Money: The Fundamentals

We are now into the first generalized world wide financial panic since 1929. For a variety of reasons, it does not look like it will be over any time soon. Therefore, this is an opportune time to lay out the fundamentals about money and the money system in history and in the modern financial system.

Before all else, money is a token or system of tokens. It represents value and the capacity to take possession of value (value being any object or service that people need to acquire from those who have it to sell). It can be made up of expensive tokens like gold coins or bars, less expensive tokens like coins made of more common metals, much less expensive tokens like paper bills and almost free tokens like ledger entries in a set of books or data entries in a computer memory bank.

The nominal value of these tokens is determined more or less by how many are in circulation relative to how many things they can be used to buy. The right and capacity to create the tokens as they are needed can be very lucrative. Such right and capacity are generally held by the banks. Which is why the banks sit at the top of the commercial food chain.

Part of the continuing difficulty that many people have in understanding money, is that money itself is an abstraction, an idea in our heads. It is important to get clear on this notion. The coloured paper that people have (we hope) in their wallets is good paper and mediocre art but the money is in our heads. That is to say, nearly everybody has to know what money is and agree that certain items or tokens, whether bank notes or gold coins, represent it. This is in sharp contrast to things like tables and chairs for instance that we can use even if nobody else agrees on what they are for or even what their names are. In this sense, money is an abstraction. It is not a thing in the world that we can put our hands on and use without general agreement. That is, if there isn't nearly universal agreement on its nature and form, money literally doesn't exist.

Money should be simple but because it is an abstraction and is considered the means of life in the modern world there is usually a great deal of emotion surrounding it. Thus it can be manipulated to the advantage of a few and the detriment of many. As a result it has become wrapped in fog and mystery. The following pages are written to blow away the larger patches of fog that cover the basic character of money and make its unscrupulous manipulation more difficult.

The Two Theories of Money

Historically, there have been two basic theories of or contradictory statements about money. They are known as:

- the Commodity Theory, and
- the Quantity Theory.

Commodity Theory

The Commodity Theory states that units of currency must always be made up of or based on some particular commodity that has intrinsic value and desirability. Historically, gold and silver have usually filled this role.

They came into use largely because they had the physical qualities required for money tokens, such as durability, divisibility and, above all, limited quantity (that is, they were difficult to counterfeit).

There has always been confusion about the actual use-value of the precious metals. Some have argued that the copper, bronze and steeled-iron used in ancient times by Sparta and Rome were examples of commodity-based money. However, a close examination of the historical evidence indicates that they were nearly always examples of fiat currency. (Fiat currency is explained below under Quantity Theory.)

The historical examples of commodities being used as money (e.g., Germany and several other countries after WW II) have nearly always been accompanied by a weakened or broken central political and police authority (the state).

Using commodities as money involves three main problems:

- they represent a form of barter
- their value relative to other commodities is difficult to control, and
- much of their value may become determined by their role as the monetary back up.

A Form of Barter

Attempting to use a commodity as a form of money has a long history – as has fiat or pure token money. But when we consider that money came into usage mainly to avoid the awkwardness of barter (e.g., trying to barter a work horse for bread, beer, tools, clothes, furniture), introducing another commodity into the picture (whether it is gold bars or Lucky Strike cigarettes) largely defeats the purpose.

Even though gold and silver served as international exchange standards and often as the base of currencies internal to many ancient states, the use of metal as such was not without serious problems. While these metals were durable, divisible and compact, it was very difficult in those times to determine either their purity or their weight with great accuracy and small errors could be quite costly. Furthermore, gold wears and shaves easily if it is not alloyed with some tougher metal.

All of these difficulties required the regulation of a central monetary authority. The result was a coinage of stamped value. But once this coin is generally accepted at face value, it no longer matters what metal is used. And, in fact, for the first 350 to 400 years or so of its existence, Rome used a value-stamped bronze coin called the Aes or Ace.

