Trump's "America First" agenda, which paints one-time allies as enemies. Other countries will work with the US government to counter the next recession only if they trust its judgment and intentions. And trust in the US may be the quantity in shortest supply.

In 2008-2009, the Fed extended dollar swap lines to foreign central banks, but came under congressional fire for "giving away" Americans' hard-earned money. Then, at the London G20 summit in early 2009, President Barack Obama's administration made a commitment to coordinate its fiscal stimulus with that of other governments. Today, almost a decade later, it is hard to imagine the Trump administration even showing up at an analogous meeting.

The length of an economic expansion is not a reliable predictor of when the next downturn will come. And the depth and shape of that recession will depend on the event triggering it, which is similarly uncertain. The one thing we know for sure, though, is that expansions don't last forever. A storm will surely come, and when it does, we will be poorly prepared for the deluge.

Barry Eichengreen is Professor of Economics at the University of California, Berkeley, and a former senior policy adviser at the IMF. His latest book is Hall of Mirrors: The Great Depression, the Great Recession, and the Uses – and Misuses – of History.

Our Comment

The *normal* response has never been a solution. The "boom-bust" economy has relentlessly run its course from Industrial Capitalism to Finance Capitalism.

The system is inherently flawed and unsustainable. If properly assessed in terms of cost to the many, and perks to the few, and the planetary destruction on which it depends to prevail, rational, honest bookkeeping will attest that we cannot afford it.

The only way to prepare for the next recession is to design a just political economy up to fulfilling 21st-century human and planetary needs.

That project has long been in the works. What remains is for society to acknowledge the need, and organize to meet it.

In a small paperback entitled, *Economics and the Public Purpose,* published in the early seventies, the eminent economist, John Kenneth Galbraith, wrote that there *must* be change, and that, "The new [was] already with us." "The first step," he argued, was "the emancipation of belief."

Resources to facilitate the process – information and organizations – are proliferating and coalescing into a global movement for meaningful change.

To become an effective agent of change, one has only to pick a cause and, through the internet, the library, and community activities, to discover and join others sharing and acting on the same concern.

Élan

Reimagine, Don't Seize, the Means of Production

By Stacco Troncoso and Ann Marie Utratel, Truthout, Op-Ed, January 7, 2018

One of the most difficult systems to reimagine is global manufacturing. If we are producing offshore and at scale, ravaging the planet for short-term profits, what are the available alternatives? A movement combining digital and physical production points toward a new possibility: Produce within our communities, democratically and with respect for nature and its carrying capacity.

You may not know it by its admittedly awkward name, but a process known as commons-based peer production (CBPP) supports much of our online life. CBPP describes internet-enabled, peer-to-peer infrastructures that allow people to communicate, self-organize and produce together. The value of what is produced is not extracted for private profit, but fed back into a knowledge, design and software commons – resources which are managed by a community, according to the terms set by that community. Wikipedia, WordPress, the Firefox browser and the Apache HTTP web server are some of the best-known examples.

If the first wave of commons-based peer production was mainly created digitally and shared online, we now see a second wave spreading back into physical space. Commoning, as a longstanding human practice that precedes commons-based peer production, naturally began in the material world. It eventually expanded into virtual space and now returns to the physical sphere, where the digital realm becomes a partner in new forms of resource stewardship, production and distribution. In other words, the commons has come full circle, from the natural commons described by Elinor Ostrom, through commons-based peer production in digital communities, to distributed physical manufacturing.

This recent process of bringing peer production to the physical world is called Design Global, Manufacture Local (DGML). Here's how it works: A design is created using the digital commons of knowledge, software and design, and then produced using local manufacturing and automation technologies. These can include three-dimensional printers, computer numerical control (CNC) machines or even low-tech crafts tools and appropriate technology – often in combination. The formula is: What is "light" (knowledge) is global, and what is "heavy" (physical manufacture) is local. DGML and its unique characteristics help open new, sustainable and inclusive forms of production and consumption.

