AN OPEN LETTER ON BEHALF OF THE PEOPLE OF BURNGREAVE, SHEFFIELD, SOUTH YORKSHIRE AND THE BRITISH NATION AS A WHOLE

Part 2 - July 8th 2010

SUBJECT: "INEVITABLE AUSTERITY"

Cui Bono - Who Benefits and Why?

Monday 7th June 2010 12.14 BST:

"Unless spending reductions are made, annual interest payments on UK's debt will rise to £70bn a year, says prime minister."

TO: The Prime Minister & Deputy Prime Minister
10 Downing Street,
London
SW1A 2AA.

Dear David & Nick,

Today we broadcast this second open letter addressed to you which, as previously mentioned, forms part of a series we intend to deliver during the coming weeks and months, monitoring your joint terms in office, addressing the concerns raised by listeners to Burngreave Community Radio from both local Sheffield residents and the wider community of South Yorkshire, together with those of ex-pats online around the globe and those of our staff and media associates.

As with the first of our broadcasts, the listeners response this morning to a reading of this second open letter show that their main concerns are still those regarding your "Inevitable Austerity" programs, which you say, in order for them to work, require severe cuts in public spending of some 40 %, otherwise "annual interest payments on the UK's debt will rise to £70bn a year" implying that there are **NO** credible alternatives to the kind of reckless deflationary damage such policies are bound to inflict. To which I remarked in open Letter Number 1 that: "If this is the case, then I am surprised that no one from the Treasury Department (or yours for that matter) understands that there are several highly effective alternatives to slash and burn – with proven track records and parliamentary precedents going back to 1793, 1826 and 1914, all of which still work, all of which are 99.99% 'painless' and all of which are capable of resolving the UK's Debt and Deficit problems within 72 hours, along with those of our neighbours – should they choose to follow suit by slipping the fetters of Maastricht 104(i), thereby eliminating the ***alleged*** necessity of carrying out your scorched earth austerity measures which from here look more like the machinations of a ham-fisted-gang of venal, sixth-form sadists (for which read Osborne, Redwood, Gove & Laws) than the legitimate actions of a responsible administration trying to deal sensibly with a genuine, unavoidable, financial crisis – which, many have now come to realise was just as cynical and premeditated as the one they ran in 1929, making the results predictable and therefore completely avoidable.

I then went on to provide hard evidence to support our submission that the CRASH of 2008 was indeed a contrived premeditated re-run of the one in 1929, and all others even before that going right back to the South Sea Bubble of 1720. In addition to which I provided you with David Blunkett's diary entry confirming that Gordon Brown informed the Cabinet, in July 2004, that a major downturn would occur towards the end of 2008 and that they should cut back on their plans in preparation for the event. Apart from fermenting war, Crashing Markets is simply another '***adroit scheme'*** carried out by banks and other financial institutions in order for them to periodically fill their bags with the land, property and wealth of others. And this continuing state of affairs has been caused by the failure of all governments - past and present - to pass legislation and then police it effectively in order to regulate the City, along with all it's banks, bankers and other parasitical institutions – The following evidence illustrates the failure of the Bank Charter Act of 1844 and ALL subsequent Acts and Committees that have ever been convened to investigate these recurring Boom and Bust problems – including those carried out by MacMillan (in June 1931), Radcliffe (in 1959, then later on by Wilson and more recently the one by Bischoff.

"In 1857, before the umpteenth Parliamentary Committee investigating the umpteenth failure of English Banking Laws, and the Bank Charter Act of 1844, there appeared a witness by the name of Mr. E. Capps, a building contractor and the following question was put to him. ***"You are, then, in general of the opinion that the present system (of the 1844 bank legislation) is a somewhat adroit scheme for bringing the profits of industry periodically into the usurer's bag?" Mr Capps – "I think so. I know that it has operated so in the building trade'.[1]"***

Therefore, in the final analysis, if you are genuinely interested in identifying the keys to solving "Boom and Bust" and seriously concerned about eliminating the causes of these periodical Depressions and Recessions, it will require you to select a body of people who are not genetically wired or mired in generations of entrenched City self-interest to review the following evidence and wholeheartedly admit, along with yourselves, that on strictly logical, prudent and practical grounds that in order to deal effectively with the burgeoning Deficit there are absolutely no justifiable reasons for inflicting austerity measures on any sectors of the real economy and/or members of our society. The only thing which is **inevitable** is the fact that unless you get to grips with the actual problem which resides in the City of London – that with the benefit of 20/20 hindsight and good old commonsense we will inevitably be faced with a repeat performance of 1914-18 and 1939-45/6 both of which followed similar collapses and, therefore, in all likely hood, will result in WWIII, because war is an inevitable consequence of ever accumulating debts, compounded by interest, which will only be solved if you deal effectively with the root causes of the problem which were correctly defined by Keynes along with its permanent solution – The following is an extract from THE BETRAYAL OF KEYNES, Chapter 10 in our book THE ***OTHER*** ROAD TO SERFDOM in which he said: ***'It would mean the euthanasia of the rentier, and consequently, the euthanasia of the cumulative oppressive power of the [money] capitalist to exploit the scarcity-value of capital…I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the means of securing an approximation to full employment. But beyond this no obvious case is made out for a system of State-Socialism which would embrace most of the economic life of the community'.***

I'm sure that you will not need reminding that Keynes was not a Socialist - in other words Keynes is saying that all that is needed is a fully functioning National (Patriotic) Bank of England, working in the interests of the whole country as designed by David Ricardo MP, in 1823 – Today's Public Works Loan Board could just as easily undertake this function. In order for both of you to fully understand the problem along with its solution – without the need to consult with carefully trained in-house economists and other so-called "experts" – I am incorporating the following publication – **THE DEFICIT MADE ME DO IT** - in its entirety along with Professor John Hotson's 1988 prediction of the inevitable crash that would follow Allan Greenspan's appointment to head up the Federal Reserve Board:

Who else predicted the Crash of 2008? In addition to Professor Bernard Lietaer, the man who designed the €uro, it was Professor John H. Hotson who explained why the imposition of "Inevitable Austerity" measures failed to prevent the Crash of 1929 and would again lead to an identical repeat of history. In the summer of 1988, Economics Professor John. H. Hotson Chairman of C.O.M.E.R. for the Committee On Economic & Monetary Reform, at Waterloo University, Ontario, Canada, said in the organization's news letter: "Here we go again! John Crow, the new head of the Bank of Canada and Allan Greenspan, the new man at the Federal Reserve Board have given a lot of speeches and interviews lately saying that if there is one thing they can't stand it's inflation. So they are going to get inflation down to zero any day now, even if it kills somebody [or every body]! Yes, they are going to haul inflation down to zero with high interest rates. Now that's never worked before. The fact is that, we've had inflation in every year, but one, since the Bank of Canada was invented in 1934. The facts also suggest that if our political leaders allow Greenspan and Crow to play doctor with the economy that the result will be a replay of 1979-83 if we are lucky or a re-run of 1929-39 if we are not.