Controlling the Value

The value of the money commodity relative to other commodities is even more difficult to control

than the value of tokens in fiat currency. As Adam Smith pointed out, in the 16th century rape (he didn't call it that, of course) of the American cultures by the Spanish, the gold bullion imported from the Americas drove the value of gold down to about 1/3 of its value in 1500. The amount of gold in circulation roughly tripled from the late 1520s to about 1600. This resulted in a huge inflation that has gone down in the history books as the 16th Century Price Revolution. These steadily rising prices, along with new food crops from the Americas, induced a great deal of economic and population growth in Europe.

However, the sudden cessation of monetary expansion in the 1600s threatened this economy with periodic depression. The amount of precious metal being mined in Europe and its trading areas could not keep pace with the growth of the economy and/or population.

It is important to be clear about one thing: depressions (declining prices and high unemployment), ancient or modern, are the result of a shortage of money – fiat or otherwise. They are not natural disasters.

Deriving Value from Back-up Role

Today, much of gold bullion’s value is determined by the demand for it as a monetary back up. If gold were treated as strictly an industrial metal whose price was determined by the relationship of supply and demand for its industrial use, its price would drop drastically. In other words, its price is inflated by the belief in its monetary use, which is not an intrinsic value.

Quantity Theory

The Quantity Theory indicates that money is simply a token (or a system of exchange tokens) created and/or sanctioned by the state. It is usually called fiat money. (It exists only by fiat [order] of the monarch or the state.) The tokens should have the least possible intrinsic value but should be sophisticated enough to foil counterfeiting.

The controlled and limited number of tokens combined with the fact that the central state makes them acceptable for paying all debts and taxes gives them their nominal or face value. If you can pay debts and taxes with it, it's money. Any talk of precious metals or any other commodities, or real vs. some other kind of money, is a red herring.

The extended use of gold and silver for money tokens was an historical accident. They came into use in ancient times because they could not be easily counterfeited and were limited in quantity. These features, along with indestructibility and divisibility, made them almost the only viable currency material for international use. In addition to Rome's bronze currency, Sparta did use fiat currency made of hardened iron in their internal economies for extended periods.

There have been different variants of these basic positions but for present purposes these variants are not important.

Aspects of Money Most Economists Don't Tell You About

The main features of money that many writers talk abut (e.g., unit-of-account or measure-of-value and store-of-value) come from its basic exchange functions. For example, its store-of-

value function is a by-product of its exchange function. Store-of-value means that the token can be carried from one transaction to another without its losing a noticeable amount of purchasing power. If the tokens are being introduced into the economy at too high a rate, excessive price increases (inflation) result in serious distortions of the economy.

Alternatively, when its purchasing power (or measure-of-value) increases between transactions, people tend to hold on to the money and wait for lower prices still. When that happens, much of the existing money is withdrawn from the market and the economy enters the death spiral of deflation and depression. Central bankers and economists (most of whom work for banks) have spent so much time and energy bemoaning the dangers of inflation that they forgot that anemia (deflation) can kill just as surely as high blood pressure (inflation), and often more quickly.

The last time there was a major deflation (a continuing drop in the average price level) was between 1930 and 1933. 1933 was the bottom of the Great Depression. This disaster resulted from a meltdown and a massive destruction of paper values in the stock and bond markets in 1929, followed by the near collapse of the banking system. Hundreds of banks in the United States simply closed their doors and took people's money with them. The slide was stopped only when the Roosevelt administration:

- injected government money (liquidity) into the system, and
- tightly regulated banking and markets.

Economist John Maynard Keynes labelled holding onto money, either waiting for better prices or not investing because of a lack of a market to sell into, as the liquidity trap. The common term is hoarding. It was widely recognized by 1933 that the only way to stop the death spiral of deflation and depression was for the government to create new money and spend it and, above all, to be seen to do so on a large enough scale to restore popular confidence in the system. Of course, a metal-based currency would prevent this. It is not coincidental that both Britain and the US went off the gold standard in 1931 and 1933, respectively.