Imagine a process where designs are co-created, reviewed and refined as part of a global digital commons (i.e., a universally available shared resource). Meanwhile, the actual manufacturing takes place locally, often through shared infrastructures and with local biophysical conditions in mind. The process of making something together as a community creates new ideas and innovations which can feed back into their originating design commons. This cycle describes a radically democratized way to make objects with an increased capacity for innovation and resilience.

Current examples of the DGML approach include WikiHouse, a nonprofit foundation sharing templates for modular housing; OpenBionics, creating three-dimensional printed medical prosthetics which cost a fraction (0.1 to 1 percent) of the price of standard prosthetics; L'Atelier Paysan, an open source cooperative fostering technological sovereignty for small- and medium-scale ecological agriculture; Farm Hack, a farmer-driven community network sharing open source know-how amongst do-it-yourself agricultural tech innovators; and Habibi.Works, an intercultural makerspace in northern Greece where Syrian, Iraqi and Afghan refugees develop DGML projects in a communal atmosphere.

This ecologically viable mode of production has three key patterns:

(1) Nonprofit: Objects are designed for optimum usability, not to create tension between supply and demand. This eliminates planned obsolescence or induced consumerism while promoting modular, durable and practical applications.

(2) Local: Physical manufacturing is done in community workshops, with bespoke production adapted to local needs. These are economies of *scope*, not of scale. On-demand local production bypasses the need for huge capital outlays and the subsequent necessity to "keep the machines running" night and day to satisfy the expectations of investors with over-capacity and over-production. Transportation costs – whether financial or ecological – are eradicated, while maintenance, fabrication of spare parts and waste treatment are handled locally.

(3) Shared: Idle resources are identified and shared by the community. These can be immaterial and shared globally (blueprints, collaboration protocols, software, documentation, legal forms), or material and managed locally (community spaces, tools and machinery, hackathons). There are no costly patents and no intellectual property regimes to enforce false scarcity. Power is distributed and shared autonomously, creating a "sharing economy" worthy of the name.

To preserve and restore a livable planet, it's not enough to seize the existing means of production; in fact, it may even not be necessary or recommendable. Rather, we need to *reinvent* the means of production; to radically reimagine the *way* we produce. We must also decide together what *not* to produce, and when to direct our productive capacities toward ecologically restorative work and the stewardship of natural systems. This includes necessary endeavors like permaculture, landscape restoration, regenerative design and rewilding.

These empowering efforts will remain marginal to the larger economy, however, in the absence of sustainable, sufficient ways of obtaining funding to liberate time for the contributors. Equally problematic is the possibility of the capture and enclosure of the open design commons, to be converted into profit-driven, peer-to-peer hybrids that perpetuate the scarcity mindset of capital. Don't assume that global corporations or financial institutions are not hip to this revolution; in fact, many companies seem to be

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By William Krehm:

- *Towards a Non-Autistic Economy – A Place at the Table for Society*
- *Babel's Tower: The Dynamics of Economic Breakdown*
- *The Bank of Canada: A Power Unto Itself*
- *How to Make Money in a Mismanaged Economy*
- *Meltdown: Money, Debt and the Wealth of Nations*
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more interested in controlling the *right* to produce through intellectual property and patents, than on taking any of the costs of the production themselves. (Silicon Valley-led "sharing" economy, anyone?)

To avoid this, productive communities must position themselves ahead of the curve by creating cooperative-based livelihood vehicles and solidarity mechanisms to sustain themselves and the invaluable work they perform. Livelihood strategies like Platform and Open Cooperativism lead the way in emancipating this movement of globally conversant yet locally grounded producers and ecosystem restorers. At the same time, locally based yet globally federated political movements – such as the recent surge of international, multi-constituent municipalist political platforms – can spur the conditions for highly participative and democratic "design global, manufacture local" programs.

We can either produce with communities and as part of nature or not. Let's make the right choice.

Stacco Troncoso is the advocacy coordinator of the P2P Foundation as well as the project lead for Commons Transition, the P2P Foundation's main communication and advocacy hub. He is also co-founder of the peer-to-peer Guerrilla Translation collective and designer/content editor for CommonsTransition.org and the new Commons Strategies Group website. His work in communicating commons culture extends to public speaking and relationship-building with prefigurative communities, policymakers and potential commoners worldwide.