When you get right down to it, there are at least eight things wrong with the policy of trying to stop the price level from increasing by increasing the rate of interest.
(1) The Policy is immoral.
(2) The policy is illegal.
(3) The Policy is irrational.
(4) The Policy has surrendered North America's leadership to the Japanese.
(5) The Policy has made all our problems worse.
(6) The - Policy has caused the large U.S., Canadian [and British] foreign trade deficits.
(7) The Policy has increased the [fractional reserve] banking systems natural propensity to self destruct. And
(8) The Policy has resulted in a world wide debt crisis where our only choices appear to be between, world wide debt repudiation, depression, and accelerating inflation. Except for these shortcomings, high interest rates are a pretty good policy."

> "Many economists rail against "wage push." and it's true that wages have risen by 2,700% over the past 50 years. But in the same period government tax revenues went up by 3,400% and net interest by 26,000%! And yet most of the economic textbooks that deplore rising wages don't even mention the tax and interest pushes. And it's not because they are complex ideas rather, that they are so simple and obvious—and because it would be so embarrassing for economists to admit they've made a boner of such magnitude: that their theory of monetary policy violates basic principles of scientific logic."

Looking forward to hearing that you have actually taken the time to consider these viable, preferable alternatives to "Inevitable Austerity" we await your comments with interest and invite you to come and respond directly to our listeners – Nick it will be easy for you, as you are often back in Sheffield, so please ask Barbara to call and make a date, to do a show with us

With sincere regards

David M Pidcock

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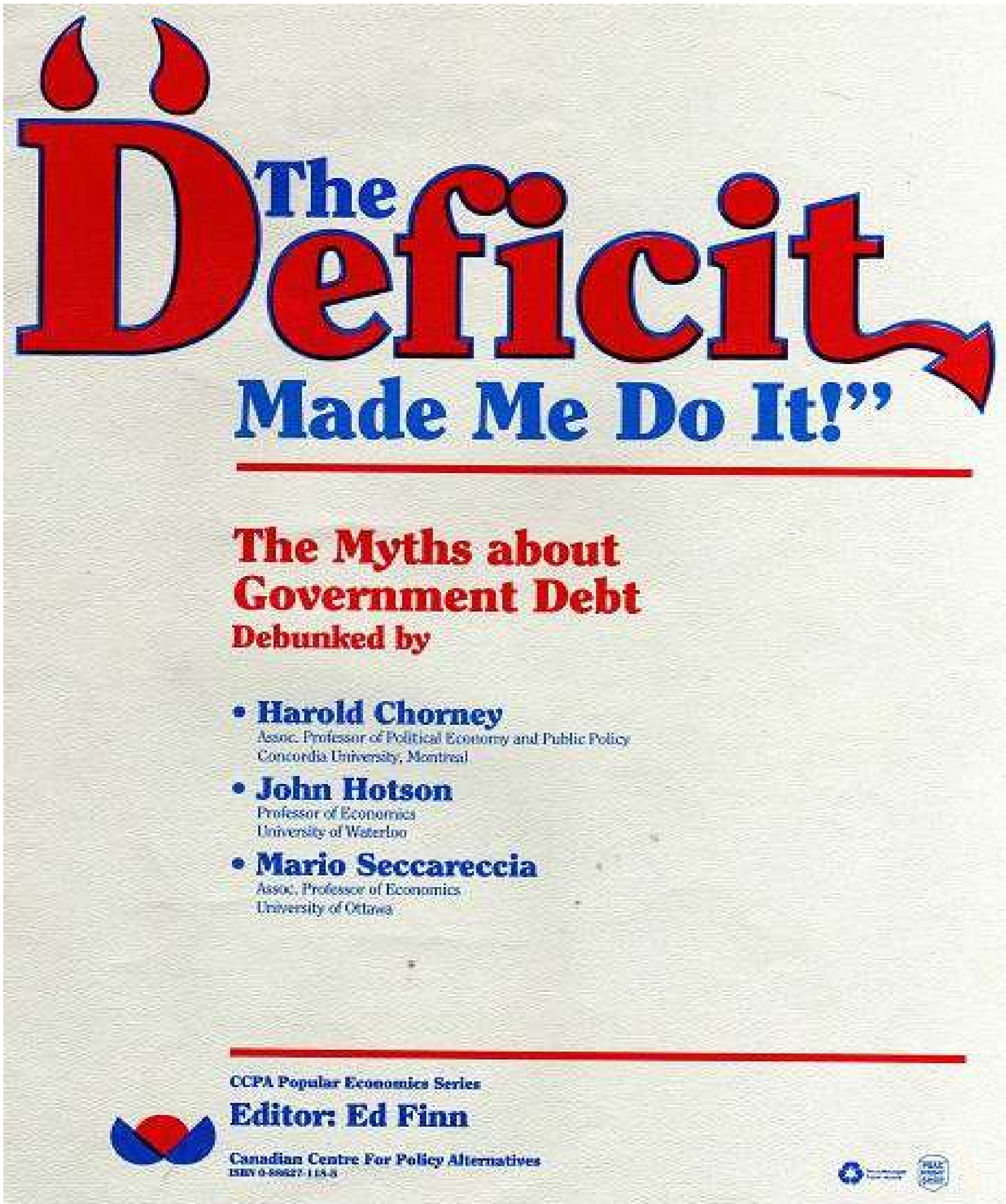

"The Deficit Made Me Do It!"

The Myths about Government Debt

Debunked by

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CCPA Popular Economics Series

Editor: Ed Finn

Canadian Centre For Policy Alternatives

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INTRODUCTION

Governments these days find it easy to defend cuts in services and programs.

All they have to do is point to their annual deficits and their total accumulated debts.

In the case of the federal government, the annual projected deficit is about $30 billion and its net accumulated debt about $420 billion.