Effective Demand – Money in Circulation or Liquidity

We can see that the average time between transactions can be critical. The longer the time span between transactions for the average monetary unit (dollar, pound, etc.), the larger the money supply needed to create effective demand. Effective demand is the number of dollars in the market ready to be used to buy something. If the rate of circulation slows (i.e., people start hoarding money), the liquidity trap develops and we get the same deflationary tendency we would have if the money supply failed to keep up with the needs of the economy.

Of course, a decreasing money supply and a slowing rate of circulation reinforce each other. So it seems that a modest amount of inflation is needed to keep the system from seizing up. Pressure is needed to keep large accumulations of money in use for buying and investing to avoid the long-term losses that result if the money just sits at zero or low interest rates.

The short-hand method of expressing this relationship is:

Money supply (M, with its various measures labelled M1, M2, M3 and M2+ [there is still considerable debate about which measure is the most accurate and for what purposes])

multiplied by the velocity of circulation (V [the number of times the average dollar is used to buy something in a month or other set time period]) equals effective demand, or

$M \times V = ED$.

This is partly derived from the classic formula, first published by Irving Fisher, for average price level changes (inflation and deflation) across the economy:

$(\Delta M \times \Delta V)/\Delta C = \Delta P$,

where C represents total commodities for sale, P represents average price level and Δ represents change in quantity.

Apparently, little empirical research has been done to verify this relationship, partly because the prevailing economic dogma does not openly recognize V as a significant factor in determining price changes.

In an industrialized economy with underutilized capacity (e.g., assembly lines that can run 2 or 3 shifts are running at one shift, workers are laid off), a moderate increase in ED will normally result in the hiring of more workers and increasing output. In fact, in a primarily privately-owned economy, an increase in ED is the main way of getting people back to work where there is extensive unemployment and underemployment.

Only when there is near full employment is an increase in ED primarily inflationary in the short run. In the longer run, it tends to increase investment in production capacity (e.g., more factories and greater farm capitalization). Of course, in an unprotected (free trade) economy, increased demand may mean more employment, output and business opportunities in other economies, especially ones that enforce low wages and lax environmental and occupational health and safety standards.

Such conditions cannot be considered among the natural advantages the free traders mention in promoting unrestricted trade. Therefore, some compensation for those factors would be needed.

The problem in a growth-driven economy, especially one where the population is also growing, is to keep enough money going into the system to facilitate full employment without causing the money to lose its value too rapidly. Figuratively speaking, you have to keep enough water in the main to supply all the taps without wrecking the main with over-pressure. Conversely, consistent under-pressure will cause the main to plug up with sediment and thus shrink capacity (i.e., the economy will become de-industrialized, as Canada's has since the historically high interest rates of the 1980s, and especially since the Free Trade Agreement came into effect in 1989).

Money is Continually Created and Destroyed

In a modern economy, money is being created and destroyed all the time. Most of our money tokens are created by banks and other lending institutions through loans. (In this case, the tokens are not usually dollar bills but cheques written on our electronically kept accounts.)

Each time a new loan is made, new money is created. Each time a loan repayment is made, money is destroyed (i.e., that money is taken out of the money supply). In addition, the interest

on the loan goes down the banking black hole leaving the money supply with the principle. This creates ever greater pressure on the credit institutions to keep up the circulating money supply with new loans that not only replace the money swallowed in the payment of the principle but also replace the interest payments on those loans. (Cash and money owned by the banks is not considered part of the money supply.)

With little or no interest-free government money creation, this process of the net destruction of money through interest payments has no built-in limiters. The maintenance of the money supply itself causes a continual increase in the total amount of debt in the system. Since this debt rises faster than the real economy, its quality deteriorates until the most sophisticated players realize how shaky it is and head for the exits. A financial panic, as in 1929 or 2008, sets in.

This, in fact, is what has happened since the late 1970s. Deregulation of the banking system, combined with the withdrawal of the government from the process of money creation, has coincided with an explosion of debt (personal, corporate and government) in society as a whole.