Ann Marie Utratel is part of the P2P Foundation global core team, focused on advocacy and infrastructure. Her work helps connect a widening network of people involved in forward-thinking communities, including the P2P/Commons movement, activism, open licensing, environmentalism, alternative currencies, collaborative economy, cooperativism and more. She is also a co-founder of the Guerrilla Translation collective, a P2P translation collective and cooperative founded in Spain in 2013. Twitter: @AMUtratel.

Our Comment

What an exciting prospect! It will, however, be far easier to imagine than to realize.

It will take courage, ingenuity and thoughtful political action, to circumvent the opposition to so radical a development.

That it is already in the works will do much to convince an incredulous citizen in our current system, that it is possible – and to generate much *hope* that we can, in fact, consciously construct a fair and prosperous future.

Élan

Class Warfare and the Irving Shipyard

By Chris Parsons, Halifax's Website The Coast, January 4, 2018

Nova Scotia's bosses would rather kill their own companies than negotiate with their workers.

With the holidays coming to an end, negotiations between the Irving family's Halifax Shipyard Inc. and its unionized workers are set to resume this month with the help of a mediator. In December, the workers, members of UNIFOR Marine Workers Local One voted overwhelmingly in favour of a strike mandate after the employer tabled a raft of demands for concessions on rest periods and safety regulations. The Irvings are the eighth richest family in Canada and despite amassing an unfathomably large fortune they're now demanding that they get a little bit richer by trying to force 800 shipyard workers to give up a little bit more.

We're now four years into a prolonged period of obvious and open class warfare which has been waged from above. The history of capital and the state doing everything they can to bring working people to heel goes back centuries in Nova Scotia. But since 2013 the provincial government and private sector bosses have shed any pretence of accepting open negotiations and have chosen to use a combination of intransigence and exceptional legislation to break unions and suppress wages.

The most notable labour battles have been in the public sector with teachers and water workers forced on to picket lines, zero provincial public sector contracts successfully negotiated and at least a dozen pieces of substantial anti-labour legislation passed since 2013. But private sector bosses have also changed tactics and decided that digging in their heels on even small issues is preferable to trying to compromise with their workers. From the *Chronicle Herald* to Egg Films, Nova Scotia's bosses would rather cripple or kill their own companies than negotiate with their workers.

Here's the thing about the economy: The divide between private and public industries is an artificial one and the Irvings demonstrate this better than anyone. Their wealth has come from public resources that the labour of generations of Atlantic Canadians has transformed into private profit. Technically, the Irvings are a private employer, but the resource they extract comes from Crown land, travels on public infrastructure and is often sold to government entities.

Despite being worth over $7 billion dollars, the Irvings have parked that money off-shore for 45 years in order to make sure that they'll never pay their fair share of taxes.

The Halifax Shipyard's largest current contract is a deal to build warships for the Canadian navy using taxpayer dollars. The procurement program is worth up to $40 billion. On the side, they've also got another contract worth $2.4 billion to build publicly financed Coast Guard ships in Halifax. These projects are being built in a facility whose upgrades were paid for by a $304 million gift from the provincial government and, for some reason, they were also given an absurd tax-break from the city of Halifax.

After receiving billions of dollars in contracts, and hundreds of millions of dollars in direct subsidies and tax breaks, one of the richest families in Canada (or Bermuda) now expects shipyard workers to work even harder and less safe.

The refusal by the Irvings to negotiate a fair deal with their workers tells us a lot about the nature of the economy and about labour relations in this province, but it also tells us a lot about what the ultra-rich want. They don't need any more money or power, but for some reason they want it and they'll do whatever they need to do to get it. It's up to the rest of us to stop them.

Chris Parsons (@cultureofdefeat) is a political organizer, health care activist and occasional writer from Halifax. He is the co-host of "Dog Island," Atlantic Canada's premier cultural-Marxist podcast.