This public debt provides the politicians with a convenient excuse for cutting spending or raising taxes or both.

“We're broke,” they tell us plaintively. “We can't afford to increase public services, or even keep them at their present level.”

The same excuse is used to defend a failure to stimulate the economy and create more jobs.

That would sink us even further into debt, they protest. “We can't let the deficit get any larger.”

In their obsession with the monetary deficit, however, the politicians are ignoring the much more serious deficits that we are running up in our human capital and public infrastructure. It will benefit Canadians not at all if the price we pay for getting the financial deficit under control is the decline of our health care, our education, our social programs, and our public sector. These are the "deficits' we really should be concerned about!

The rise of the public debt over the past few decades has not been caused by excessive government spending. It has been caused by excessive interest rates that now siphon off one in every three dollars of our taxes. Spending on social programs has actually gone down in relative terms, as a share of GDP. So if controlling the deficit is necessary, it should be done primarily through interest rate reduction, not by under-funding and slashing the public sector.

Unfortunately, most Canadians either don't realize that the deficit is interest-rate driven, or if they do, believe that interest rates are set by uncontrollable economic and market forces. In any event, they are intimidated by all the dire warnings they hear about the dangers of deficit financing. They accept "the big lie" that governments must get out of debt, even if that means cutting services or raising taxes in the midst of a deep recession.

For too long government monetary policies have been excluded from public scrutiny and debate. The political and bureaucratic "high priests" who set these policies would have us believe they're too .complicated for average Canadians to understand. In fact, they are not at all difficult to grasp, when they're properly explained.

It's time to debunk the myths that have been spread about government indebtedness. It's time to question the politician’s feeble excuse that "the deficit made us do it "--or, more commonly, "the deficit won't let us do it.”

This booklet not only demystifies the deficit. It challenges the "logic" of current government priorities. It provides us with facts and figures justifying our demand that governments abandon the economic fallacies of the 1930's and start alleviating the economic misery of the 1990s. (And unless we change things those of the coming Millennium]

The political and financial "high priests" who set monetary policy would have us believe it's too complicated for average Canadians to understand. In fact, the ways that governments collect, borrow and spend money are not at all difficult to grasp, when properly explained.

"THE BIG LIE"

As the deep recession dragged into 1992, Finance Minister Don Mazankowski said he couldn't do anything about it. His hands were tied, he said. The federal government was broke. The cupboard was bare. The deficit and accumulated national debt were so enormous that his first priority had to be to reduce them--even if that meant prolonging the recession and making it even worse.

So his budget contained almost nothing to revive the sick economy. With interest payments on the debt gobbling up one-third of tax revenue, his response was to keep taxes high and axe more public services and agencies.

Like Martin Luther before him, Mazankowski in effect proclaimed: 'Here stand I. I cannot do otherwise."

But it doesn't take an economist to see that in fact he could. All you have- to do is imagine what the government would do if it got involved in another Gulf War--or if that war were still raging. Would Mazankowski have brought down the same kind of budget? Would he have said, 'We'd like to keep on fighting, but we're broke, so we're calling our troops back"? Not on your life!

Did Canada surrender half way through World War II because the national debt had grown even larger than the Gross Domestic Product? Of course not! Somehow the extra money was found. If it wasn't by raising taxes or borrowing from the private banks, why, the Bank of Canada simply created all the money the government needed-and at near-zero interest rates, too!

When World War II ended, the national debt relative to the national income was more than twice as large as it is now. But was the country ruined? Did we have to declare national bankruptcy? Far from it! Instead, Canada's economy boomed and the country prospered for most of the post-war period.

Why isn't the same thing happening today? Why was a much larger national debt shrugged off in 1945, while today's much smaller debt (as a percentage of GDP) is being used as an excuse to let the economy stagnate?

The answer can be found at the Bank of Canada. During the war, and for 30 years afterward, the government could borrow what it needed at low rates of interest, because the government's own bank produced up to half of all the new money. That forced the private banks to keep their interest rates low, too.

When World War II ended, Canada's national debt relative to national Income was twice as high as It Is today. Yet the economy boomed and the country prospered for most of the post-war period

Since the mid – 1970s however; the Bank of Canada, with government consent, has been creating less and, less of the new money while letting the private banks create more and more. Today our bank creates a mere 2% of each year's new money supply, while allowing the private banks to gouge the government--and of course you and me, as well--with outrageously high interest rates. And it is these extortionate interest charges that are the principal cause of the rapid escalation of the national debt. If the federal government were paying interest at the average levels that prevailed from the 1930s to the mid 1970s, it would now be running an operating surplus of about $13 billion!

Mazankowski and the Tory government he represents are engaging in a colossal flim-flam. He knows as well as we do that a sovereign government can always find money to do whatever it really wants to do: such as fight a costly war; or dispense billion-dollar handouts to profitable corporations. So what he was really telling us in his budget speech was that his government was willing to spend the money required to save Kuwait, but is not willing to spend the money needed to save the Canadian economy.

The finance minister, of course, would argue that, yes, the additional money could be found to stimulate the economy, but it would be inflationary. Having plunged the country into a deep recession in order to 'wring inflation out of the economy, the Tory government says it doesn't want to trigger another rise in living costs.

So the war on inflation is another war the government thinks is worth fighting, even after it's won. Even if its continuing anti-inflation measures have the effect of raising taxes and interest rates, while pushing down personal incomes and corporate profits (bank profits excepted. of course), and. throwing hundreds of thousands of Canadians out of work.

The toll of economic ruin and human deprivation exacted by the federal government and the Bank of Canada will become even more devastating if the counterproductive policies of restraint are pursued much longer.

If the federal government had been paying interest at the levels that prevailed prior to the 1980s, it would now be running an operating surplus of about $13 billion.

THE MYTH OF GOVERNMENT "OVERSPENDING"

Whenever an economic downturn requires more government spending, the hue and cry over "the deficit" breaks out anew. And this despite the obvious responsibility of the state, in times of low demand and high unemployment, to restore demand and create more jobs. In the process, unavoidably, the government deficit increases because its tax revenue drops during a recession while it must spend more to help the recession's victims.

Such was the situation during the Great Depression of the 19305. Such was the situation in the recession of 1981-82, and now again in the much worse downturn of 1991-92.