The current bank bailouts by various governments and their central banks are not money creation for the economy as a whole. They are an attempt to replace the interest and capital going down the banking black hole rapidly because of the discovery that much of this debt has no value behind it. Instead of putting this government money back into the economy at low interest rates, the banks squirrel it away for raiding expeditions against each other, as a hedge against even bigger losses in the loan portfolio and, last but not least, to pay those executive bonuses. Meanwhile, businesses and consumers can end up with fewer loans, often at higher interest rates.

When the banks and other credit institutions make fewer loans or recall existing loans (i.e., a credit crunch), we have a reduction in the money supply, and this promotes deflation (falling effective demand and prices), which in turn generates recession or depression. Loan repayment goes on destroying money at the same time that new loans are being cut back. When the main starts to dry up, most of the taps dry up.

Since the 1980s, there has not been enough money going into the real economy (goods and services). It has instead, gone into the paper-asset speculative economy (stocks, bonds, derivatives, etc.). This has created what has been called asset inflation. One of the marks of this inflation is the drop in the average price/earnings ratio (PE ratio) in the stock market. It has moved from something like 6 or 7:1 in the 1950s and 1960s to 25 to 30 or more to 1 in the late 1990s.

The result of all this speculative money creation has been higher unemployment, lower wages and deepening poverty in the real economy – the one were most people live. This has been called an anti-inflationary policy. Of course, through all this inflation-fighting, the price indexes have been rising. Again, this is because the system cannot function without a certain amount of inflation.

Unfunded Liabilities: How Important are They?

An issue that we hear a lot about these days, especially from people who focus on state and private debt, is unfunded liabilities. These liabilities are especially vilified when they involve

pensions, employment insurance and society's general obligations to its working people.

The task is to get enough exchange tokens (money) into the hands of pensioners to keep body and soul together and keep them out of abject poverty. Canada's basic Old Age Pension clearly doesn't do that. The logical course of action would be to increase the pensions and have the government generate enough interest-free government money to do that.

But instead of such a relatively simple operation, bankers, other money managers and their political cronies want us to squirrel away large quantities of these money tokens in pension funds. Of course, these funds aren't just locked away in a cellar until they are used to pay the pensions and other benefits. While the money sits in these funds, the bankers and money managers get to play with them and to influence the economy with this capital as well as to pay themselves nice bonuses while they lose our shirts in the stock market.

Liabilities, funded or otherwise, do not make it any easier to pay pensioners and the unemployed a living wage. Houses, food, clothes, transportation, entertainment and all the other physical necessities of life will be produced and distributed if there is a market for them, not because some tokens are sitting in a bank account or fund somewhere. Most of these funds are being used to bid up stock, bond and other paper asset prices and do not contribute to the current effective demand in the real economy. In other words, it would be more effective and efficient to just pay the pensions from government-created money and bypass the financial middle people.

Forget about the unfunded liabilities. All those funds should be collapsed anyway, if for no other reason than to improve control over the money supply. In any case, we certainly didn't need them to fight two world wars.

The question is can we produce enough to support pensioners and the unemployed in a reasonable lifestyle? As we found out in WW II, this would not be so difficult. In 1944, with a population of 11 million, Canada had 750,000 people in the armed forces (many being kept overseas) and one million working in war industries. They were working 50 and 60 hours a week to produce expensive hardware that was economically useless. While this was happening, the economy grew in 1942 and 1943 faster than it ever has before or since – a coal and iron economy by the way, not a service economy. We can do it because we already have done something far more difficult.

Given that we seem to have overcapacity and need to close factories, we're definitely not facing a shortage of productive capacity or goods in the stores. Therefore, paying decent pensions would expand the market and help the economy. The best part is that a simple increase in the Old Age Pension would not entail any increase in the bureaucracy.