Our Comment. In *Finance Capitalism and its Discontents,* Michael Hudson analyzes "the economics of austerity," and argues that "The reality is a new epoch of class warfare." *Élan*

To the Honourable Bill Morneau

From Dr. Jerry Ackerman, March 6, 2017

I am writing in response to your letter of February 24 as written by Ian Foucher, your Senior Policy Advisor, in which he argues that it would be a mistake to have the government create the necessary domestic currency to fund the tens of Billions of infrastructure that our country desperately requires. He warns that proceeding in this manner would result in excessive inflation, adverse economic conditions and costs, erosion of value of our currency, and a misallocation of our resources.

By referring you to outstanding and trustworthy professional analysts, in addition to the book of Joyce Nelson and accompanying excerpts, I intend to help you have a more perfect understanding of this matter. By reading what I am sharing with you in the following pages I hope you will come to see that to use the Bank of Canada need not be unduly inflationary. Instead, it is the best possible way to fund the needs of our country at this time, with far less interest and hence less cost. To use private financing will only result in further enrichment of the bankers of the world to the detriment of Canada.

References:

(a) With regard to inflation: John Maynard Keynes, Professor John Harvey, Michael Hudson, Ellen Brown;

(b) With regard to interest and usury: Margrit Kennedy, Ellen Brown;

(c) With regard to control of nations by financial institutions: Joyce Nelson, Daniel Estulin, Stefania Vitali, James B. Glatfelder, Stefano Battiston;

(d) With regard to the Canadian experience: Will Abram, Josh Ryan-Collins, Walter Stewart.

Inflation

John Maynard Keynes explained that adding money to the system will only increase prices when the economy is at full capacity.

This is because the Demand for goods and services *precedes* the Supply of those goods and services.

The formula for inflation as found in almost all economics texts is loosely expressed as "too much money chasing too few goods," mathematically stated as money x velocity = price x quantity.

The assumption that velocity does not change is fallacious. Equally unreal is the assumption that the quantity supplied doesn't change either. Professor John Harvey pointed out these fallacies in his 14 May 2011 *Forbes* article, "Money Growth Does Not Cause Inflation."

Michael Hudson, in *Financial Predators v. Labor, Industry, and Democracy*, August 2, 2012, has studied hyperinflations wherever they have occurred. He explains: "Every hyperinflation in history has been caused by foreign debt service collapsing the exchange rate. The problem almost always has resulted from wartime foreign currency strains, not domestic spending. The dynamics of hyperinflation traced in such classics as Salomon Flink's *The Reichsbank and Economic Germany* (1931) have been confirmed by studies of Chilean and other third world inflations.

"First the exchange rate plunges as economies pay for foreign military spending during the war, and then – in Germany's case – reparations after the war ends. These payments lead the exchange rate to fall, increasing the price in local currency of buying imports priced in hard currencies. This price-rise for imported goods creates a price umbrella for domestic prices to follow suit. More domestic money is needed to finance economic activity at the higher price level. This German experience provides the classic example."

Ellen Brown, in her blog for Public Banking Institute, February 2017, "Why QE for the People or for Infrastructure Need Not Be Inflationary," reports, "As of January 2017, an estimated 9.4 percent of the US population remains unemployed or underemployed (including those who have given up looking for work). Added to that is the untapped output potential of robots, computers and innovations, such as 3D printers. Today, eight individuals own as much wealth as 50 percent of the global population. There is no way that the people at the top of the income pyramid can spend enough on consumer goods and services to generate the demand necessary to keep half the population employed. 'Demand' must come from the consuming class itself, and for that they need money to spend. They could get it through a universal unconditional basic income paid simply as a reward for living in the twenty-first century, when mechanization and computerization have made labor largely obsolete. This would not be 'welfare.' The goal would be to create a money supply sufficient to produce the demand needed to clear the shelves of unsold products and drive the production of the new GDP."

She asks rhetorically, "What of the concern that increased consumption will exhaust already-limited natural resources? Again, that need not happen if the funds are properly directed. There is a whole range of services that do not use natural resources – education, children, eldercare, sanitation, music, art, and the like – on which people could be put to work if the money were available to fund those services. Moreover, investing new money in infrastructure, research and development can actually save resources, by making their use more efficient."

Interest and Usury

Margrit Kennedy, in *Occupy Money – Creating an Economy Where Everybody Wins* (2012), illustrates the devastating consequence of compound interest (interest on interest) in an amusing way by asking, "Would you prefer to receive $10,000 a week for a year or 1 cent the first week, doubled each subsequent week?"