The entire history of public indebtedness incurred to finance public activities is linked with the rise in our living standards over the last 100 years. Most of the credit is given to the private enterprise system. Far less appreciated is the fact that society has also benefited enormously from the roads, hospitals, schools, and other public facilities and programs that are provided by government--and which business needs as much as private citizens do.

Nevertheless, the myth priests that the public sector does not contribute to--but rather subtracts from--the overall wealth of the nation. It's a myth that underlies the fierce opposition of most business executives to deficit financing.

Their real objection is not so much to the deficit, per se, but to the expansion of the public sector that deficits permit. Lest there be any doubt about that, simply ask yourself whether the same outcry is raised about the growing reliance on credit (deficit financing by another name) on the part of both business and consumers.

In fact, the explosion of private credit has been far greater than the increase of public debt. Total private sector debt has soared by more than 1496 a year over the past decade, compared with a much more modest growth of 696 annually in total public sector debt. Indeed, the combined debts of about $1,600 billion owed by households, corporations and financial institutions are nearly triple the debts owed by all levels of government!

Because of its far more vulnerable nature, this kind of private debt is much more risky and potentially serious than public debt. Still, apart from an occasional murmur about the overextension of credit to companies and individuals, hardly any criticism is heard. Certainly nothing to compare with the torrents of abuse and hysteria about the "evils" of public debt and the "dangers" of growing government deficits.

We are constantly warned by business people and media commentators that government deficits are now .out of control" and have reached historic heights. "I1ds is patently untrue. Measured against either personal income in .the case of the provinces, or the GDP in the case of the federal government, the accumulated public debt is nowhere near the levels it reached during the 1930s or in the immediate post-war period. The current ratio of accumulated federal debt to the GDP, for example is 61%, which is just a little over half the ratio of 110% reached during World War II.

The increase of private credit has been far greater than the increase of public debt. The combined debts of households, corporations and financial Institutions are nearly triple the debts owed by all levels of government.

REPLAYING THE 1930s

The attack against deficit finance is essentially an attack against government, and it has been going on for the last hundred years or more. Literally thousands of artic1es and editorials in the commercial press since the early 1900s have decried government deficits and called for cuts in public services along with balanced budgets.

The media have been filled with horror stories about the disastrous consequences of 'uncontrolled government spending.' Ironically this anti-deficit uproar is even more pronounced during economic slumps than during times of prosperity. A review of the business press over the past 75 years makes this point very clearly. The predictable business response to a recession is to call for less, not more government spending. 'That was its response to the Great Depression of the 1930s, and the same corporate chorus of restraint and deficit reduction is being heard today.

Too many business leaders learned nothing from the 1930s. Their ideology remains unchanged. Their stubborn and doctrinaire refusal to consider opposing views make them no better guides to wise economic policy today than they were 60 years ago Unfortunately, it is their strident call for cutbacks and belt-tightening measures that is being heeded again by most governments--even 'though, in tough economic times, it is the worst possible course to follow. It is in fact a lethal prescription for recreating the widespread unemployment and suffering of the 1930s.

(The 11.1 % unemployment rate early in 1992 was not that far below the average 13% rate that prevailed from 1930 to 1939.)

What was so drastically false in the 1930s.is no less false today. It's not the deficit that causes recessions, high interest rates, and unemployment. Rather the converse is true. As unemployment rises, tax revenue declines even as the demand for government aid increases. And of course the higher that interest rates are pushed up, the more government revenue has to be dispensed in interest payments to support the debt.

Business leaders learned nothing from the Great Depression. Their demand for deficit reduction is a lethal prescription for recreating the widespread unemployment and suffering of the 1930s.

EXORBITANT INTEREST RATES

Real long-term and short-term rates of interest, though lower than they were in the 1980s are still far too high, given the decline in the inflation rate.

The unnatural and unjustified levels of these rates are exposed when we compare them with the average rate of real interest over the period from 1933 to 1985--1.4%.

There's a direct correlation between high real interest rates and high unemployment. For example, during the 19305, the long-term real interest rate averaged 5.696, and during the 1980s and early 19905 they've averaged 5.396. Both of those decades were periods of high unemployment. In contrast the real rate of interest during the 1940s was only 1.896, during the 1950s 1.296 and during the 1960s 3.2%. These were all decades of low unemployment. Coincidence? Hardly

When the federal government has to pay interest on its debt of more than 6% in real terms, as compared with the historic level of 1.4% its costs are tremendously inflated and controlling the deficit becomes much more difficult. Indeed, a reduction to the traditional rate of 1.4% would save the federal government $6 billion in debt charges in the first year and $10 billion by the third year.

Thousands of years of sad experience with the concentration of wealth and debt slavery caused all the ancient books of wisdom--including the Bible and the Koran--to condemn the charging of immoderate rates of interest (or any at all).

But today we have a monetary system where money is a piece of paper or a byte in a computer's memory--a system where the money supply can be increased simply by borrowing it into existence from a bank. In such a system, inflation and the over concentration of wealth can only be avoided by charging a low rate of interest.

The conventional wisdom, however, is that inflation is the greatest threat to the economy and must be restrained by raising interest rates. This flies in the face -of the common-sense observation that rising prices (inflation) are caused by rising costs, and that Interest rates are costs. So raising them will raise prices, not lower them.

Also raised by this policy, of course, is the income of the money-lenders, which explains why they subscribe so fervently to the perverse doctrine that high interest rates are somehow anti-inflationary. Certainly the world's bankers and other money-lenders have gained much from the nonsensical notion that, while giving workers a big raise is inflationary, giving money-lenders a big raise is not.

Many economists rail against "wage push." and it's true that wages have risen by 2,700% over the past 50 years. But in the same period government tax revenue went up by 3,400% and net interest by 26,OOO%!

Yet most of the economic textbooks that deplore rising wages don't even mention the tax and interest pushes. And it's not because they are complex ideas-rather, they are simple and obvious--but because it would be so embarrassing for economists to admit they've made a boner of such magnitude: that their theory of monetary policy violates basic principles of scientific logic.

The bankers have gained much from the nonsensical notion that, while giving workers a raise in pay is inflationary, giving money lenders a raise in interest rates and massive bonuses is not?

THE CREATION OF MONEY

One of the most pervasive myths about the government deficit is that governments which spend more than they receive in revenue must borrow the difference, thus increasing the public debt.

In fact a government can choose to create the needed additional money instead of borrowing it from the banks, the public, or foreigners.

Business and the conservatives in politics and the media are horrified by the suggestion that the government exercise its right to create more money. They claim it would precipitate another ruinous bout of inflation.