The National Debt and Other Deficits in Logic

The media are currently haranguing the public about the outstanding debt of the federal governments in both Canada and the US. We are shown images of stacks of 100 or 1,000 dollar bills towering into space. The Durst Organization's National Debt Clock in New York City's Times Square rolls past the 10 trillion mark and needs to be rebuilt to display a hundred trillion or a quadrillion. An article in Macleans magazine by Andrew Coyne tells us that, "Journalists talk

about government spending being ‘injected’ into the economy, apparently oblivious to the fact that the money has to come from somewhere. Either it is borrowed, or it is taxed.” He doesn't mention that, before either, the money has to be created. The question is, by whom and to whose benefit?

Later he says, “They (he could be referring to one of several things or groups here but we'll have to let that go) tend also to minimize the importance of government borrowing ‘crowding out’ private borrowers." This crowding out idea is an old saw. In part, it is based on the now defunct practice of fractional reserve banking. This practice required that private banks carry a certain percentage of their liabilities (demand deposits that they might have to pay out to the depositors in a large rush, or run on the banks as in 1933) in cash on deposit with the Bank of Canada. This was to ensure the banks' liquidity as well as give the government greater control over the amounts of money the banks were creating.

Since 1991, when Prime Minister Brian Mulroney wiped out the cash reserves, there have been few effective restrictions on bank lending. Most articles on this subject are either wrong or just represent a lot of arm waving and shouting.

The current cover story for central-bank money-creation to replace the money that the banking system destroyed with bad loans is called quantitative easing (QE). (Quantitative easing is simply a euphemism for money creation.) The central banks can create this money to give or lend to the bankers who got themselves into trouble but not for schools, hospitals, public transit, etc.

These journalists' common diatribe against government spending revolves around the horrors of the national debt. The national debt is not a stack of invoices reaching to heaven's gate. It is not a big pile of gold. It is simply a few marks on a set of papers or, more likely, a series of data entries in a computer memory. These IOUs, mostly to banks and large investors, is simply a set of numbers that represent labour time expended in the past and things produced that are now mostly in land fills. But the debt itself is not a real thing in the sense that the paper or computer you are using to read this is real.

To whom is this debt owed? It's largely owed to the same bankers, financial gamblers and fund managers who just blew up the system with their short-sighted greed. Government debt is one of their primary sources of income and is certainly their most reliable source. It’s no wonder that they and their allies like Coyne are very concerned about it.

Who gave the banks the ability to create the money that they used to buy the government's debt? The answer is the people, through legislation passed by their elected representatives. Therefore, it is hardly reasonable to ask the people to starve themselves to keep paying for this ill-gotten revenue.

What can our government do? The Bank of Canada (BoC) can put up cash (create the money) to buy back a large part of this debt from the banks and other corporate holders. If they did that, there would be no inflationary effect from this action because this BoC-created money would be offset by the destruction of the bank-created money when the bank debt is repaid by the repurchase of the bonds – there would be no net change on the money supply. In fact, for the government to even go to the private institutions for this money instead of to its own bank (the

BoC) constitutes a hidden subsidy to those institutions.

The government would then have to create the money that it would normally pay out in interest and spend it into circulation to avoid a contraction of the money supply. This could have the added benefit of reducing the tax burden on wage earners and small business.

Commonly Asked Questions

Question 1: Using the Bank of Canada

History shows that the BoC can be used, as it was to finance the huge upsurge of the economy in Canada during WW II. But would it be disastrous if were used without restraint?

Answer 1

Yes, but no more disastrous than allowing the private banks to create money without restraint. In fact, this is what has been happening and has led to the current meltdown – as was the case in 1929 and other financial crises. Most of us didn't see much of the money that was created in the last 20 or 30 years because it went into the paper economy where high-stakes gamblers in the banking and financial system played with it. In addition, the BoC just created a huge amount of money (nearly 200 billion) in term loans solely to get the banks out of their current mess by replacing some of the working capital that they just lost.

Now is a good opportunity. The government and BoC can easily step in to create the money that the banks are not creating and lending, and direct it to public needs rather than the bankers' favourite projects (e.g., bonds, swaps, derivatives, oil sands plants, and energy-wasting houses and cars).