She likens this quantitative exponential growth of our money system to a cancer cell, and distinguishes it from qualitative growth of knowledge, skills and understanding. She goes on to say: "Until recently most of us assumed that states can't go bankrupt. We allowed them to go into massive debt to their own citizens and international investors. We have now learned that our assumption was illusory.

"What happened in Japan, in Asia, in Latin America, and recently in Europe in Portugal, Iceland, Ireland, Greece can happen tomorrow in the USA, Canada, England, France or Germany; all are going down the same path. Every German finance minister since the founding of the Federal Republic has promised to reduce the national debt. None has succeeded so far for more than brief periods. Does this not apply to most other countries in the world?

"The decisive factor here is not the absolute level of debt, but the rapid growth of the interest burden this debt entails, resulting of course from compound interest. For decades now, interest on the national debt has been the second highest expenditure in the German budget, after social security."

The following are Canadian examples of the same:

1. Canada's borrowed debt burden is less

than $40 billion, but the interest burden is approaching $600 billion.

2. When the Brampton hospital was built with private and public funds, this cost several hundred million $ more than it needed to (according to the Auditor General's report). Costs were 170% of the Peterborough hospital built with solely public funds, and provided just 25% more beds.

3. By guaranteeing private funding for the Muskrat Falls hydro project in Labrador (latest estimate $11 billion), the federal government is "on the hook" for billions more than would have been necessary with public funding via the Bank of Canada.

4. The Bridge Commission for the two Halifax-Dartmouth bridges, built in 1956 and 1970, used foreign banks to pay for the $103 million of construction costs: American, then German, then Swiss, and in 1991 the Province of Nova Scotia guaranteed a Bank of Montreal loan for the $100 million still owing – @ 11.5%! Tolls from Day 1 (now more than 30 million crossings annually) are still paying for maintenance, but cannot possibly service the capital debt.

Margrit goes on to ask: "What does all this have to do with you? You think you only pay interest when you've borrowed money or can't clear you credit card when due." She goes on to show why this is not true: "A closer look shows this belief to be false. Every price we pay contains an *interest component* – interest that the producer of the goods or services we buy have to pay to a bank for the loan they took out to purchase machines and equipment, or to pay wages.

"Research results for Germany in the 1980s – a low interest period:
Garbage collection fees .... 12% interest component
Price of drinking water 38%
Rent for gov't subsidized housing 77%

"In 2006, average interest burden in expenditures of a German household for everyday goods and services? 40%!"

Let us compare the above with the interest component being paid by Canadians: the average Canadian householder spends 60% more than his or her monthly discretionary income. If the shortfall being borrowed is 20%, that would mean an even higher interest component than the Germans paid in 2006.

Foreign Control of Canada

Controlling a country by deepening its debts is pretty much the modus operandi of empire-builders, colonizers, and pirates over several centuries and across every continent. The resources of the "Americas" attracted Portuguese, Spanish, Dutch, English, and French conquistadors. At that time, a percentage of the plunder went to pay for the ships and soldiers and repay the king, pope, or merchant who sponsored the trip.

Today, attacks on native sovereignty are successful without the "ships and soldiers." TransNationalCorporations (TNCs) are the new invading force. These paper pirates authorize the takeover of the country's businesses and resources, bypass its judiciary and legislature, and transfer the plunder to secure havens where it won't be taxed.

Who are these "paper pirates"? Where do they come from?

Are they somehow connected? Is there a home sponsor? And, have our intuitive suspicions some validity?

Thanks to the pioneering analyses of David Korten, *When Corporations Rule the World* (2001), Joseph Stiglitz, *Globalization and its Discontents* (2002), and Michel Chossudovsky, *The Globalization of Poverty and the New World Order* (2003), we have been alerted to this modern piracy.

An uncovering of the worldwide structure of corporate control by Stefania Vitali, James B. Glattfelder and Stefano Battison in, *The Network of Corporate Control* (2011), calculated the degree of control as measured by shares of operating revenue.