But money creation is money creation - whether by a private bank or the Bank of Canada; and a government in debt only to the government own bank is not really in debt at all. If it wants to go through the rigmarole of having the Treasure "borrow" from the central bank and, later pay interest that is a minor matter of bookkeeping. As long as the central bank's profits are returned to the Treasury, the results are much the same as if the Treasury had created the money itself.

When the Bank of Canada was brand new back in the 1930s, it produced most of the money supply from 1935 to 1939 and 62% of new money during the last years of World War It This policy gave Canada the highest employment rate it has ever had, very low interest rates, and very low inflation.

After the war years, and up to the mid1970s, the Bank of Canada traditionally created enough new money to absorb (or "monetize") between 20% and 30% of the federal government deficit. Since the bank's conversion to monetarism in 1975, however, it has steadily reduced its share of the deficit, and therefore the broadly defined money stock. The ratio is now down to 7.5%

There is no reason why the growth of Canada's money supply (averaging about $22billion annually in recent years) could not be more substantially created by the Bank of Canada. If that policy had been followed, the federal government would not have been obliged to add to its debts to pay interest on its old debts. Instead the Bank_of Canada has produced barely 2% of the money added in recent years, while the chartered banks added the rest as they made loans to households, businesses and all levels of government.

At the very least, the Bank of Canada and the chartered banks should share the privilege of creating money on a 50-50 basis.

Those who dismiss such a proposal as' "inflationary" should be required to explain why it would be more inflationary for the government's bank to create $11 billion and the private banks $11 billon, rather than the present practice of having the government's bank create $0. 7 billion and the private banks $21.3 billion!

Clearly the current problem of the Canadian government's deficit is not its absolute size, or its size relative to the GDP, but the insane way it is being financed. A return to the policies of the World War II era, when the Bank of Canada produced almost one-half of the new money at near-zero interest would do wonders for the economy while greatly shrinking the deficit.

In light of these facts why do so many people still believe that large deficits cause economics problems, rather than being caused by economic stagnation and inordinately high interest rate? No doubt this widely held misconception reflects the success of the sustained business attack on the deficit, but one would expect by now that many Canadians would begin to question the business community's infallibility.

LOWER INTEREST RATES = LOWER DEFICIT

According to the Mulroney government, there are only two ways to control the deficit. One is to raise taxes, and the other is to cut government spending.

But in fact there is a third way to reduce the interest rate. The Bank of Canada can set the rate of interest at which it lends to the chartered banks at any number it chooses, and it can peg the rate on government bonds, too. This was evident during World War II when it set the rate on Treasury bills at as little as 0.36%, and on longer term bonds at less than 2.5%. And this was at a time when government deficits were as much as 27% of Canada's GDP and the money supply was increasing at a 20% rate each year.

At present the deficit is less than 5% of GDP, and would not even exist at all if the Central Bank had not raised interest rates beyond all reason. In doing so, the Bank forced Ottawa to pay as much as 20.8% on three month. Treasury bills when the bank was perfectly capable of creating all the money the government needed at just 0.36%, as it did in the 1940s.

Canada has been compared to a Third World country such as Mexico that must continue to borrow just to make its interest payments. But our federal government finds itself forced to borrow from private Canadian banks and citizens to meet interest payments set at needlessly high rates by another arm of government the Bank of Canada.

This is an outrageously artificial state of affairs. The Third World countries at least face a real obstacle, since the financial terms and conditions for their debts have been set by outside banking institutions such as the International Monetary Fund and the World Bank., over which they have no control. In Canada, on the other hand, the current "crisis" of our federal deficit has been manufactured by none other than the high interest-rate policy of the Bank of Canada.

In its early years, the Bank did a fairly good job of holding down interest rates and serving the public interest. But, over the past few decades, the Bank has become the "wholly controlled subsidiary" of the private banks, rather than their overseer. That is why it now lets the private banks create all but a tiny fraction of the nation's money supply, and let their income from interest grow many times faster than any other form of income.

To illustrate just how inexcusable the misconduct of Bank of Canada officials has been, economist Jan Kregel suggests comparing the Bank with the Coca Cola Company. This is a company run by executives who obviously know what needs to be done to earn a high rate of return for their shareholders. They've got a secret cola formula that guarantees their product will account for at least half of all soft drink sales world wide.

Now imagine a new management taking over Coca Cola. This new bunch gives the secret formula to Pepsi, free. They tell soft drink consumers that Pepsi is better for them, anyway. Then they shut down most of their bottling plants. Not surprisingly, their market share plummets from 50% to 2%.

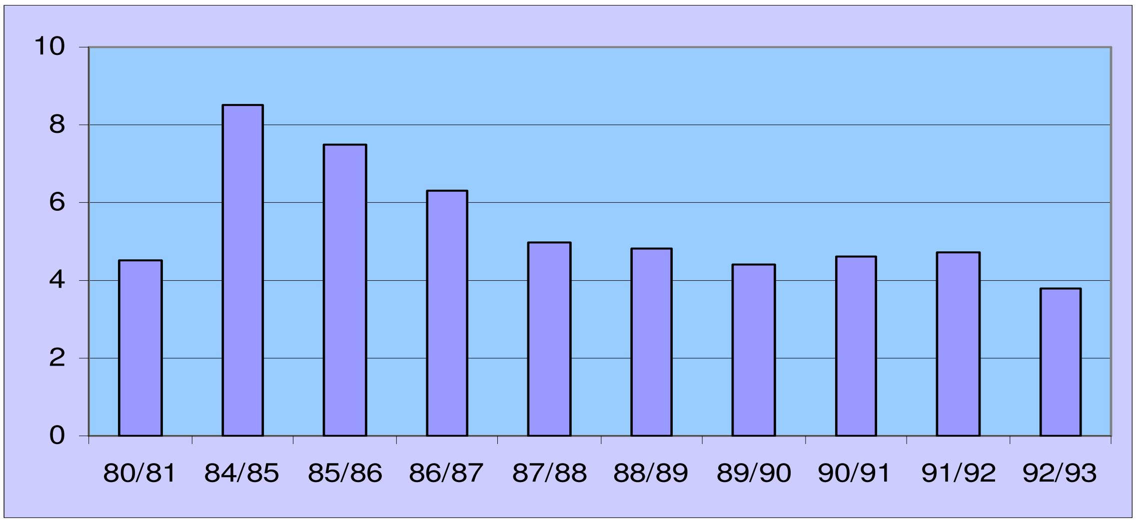
The size and repayment of Third World countries' debts are determined outside their borders by the International Monetary Fund and the World Bank. In Canada, on the other hand, the size and repayment of our government debts are determined by the Bank of Canada.