To use the BoC or other government agencies consistently to create money over the long run, the banking regulations and regulatory regime that existed before 1967 have to be restored. This means primarily that cash reserves in the banking system must be reintroduced. As I mentioned earlier, this system was crippled in 1967 by Finance Minister Mitchell Sharp and wiped out by Mulroney with Bill C-19 in 1991.

Before 1967, the *Bank Act* (not the *Bank of Canada Act*) required all chartered banks to keep between 8 and 12% (at the discretion of the Governor of the Bank of Canada) of outstanding liabilities in cash on deposit with the BoC. To control bank lending, the Governor could increase the ratio (as they do now in China, by the way – last year, the central bank of China required the banks to hold 12.6% of their liabilities in cash to cool what was then an over-heating economy). Our banking cash reserves are legally 0% and most other major economies are less than 1%. That allows the banks, theoretically, to lend forever out of nothing.

The Bank for International Settlements (BIS) has tried to partly rectify this situation by substituting capital requirements for cash reserves. However, capital is difficult to price accurately, particularly when banks are allowed to hold assets at their historic cost rather than their current market value. The BIS also undermined that suggested regulation by declaring debt of countries in the Organization of Economic Cooperation and Development (OECD) to be

risk free; therefore, they would not require any capital backing to hold government debt.

Thus, the banks can hold federal government debt with no cost and a pure profit. They can generate cash out of nothing to purchase government bonds. The BoC can do the same at almost no cost to the government and the people. What matters is the total amount of money, not which body creates it. The difference is in the government (and hence the people) not having to pay interest on the BoC money.

A return to this regime would almost certainly require currency and foreign exchange controls. Again, China has maintained such controls for decades. We have often heard the complaints of the US and other first-world governments against these controls. But they are one of the key reasons why China has moved from third-world basket case to industrial power house.

While we're reforming the country's financial operations, there is also good reason to move from the GST and all other sales taxes to a Financial Transaction Tax (FTT). This is often called a Tobin Tax or a Milligan Tax. An FTT is a tax of usually about 0.2–0.25% of every financial transaction (e.g., a cheque or draft written on an account in a bank or other financial institution or any other transfer of wealth between or out of financial institutions).

This is preferable, because:

- it is easier to collect (the banks are already set up for it) and constitutes less of a burden on small business and working people, and
- it is an anti-speculation tax.

Shifting large blocks of paper assets, such as currency, back and forth on very slim margins, which is now not taxed, becomes more costly.

The average person would hardly notice the change, but major speculators and financial gamblers would. For example, in Ontario, if an FTT replaced sales taxes, a purchase of $1,000 by cheque, debit or credit card would cost 0.25%, ($2.50), as opposed to 13% ($130). On the other hand, rolling 100s of millions or billions of dollars through speculative ventures in the foreign exchange markets or derivatives would add up to some serious money for the public treasury. Not to mention dampening down what Alan Greenspan, the former chairman of the US Federal Reserve, once called the irrational exuberance of the traders.

Finally, one of the most common arguments against using money created by the central bank or government for public purposes revolves around the German inflation of 1923. The origins of that inflation lay in conditions that are unlike anything seen today or at any other time in recent memory. They were related to the fact that Germany:

- had lost WW I, the world's biggest war to that date
- was saddled with massive reparation payments as a result
- had experienced one failed revolution and two failed counter-revolutions, and
- had its industrial heartland (the Ruhr valley) occupied by the French army, which prevented the collection of taxes from the area.

Furthermore, massive speculative short-selling of the mark in the Foreign Exchange (Forex)

markets had at least as much effect as any money-creation to support government services. Once again, the currency reflects the condition of the sponsoring state, and the German state was desperately weak at the time.

And, as it turned out, when the government decided to end the nonsense late in 1923, all it had to do was to fire Reichsbank President Rudolf Havenstein and replace him with management that knew what it was doing, under Hjalmar Schacht.