They found that 737 power-holders have accumulated 80% of the world network control. They identified the 49 banks, investment, and insurance institutions in the strongly-connected central core that have the power to exert, cumulatively, 39.48% control.

Twenty four of these institutions are US based, 8 are Great Britain, 5 are France, 4 are Japan, 2 are Switzerland, 2 are Germany, 2 are Netherlands, 1 is Italian, and 1 is Canadian. Most powerful is Barclay's. JPMorgan Chase is 6th, Merrill Lynch 10th, and Bank of America 25th. Canada's Sun Life is 35th.

Is the label "Banksters" appropriate? Yes, for the "paper pirates" (my label). It certainly is when considering their agenda – as outlined by Daniel Estulin in his 2005, *The True Story of the Bilderberg Group.*" He identifies how modern Colonization (masked as reforms) is designed to destroy the basic institutions of states, using the following means:

- an endless buildup of the state debt pyramid
- shrinking the tax base
- deepening the non-payments crisis
- disorganizing the money system
- destroying scientific and technological potential, by ending all state financial support or cooperation
- privatizing all potentially profitable state enterprises
- removing obstacles to the transfer of raw materials and mineral resources to the transnational corporations
- taking foreign control of financial exchanges of every kind.
- establishing direct foreign control over shaping economic policy

Estulin's book, first published in Spain, translated into 24 languages, then into English, was available in Canada temporarily (2007), though not carried by Chapters, whose CEO is a frequent attendee at the secret Bilderberg meetings. Her partner runs a large private equity firm.

Joyce Nelson's Chapter 16, " Lessons from Iceland," provides a rough understanding of how the "Banksters" take over and destroy a country. It is suggested that one read it.

Canada's story of paper pirating would have to reach back to 1998 when we hosted the summit meeting of 32 country reps at Quebec (behind a 10-foot wall of concrete to protect them from the protestors) to implement the MIA (the Multi country Investment Agreement). The project had failed at the WTO meeting in Seattle, and was destined to fail at Genoa the next year. But, the ever resourceful "pirates" included the Investor Dispute clause in the NAFTA trade agreement, and we can expect it to be in every subsequent trade agreement – CETA, TPP, TISA. When will we ever learn?

The Canadian Experience with Public Banking

Will Abram and I have loudly promoted "government-created money," and we have every reason for doing so. We each started life in the "Dirty Thirties" – he on a homestead in Southern Alberta and me on a rockbound patch of earth and swamp left behind when the Ontario lumber barons removed the pine forest in the 1880s.

Will shared these memories in 2008 when he wrote "Money – The Canadian Experience with the *Bank of Canada Act* of 1934, Nationalized in 1938, Money Created to be Spent into Existence, 1935 to 1974": "The economic crash came in October of 1929. Grain prices fell and soon there was no money to circulate through the local communities.

"My father could no longer buy gas for

his new car. It sat beside the house on a knoll overlooking a dry slough. One day in 1932 my older brother was pretend driving, I was the passenger. Walter released something and down the hill we went into the slough. No harm done. My Dad hitched a team of horses to the car and hauled it up beside his blacksmith shop, removed the engine and turned the carriage and wheels into a horse drawn 'Bennett Wagon.' That was the name given to such vehicles in honour of our Canadian Prime Minister, R.B. Bennett, who offered no solutions to the plight of prairie farmers.

"Families survived by supporting one another with whatever. My Dad set up a 'beef ring.' Once a month someone would bring a head of beef. It would be slaughtered and the cuts were shared among the group. My Dad treated the hides, and, with a shoe last, made shoes for us children and others in the neighbourhood. Summer months for children were barefoot days. Exchange money nearly disappeared. The Depression deepened.

"One of my earliest memories was in 1932. With horse and buggy, my mother headed for the railway station to pick up Dad on the incoming train. As we paralleled the tracks for the last half mile, the train trundled in. There was my Dad seated between two other men in an open boxcar door, joyfully waving to us. Other men on the train clung to the side ladders or sat on the roof.

"In 1934, my parents abandoned the prairie farm and moved the family up to a homestead in the bush country of Alberta. A log house was built. The car engine was turned into a mill for making shingles. Life became easier. Chickens, pigs, and cows produced food. A moose helped us through the first winter. Fish were abundant in the river and nearby lakes. Berries were picked and dried or preserved in jars. Vegetables were grown and placed in a root cellar for the winter. But money was still next to invisible."