This scenario, of course, would never play itself out. Long before the new gang of management wreckers could go this far to destroy Coca Cola, the stockholders would have thrown the rascals out, and probably have them jailed for breach or trust.

A far-fetched analogy? Not at all. We, the citizens of Canada are the "stockholders" of the Bank of Canada, and we should be just as outraged by the Bank's antics in recent years as our hypothetical Coca Cola shareholders would have been. Because the Bank of Canada was set up and for many years operated on our behalf to keep interest rates at a reasonable level. It was an efficient low – cost "money machine" before it was subverted by the inefficient high – cost private banks it was supposed to regulate.

The first order of business for a post Mulroney-era government must be to regain effective control of the Bank of Canada and make it the primary source of money creation.

Deficit as % of Gross Domestic Product



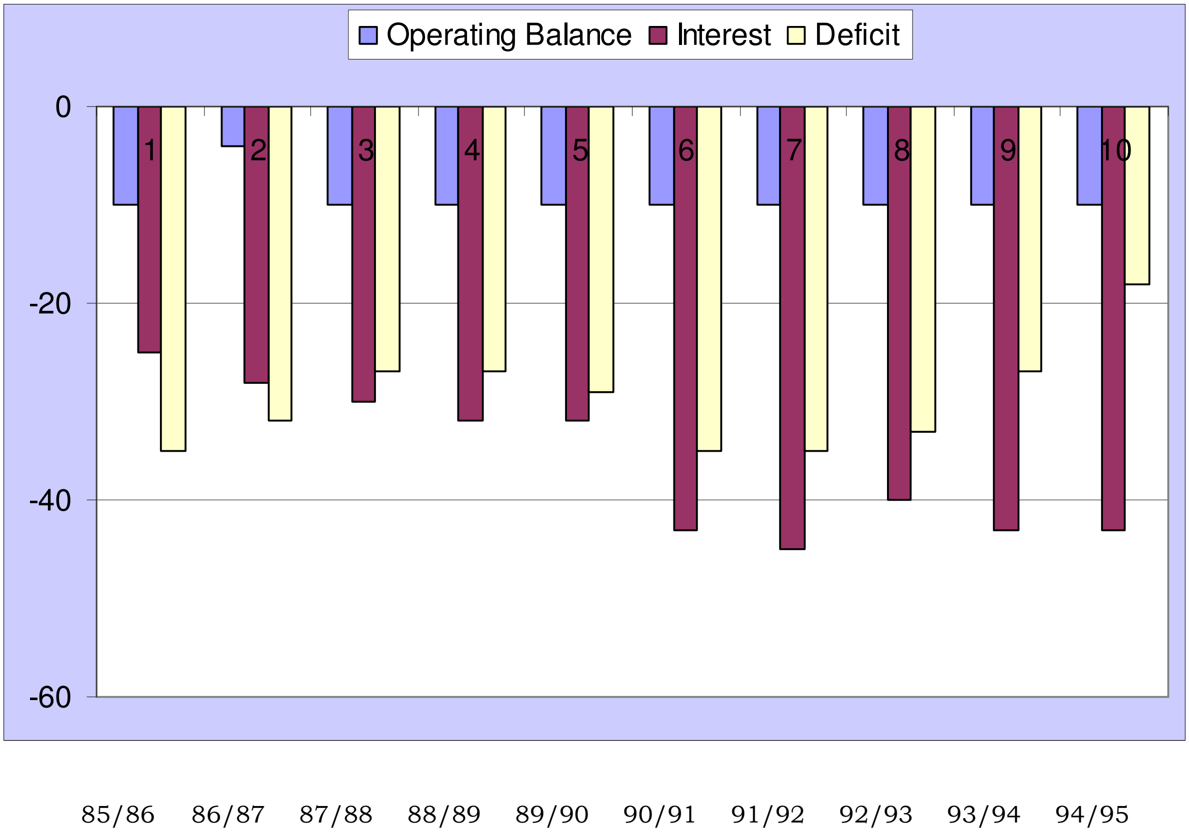
THE "MERCHANTS OF DEBT"

Some of the severest critics of government deficits are themselves "merchants of debt." Take bankers, for instance. Not only is society perpetually in debt to them, but they are also perpetually in debt to society. Even in the best of times, only some 5% of the assets of a bank are matched by the bank's equity. The rest is debt-financed-money owed to depositors. '

A banker who forecloses on a farmer who can't pay his bills, while the banker is himself insolvent, is in a dubious moral position. How to lessen his guilt? Why, denounce the national debt and he'll feel better.

Never mind that the government has a far better asset-to-liability ratio than the private sector. Never mind that the national debt grows more slowly than other forms of debt except during wars and depressions. Never mind that the only way to prevent depressions when private borrowing dries up is for the government to spend more than taxes are bringing in. Never mind that a banker lecturing the rest of us against debt is like an arsonist warning us against playing with matches, Make a speech demanding that the government stop going into debt to fund public services, and you're sure to be applauded by your business, political and media soul-mates.

Composition of Annual Deficits ($Billions)



THE "CROWDING OUT" MYTH

Another business - supported myth is that high deficits "crowd out" private investment. There might be a grain of truth in that claim if large-scale government borrowing and spending took place during economic boom times, thus eating up money that private investors might otherwise use to expand production.

Our current debt situation, however, occurs in an environment of large-scale unemployment, low consumer demand, and the underutilization of people and resources. As such, there is no way that government indebtedness or spending can displace private initiatives, because such initiatives are not being taken. Rather, the wise infusion of government funds in such hard times can stimulate economic activity and benefit both the unemployed and the private sector.

Closely tied to this fallacy is another one – that deficits damage the economy by reducing national savings. But there is no evidence to support that allegation, either. On the contrary, past experience points in the opposite direction.

Large deficits in the 1980s were accompanied by high rates of savings, while small deficits (and even surpluses) in the 1960s were accompanied by low rates of savings. Even though the current savings rate of 10% is down from a high of 18% reached in the early 1980s, it is still at a comparatively high level, even with the deficit.