To know what constitutes proper restraint in any given situation, we have to know the numbers. That is, we need to know the movements in the various measures of the money supply, changes in market purchases, unemployment levels, private debt levels, effective interest rates and above all the total credit market debt.

For instance, through the good years of the 1950s and 1960s, the total debt in the system in the US was around 140% of GDP. That figure started climbing drastically near the end of the 1970s until a couple of years ago it was over 350%. Until all the junk debt is wrung out of the system, we are headed into more financial panics and further deflation.

Question 2: Encouraging Wasteful Production

Can unlimited or very cheap finance cause immense harm by leading to a risk of financing old fashioned and unresponsive corporations (e.g., some of our auto industry) and so perpetuate follies that obstruct improvements? This would be like providing nutrition to a person that only causes cancers to thrive and grow more rapidly and does not nourish the person.

Answer 2

Restricting the money supply will not cure the cancer of waste and stupid production in society – any more than starving a patient afflicted with cancer is generally considered an effective cure. Of course, starving the human economy might help the rest of the planet but even that's not guaranteed.

What is needed is new investment in green technologies, similar to the government-directed investment in machine tools, synthetic rubber, etc., for the war effort in World War II. That will come primarily from government policy and action in the present circumstances, as it did in WW II. When the green goods are available at a reasonable price, they will sell in the current market.

Question 3: Influencing Deregulation

Was it just the Canadian bank lobby that got our government to cut out the BoC, or is it reasonable to assume the International Monetary Fund (IMF) has a means of tightening strings on us? What are the strings?

Answer 3

The domestic bank lobby was primarily responsible for the deregulation of finance and the restriction of the BoC. Of course, it was reinforced by US and offshore banks, which have a common interest and a more or less common strategy. The IMF was just an occasional excuse.

The IMF appears to have almost no influence on China. I strongly suspect that this is because the government there controls the banks, not the other way around as we have here.

To see how the banks control the government, look at the largest corporate political donors before Prime Minister Jean Chretien's campaign-financing legislation of 2003 (Bill C-24). Through the 1990s, at least, the largest donors were the banks and their subsidiaries.

This is only the tip of the iceberg of course. Control over the money supply gives the banks control over major portions of the economy as a whole, including the media and even academic institutions now starved of funds and looking for corporate handouts. It means that finance and corporations can offer failed and retired politicians and civil servants nice positions when they leave government service.

For figures and summaries on the past financing of political campaigns and parties, see: http://www.mapleleafweb.com/old/features/parliament/party-finance/financing-party-politics.html (if this URL is on two lines you may need to copy and paste into your browser).

When considering the figures on this web page, remember that before Bill C-24 a large portion of individual contributions was subsidized by corporations.

A Brief Summary

The post-WW II upsurge in the Canadian economy was not just a result of the new money pumped into the system by the BoC and the commercial banks (most of the money going into the economy even during the regime of maximum regulation in the 1940s to the 1960s still came from the banks not the government), but also was a result of that money going into the real economy (the goods and services economy).

Since the deregulation of banking and finance, we've seen vast sums of money siphoned off into paper assets of increasingly arcane structure and dubious value. The real economy, green or otherwise, is starved of funds. For instance, the Federation of Canadian Municipalities points out that there is already a $123 billion deficit in urban infrastructure requirements. The education and health care system have suffered similar deficits in their funding levels over the last 30 years or so.

A word on that old favourite of politicians, tax incentives, playing with the tax system is largely a diversion. This is a very large topic but one best left for another discussion.

Finally, we must remember that there is no global system as such. Both the classical capitalist theorists and the Marxists, who seem to be at opposite ends of the spectrum, try to tell us that there is an entity called the market or the system – capitalist or otherwise. Such an entity exists only in the heads of some theoreticians; it is not found in the world.

There is policy and those who have the power to implement it. Recessions and depressions are not natural disasters; they are the result of monetary and fiscal policy. The sudden termination of a 10-year depression by war spending with money created by the BoC in 1939 is clear proof.

Stew Sinclair August 28, 2009