Will continued, "In September of 1939, Canada declared war on Germany. Naive politicians asked the question: '*How can we fight a war? We have no money.*' The first Governor of the new Bank of Canada, Graham Towers, laughed. He replied, *'Steel companies make steel, my job is to make the money….'*

"A serious shortage of workers became the story of the day. In the summer of 1941, my Dad and two older brothers headed for the factories and steel plants of Ontario. Since there was no road further East from the Lakehead, they left the car there and took jobs on a Canada Steamship boat, through the Great Lakes and finally to the industrial city of Hamilton. At age 13, back in the woods, I was left as the man of the house, managing the farm with my mother.

"One year later, a letter from Dad said, 'Sell everything, hold an auction, buy train tickets to Hamilton. I have bought a house, a refrigerator, a radio, and a 1937 Ford car. Come. There are jobs here for everyone. I am waiting for you….'

"I worked picking fruit. The farmer, pointing to his field of tomatoes, said, 'In 1932 that plot was as good as you see today. But people could not afford to buy the tomatoes, and I was so short of money I could not afford to hire anyone to pick them. They rotted in the field….'

"After the war, I married and bought a log cabin next to the North Bay airport – the site of a government Work Camp during the Depression to keep men employed and off the rails. Now the money was available for heavy equipment to complete the airport, and wheel barrows were tossed into the dump….

"Veterans Land Grants to support business and farming, infrastructure to support the growing economy, new schools and universities, were the order of the day – all funded interest-free by the government, including my tuition at the University of British Columbia so I could become a shop teacher for the new Alternate School Programs for the province."

At a political convention in Vancouver in 2007, Will presented in graphic form the hard numbers compiled by Jack Biddell – an expert forensic accountant often called on by provincial and federal governments. The

To Each Member of Parliament in Ottawa

Dear parliamentarian:

My name is Jerry Ackerman. I am a financial analyst with degrees in Agriculture, Economics and Economics Applied to Agriculture. My life began on a subsistence farm at the depths of the Depression. My career(s) have involved 24 years at the University of Manitoba – kitchen table consulting with prairie farmers, and sharing my financial understanding with their offspring in classrooms. I co-authored 2 best-selling investment books in the 1980s, and have advised investors since 1965. Retirement followed 15 years of business ventures in the NS tourist industry, but my interest in global finance continues, and I remain political active.

One year ago this month I mailed a copy of Joyce Nelson's book *Beyond Banksters – Resisting the New Feudalism* to Senators February 6 and to MP's February 12. I included excerpts from Will Abram's *History of the Bank of Canada*, Paul Hellyer's *The Money Mafia – a World in Crisis*, and Ellen Brown's *The Public Bank Solution*, and her article "How to Cut Infrastructure costs in Half." I quoted 12-year-old Victoria Grant: "*If the government wants to spend money, it should borrow from its own bank, and not have to pay interest.*"

Canada Post assures me that my mailings were delivered. However, *not one* Senator or MP has admitted receiving the materials! The only acknowledgement came February 24 from Ian Foucher, Senior Policy Advisor, in which he repeated the nonsense voiced by the Hon. Mr. Morneau when replying to the petition 421-00858 sponsored by Elizabeth May calling for return to using the Bank of Canada to make interest-free loans for "human capital" expenditures. My response March 6 was personally directed to the Minister of Finance. It consisted of 14 pages referring to finance experts from Germany, UK, and North America. Paul Hellyer's March 14 open letter also addressed the Minister directly. He accused him of lying to Parliament and suggested his resignation!

I'm not enclosing Joyce Nelson's book this time, but here are some pages of understanding that I trust you will find instructional in examining this spring's federal budget as it is presented, reviewed and discussed.

If I can be of assistance in any way, my email address is jerry.ackerman31@gmail.com.

Jerry Ackerman

Our Comment

Somewhat like being allowed to shout – in a padded cell.