Nor is Canada's savings rate unreasonably low by international standards. Over a recent seven year period, the net savings rate by households in Canada was 9.7% of net national income, compared with 6.296 in the U. S., 4.5% in Britain, and 8.9% in Germany.

Savings of course, have a worthwhile social function. They permit households to invest in consumer durables and housing, and thus boost the economy and create jobs. However, savings that are not invested for this purpose - such as those in bank deposits - are going to waste. They're unproductive.

A banker lecturing a government about debt is like an arsonist warning us against playing with matches.

Any country in which unemployment rises as high as it is now in Canada is trying to save too much through the acquisition of financial assets. It is trying to save more than investors and other spenders are willing to spend in order to achieve full employment. In such circumstances, there is only one way that the economy can be stimulated so that the needed additional jobs are opened up Governments must step in and fill the spending vacuum.

A private debt that generates future wealth is considered justifiable. So should a public debt that is incurred to create jobs.

PUBLIC DEBT, PRIVATE DEBT: THE DIFFERENCE

One of the most enduring deficit myths is that there is no difference between private debt and public debt, or the "burdens" they impose. In fact, the two forms of indebtedness are entirely different.

In the case of an individual or a company, for example, the debt is owed to outsiders and therefore can legitimately be considered a burden, since it must be repaid out of future income. Default can lead to bankruptcy.

In the case of Canada as a country, on the other hand, most of the debt incurred is not owed to outsiders, but to its own citizens and financial institutions, who consider the government's debt an asset. Furthermore, unlike an individual or a company, a country like Canada just doesn't go bankrupt.

The other often-overlooked aspect of government debt is that its "burden" is largely offset by the government's own assets. Debts secured by assets are investments in the future wealth of the economy. Our network of highways, transit systems, hospitals, ports, airports, power plants, universities, schools, public buildings, Crown lands and natural resources all represent enormous wealth-producing assets. Yet the government's public accounts value these assets at the nominal value of $1.00. Clearly this is absurd - just as absurd as the often heard claim that “the government is broke.”

If households or corporations kept their accounts like that, it would mean that people could never borrow to buy a home, or companies borrow to invest in new plant and equipment.

Did you ever hear of a corporation that doesn't have large outstanding debts? Of course not. It makes no sense not to borrow if you are making capital investments. If the federal government followed the sound accounting practices that business firms and households do, it would only deduct each year's depreciation charges, not the full amount of new capital spending.

The only sense in which private debt and public debt are comparable is that in both cases the future cost of debt repayment can be measured against the future stream of benefits.

A private debt that generates future wealth is considered justifiable. But so is a public debt that is incurred to create jobs. If the debt is not incurred, a government's future income will be lowered by the extent to which it is necessary to meet the needs of those left jobless by the lack of social capital investments.

Every road, school, hospital or airport that is neglected today simply guarantees a more expensive burden for the future.

Critics of the deficit often bemoan the "legacy of public debt" that we are bequeathing to future generations. Those future generations, however, will be much worse off if, instead of a deficit, we leave them a country plagued by ill-health, poverty, joblessness, decrepit schools, and a crumbling infrastructure. A balanced budget will not be viewed as an adequate substitute for social and economic security.

Critics of the deficit say it's unfair to pass our debts on to future generations. Those future generations, however, will be much worse off if instead of a deficit, we bequeath them a country plagued by ill-health, poverty, joblessness, poor education, and crumbling highways.

HOW BIG IS THE DEFICIT, REALLY?

The size of the federal deficit is grossly exaggerated by the failure to make the necessary adjustments for inflation, for "double counting" and for the normal ebb and flow of the business cycle. If the deficit or even the accumulated federal debt of $420 billion--were properly accounted for, it would be considerably smaller. Our concern should be with the real debt--that is, the debt adjusted for inflation.

It stands to reason that the deficit should be reduced by the annual rate of inflation, since the repayment in each succeeding year is mad~ in deflated dollars.

The deficit should also be reduced by separating from it all the debt held by the Bank of. Canada and other federal government bodies ($23 billion), as well as the debt held by provincial governments and municipalities ($22 billion). It makes no sense to count as a burden interest payments made to other branches of the Crown. .

Adjusting the deficit to the business cycle reflects the inevitable drop in government tax revenue that is caused by a recession, its consequent rise in unemployment, and the need for more government spending for social assistance.

It is misleading to judge the size of the deficit without taking these factors into account. Some economists say that, if these adjustments were all made, as they should be, the real deficit would be down from $31 billion to less than $ 10 billion. And the remaining deficit could be converted into a sizeable surplus if the many tax concessions and handouts to profitable companies and wealthy individuals were eliminated, and interest rates brought down to a reasonable level.

Attempts to revive the private sector by savaging the public sector are equivalent to the ancient medical practice of bleeding a

haemophiliac in order to try and "cure" the patient.

"RESTORING CONFIDENCE"

The federal government tries to defend its spending restraints during a recession by arguing that deficit reduction is necessary to 'restore business confidence" in the economy.

The premises of such a policy are that (a) only by restoring business confidence can the economy be revitalized; and (b) any cuts in public services or employees that flow from such spending restraints would be good for the private sector.

<u>These two assumptions are myths.</u>

Let's concede that business confidence is important. No one denies that. But consumer confidence is equally important. It would be futile for business to produce more unless consumers were willing .to buy more, no matter how “confident” business might become as the result of a lower deficit.

Public sector cutbacks do not build consumer confidence. They may appease the government's business supporters, but they make average citizens and workers very uneasy--particularly if they involve the layoff of public employees.

In our mixed capitalist economy, the public sector employs up to 25% of the work force. Government restraint that leads to job losses in schools, hospitals, municipalities, and other public institutions are rapidly spread through the whole economy, causing a multiplier-effect loss of private sector jobs. Thus, for every increase in business confidence that may follow public sector cutbacks, there will be an equal or greater offsetting loss of consumer confidence.

Moreover, because of the interdependence of the public and private sectors in Canada, cuts in one inevitably spill over into the other, both through direct job loss and reduced spending. Attempts to revive the private sector by savaging the public sector are equivalent to the medieval practice of bleeding to "cure" the patient.

Business people don't seem to realize that income support programs such as pensions, unemployment insurance, and social assistance are essential to sustain a strong demand for private sector goods and services. In opposing such government programs, they help to bring about the very decline in their own profits which they so piteously lament.