Élan

data show the changes in Canada's National Debt 1940 to 1987 were modest and manageable until the mid-1970s, then escalating exponentially when the government began borrowing from the private banking system.

Full employment and growth were the objectives during those first 35 years. The war, plus the vast infrastructure, plus the pension system, the educational system, the health system, family allowances and old age pensions, and much more, were funded without serious inflation.

Why and how was serious inflation avoided?

Here are the answers.

The chartered banks were regulated, limited to lending for a maximum of 4 years at a maximum interest rate of 6%. The country's money supply was managed with superb effectiveness:

1. Banks were enlisted to market War bonds during the war, and Savings bonds for two more decades.

2. The Canada Pension Plan required contributions from workers and employers.

3. Taxes were increased (though not to David Rockefeller's 91% level).

Capital gains were included, beginning in 1971.

4. Loan reserves could be raised as high as 12% or lowered to 8% when the economy was heating up or cooling down. Most of those reserves were to be left in the Bank of Canada without interest.

5. Overnight lending rates could be quickly adjusted, and

6. Moral suasion ("jawbone-ing") kept the bank executives in line.

Josh Ryan-Collins, in *Case Study of the Canadian Economy 1935-75*, concluded that the country had demonstrated that monetary financing can and did contribute to positive and non-inflationary macroeconomic outcomes – full employment, growth, and stable prices.

What went wrong in the mid-seventies? So wrong that the country experienced its *highest rate of inflation ever* (prime rate 22.75%, consumer loans 25%, mortgages 21.25%), with the consequences (continuous deficits, major recurring bank charges and un-payable debt) of that inflation stifling the Canadian economy 50 years even later?

Walter Stewart in his two books, *Towers of Gold, Feet of Clay* and *Bank Heist*, puts the blame (and the shame) on the *private bankers* as well as the *central bankers,* domestic and foreign. Once liberated from limits on terms and rates, banks acted on their ability to create mortgage money by simply lending it, whereas the trust companies had to borrow from investors, using CDs and GICs, lend prudently, and include their administrative costs and profit expectations in the interest charged. (I remember my brother's excitement when he bought a GIC paying him 17.5%.)

It was not long before the trust industry collapsed, and the banks bought up the remnants to add wealth management, trusts, and estates to their retail banking services.

But the Bankers did not stop there. They took over investment banking, securities distribution, and advisory firms. When leasing and household finance was added, "one-stop shopping" became the slogan for this near-perfect conflict of interest – to the detriment of the customer.

The Bottom Line

By following the dictates of the Bank of International Settlements ("No more public lending to the government, please"), the governors of our central bank and our Finance Ministers have failed us. *Our* monetary system has been kidnapped and *our* supposed sovereignty neutered. The result: the only interests now being served are those of the global financial institutions and the transnational companies that they control. The monumental needs of the Canadian society are being sacrificed as well as any positive future for our offspring.

It is crucial for our future that Parliament act now on the words from John Bracken, the Premier of Manitoba to the Macmillan Commission in 1933: "We believe there should be provided machinery to make possible a deliberate policy of publicly controlled credit in Canada."

Parliament must heed the words of Gerald Gratton McGeer in *Conquest of Poverty* in 1935: "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 summoned to Ottawa in the spring of 1934 to explain to the Commons Banking Committee what a central bank could do. Clyde Gilmour (*Maclean's,* April 1947) described the event as follows: "The result was an extraordinary, one-man, two-day, display of marathon oratory and dialectic skill. Pointer in hand, charts on all sides, Gerry lectured his audience of Bankers, Economists and Parliamentarians as if they were a class of backward freshmen. There were no interruptions, no heckling, and only a few respectful questions."

Were the present Commons Finance Committee to seek such an experience, I suggest that Michael Hudson, Ellen Brown, and Paul Hellyer be summoned. I am sure that Ellen will explain how Abraham Lincoln's creation of debt-free greenbacks in the 1860s built the intercontinental railroad and doubled the money supply – without hyperinflation.

Dr. Jerry Ackerman is a professional financial analyst, a retired professor, and a long-time political activist and friend of COMER.

Our Comment. Dr. Ackerman's letter to the Honourable Bill Morneau has elicited no response. Wonder what would? *Élan*