Restoring business confidence in the economy is important. But it would be futile for business to produce more unless consumers were willing and able to buy more no matter how “confident” business might become as the result of a lower deficit.

BIG BUSINESS - BIG BROTHER

The only "reason" left for us to be concerned about the deficit is because most of the big corporations want us to be concerned about it. By deluding us that the deficit is a serious problem, they legitimize their broader attack on the public sector and public services--which are their real targets.

Instead of-attacking the role of government head on, the neoconservative leadership of the business community seeks to reduce the role of government and slash social programs by convincing us that otherwise the deficit will soar out of control and the sky will fall.

(In the United States, incidentally, David Stockwell and other officials with the Reagan administration now openly admit that, at the behest of their corporate friends, they deliberately increased the deficit so that it would justify later cuts in social program funding!)

The case for spending cuts rests on the dubious claim that Canada can no longer afford to retrain its workers, to relieve poverty, to improve education, to keep its people healthy, to protect the environment, or maintain its public infrastructure.

Yet, for want of such government spending, children go hungry, students drop out of school, workers lack needed skills, people without jobs turn to crime, pollution poisons our air and water, and congestion chokes our cities.

The deficit in public spending the failure to invest in social capital--will in the long run be much more serious and impose a much greater burden on our children and grandchildren than will the federal deficit that politicians and executives so shrilly denounce. Indeed, it will not only degrade the quality of life for millions of Canadians, but it will have a crippling effect on Canada's productivity and competitiveness.

Productivity, we're continually reminded by business after-dinner speakers, depends on growth in capital per worker. But three kinds of capital are needed to ensure that workers are productive: private capital, such as factories and machines; human capital, such as education and training; and public capital, such as roads, airports, schools, and other parts of the infrastructure.

Human and public capital--which business tends to overlook--are surely just as important as private capital. In fact, in a global economy, where private capital transcends national boundaries, there are only two competitive advantages any country can give itself--a highly skilled work force, and an efficient public infrastructure.

The case for spending cuts rests on the dubious claim that Canada can no longer afford to keep its people healthy: well-educated, and gainfully employed.

FACT: OUR PUBLIC SPENDING IS TOO LOW!

Why all the panic about government spending in Canada, anyway? By international standards, our public spending is quite modest--and our spending on social programs disgracefully inadequate.

According to the latest available data, Canada's social spending accounted for 21.5% of GDP. This compares with a 25.6% average for the major industrialized nations, and with a 30% average among the countries of the European Community.

At its present downward slide, social spending in Canada will fall even further to just 17.3% of GDP by the year 2000. That would be the second lowest among the Group of Seven countries, only marginally above the projected U.S. level of 16.4%.

By contrast, France and Germany are predicted to be spending nearly twice that percentage on their public facilities and social programs by the end of the decade.

Canada's inadequate social spending is reflected in its poverty rate, which is among the worst among the Western nations. While 12% of Canadians are officially poor, the rate in Germany, Sweden, Norway and most other European countries is less than 6%.

The most shameful figure, of course, is that over half of Canadian children in one-parent - families live in poverty--which is from three to five times more than the comparable rates in Europe.

In the new global economy, there are only two competitive advantages any country can give itself – a highly skilled work force and an efficient Infrastructure.

HOW TO LOWER THE DEFICIT

No one denies that the deficit and the level of public indebtedness is a cause for concern. What has to be clearly understood, however, is that it's a problem caused mainly by unjustifiably high interest rates.

To illustrate the key role of interest rates, all we have to do is compare the effects of borrowing $1 million at 2% and borrowing the same amount at 10%. At 2% it would take 36 years of compound interest for the $1 million to double to $2 million. But at 10% interest, the same loan would generate a $1 million return in just seven years! And in 36 years it would double and redouble five times to $32 million!

The folly of the federal government's current high-interest rate policy may be grasped by calculating what the deficit would be like today if interest rates had been held to just a few points above the, Cost of Living Index, which was its historic level before the Bank of Canada launched its “holy war” against inflation. This year's deficit would not only be completely eliminated, but the government would actually have a $13 billion surplus!

It is ludicrous for the government to put billions of dollars into circulation by borrowing from the private banks, when it can create the extra money it needs, virtually free.

We have to keep in mind that our monetary economy only grows when the money supply grows. Under the present debt-driven system, the only way we can increase the money supply is by borrowing it into existence from the private banks, thereby increasing our indebtedness to, them.

It can't be stressed too much that the private banks, unlike non-bank lenders, create the money they lend. They do not--as is so widely imagined, even by the bankers themselves--lend their depositors' money. The amount of new money created by a bank loan, however, is only sufficient to pay back the principal. No money is created to pay the interest, except that which is paid to the holders of bank deposits.

That's why debts must continually grow faster and faster in order for each layer of additional debt and interest to be paid. Indeed, the higher the rate of interest, the faster the money supply must grow if the economy is not to stall. If the system ever stops growing, or even drastically slows down, it crashes.

The latest available data show that spending on social services in Canada accounts for 21.5% of our GOP. This compares with a 25.6% average for the major industrialized nations, and a 30% average among the countries of the European Community.

If that strikes you as a very dumb and dangerous way to operate a monetary system, you're right. C1early it would be much safer and more sensible to have at least a large amount of the needed new money spent into circulation debt free by the federal government--or lent by it interest free to, the junior levels of government which lack the power to create money.

Reform of the monetary system is therefore the key to controlling the deficit and lowering the public debt. It would also help to increase government revenue.
Can this be done without adding to the tax burden on low- and middle income Canadians? Certainly! We have an extremely inequitable tax system that allows the wealthiest individuals and business firms to escape paying their fair share of taxes. A truly fair tax system would correct this inequity. It would add billions to the government's coffers without penalizing Canadian workers.

A wealth tax, for example, would net the federal government $3 billion a year. Repealing the capital gains; tax deductions would bring in another $3 billion.

Repealing the 5% tax credit to manufacturing rums, the fast write-offs of capital investments, the tax subsidies for real estate developers, the subsidies for business me entertainment, the subsidy for business lobbying and advertising--these would yield a combined $ 7 billion to the federal Treasury.

The kind of fair tax system created by these and other reforms would not only make profitable corporations and the rich pay taxes on the same basis as the rest of us. It would also help immensely to get rid of the public debt that corporations and the rich are always complaining about!

A truly fair tax system would not only make the rich pay their fair share of taxes; It would also help immensely to get rid of the public debt the rich are always complaining about.

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