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THE BANK CHARGED

Canada has produced one of the most effective challenges to conventional analysis and control of the international economic system - COMER - Committee on Monetary and Economic Reform. Established a decade or so ago by both academic and non-academic economists and others, it is being taken ever more seriously by many influential sectors of the Canadian community, not least by Government.

A major focus of their criticism has been the Bank of Canada and its role in the unrelenting pursuit of "zero inflation" without regard to consequential mass unemployment, escalating bankruptcies and liquidations, and disintegrating social cohesion.

William Krehm, Chairman of the Executive Board of Comer, in his recently published book "A Power Unto Itself" has turned the spotlight again, and even more searchingly, on the Bank of Canada which he sees as "The threat to our nation's economy". His book is therefore almost wholly concerned with Canadian economic affairs but a great deal of what he has to say is entirely relevant to other economies.

His proposition is that conventional economics insist that price reflects a balance between markets and Supply and Demand and is "disinclined to admit the presence of other independent variables". Krehm however - a mathematician by training - knows that, "to be valid, solutions cannot have fewer independent variables than the problems they are supposed to solve" so that in an increasingly pluralist society only a more pluralist view of price could help explain events in the economy. For example, it must be clear that prices might rise because taxes (eg company tax or sales taxes such as VAT) have risen to pay for public services which are neither priced nor marketed; or because increased interest rates on commercial borrowing have to be recouped by businesses in the price of their products, rather than simply because "demand was outstripping available supply".

Krehm laments that instead of this being widely recognised by conventional economic theorists in the 1970's and 80's, monetarism became the dominant model of economic control and was adopted by Central Banks throughout the world. Inflation, as conventionally viewed, became THE economic dragon that must be slain without hope of resurrection and its demise was to be accomplished by the sole use of a policy of high interest rates. The Bank of Canada has established the objective of zero inflation whereas in the UK a band of 1-4% is the target. However in both cases stabilisation policy is essentially reduced to a reliance on interest rate manipulation and the roles of the respective Central Banks are not, in any significant sense, at variance.

And yet the benchmark by which inflationary pressures are judged - the CPT or Consumer Price Index (RPI in the UK) - is heavily flawed. In addition to the factors already mentioned above, the representative basket of goods and services on which the CPI is based are updated much too infrequently; and no account is taken of product improvements which make straight comparisons of price invalid. At the same time many other "non-market factors determine what these price indexes seem to be signalling" and Krehm notes here the effects on price of government legislation, pollution clean-up, etc. His proposal therefore is that the indexes should be disaggregated so that we can more accurately determine to what degree any rise in the index is due to "excess demand", or to "structural price increases" which should not be mistaken for market based inflation.

He suggests that if this were done the case for a zealous commitment to the defeat of inflation as the prerequisite of economic stability would fall, and it might be seen that despite a rising price level there must be scope for the pursuit of policies designed to stimulate employment, improvements in infrastructure, social services etc.

Krehm is especially interesting when he "pursues the paper trail" to establish who are responsible for current conditions and who profits from them. He follows the creation of the Bank of International Settlements; its alleged appeasement or collaboration with the Germans before and during the second World War; the unsuccessful attempt to dissolve it at the Bretton Woods Conference and its powerful re-emergence in the 1950's as the Central Banks' banker, influencing world wide central banks' policy to an unprecedented degree.

In 1988 Krehm notes that it surpassed itself by announcing the complete dismantling of the reserve system - a move designed to "benefit the commercial banks". The background to this move was the serious difficulty which financial institutions everywhere were in "because high interest rates had bankrupted too many borrowers, who had defaulted on outstanding loans".

To facilitate the recovery of some of these huge losses, banks were no longer to be compelled to maintain reserves (on which no interest was paid) with their central banks. Reserve requirements were to be replaced with minimum levels of capital and at "one stroke an effective and much less intrusive mechanism for controlling inflation at its source" was dispensed with, and in the process the role of high interest rates to stabilise prices was enshrined almost universally.

At once we can recall when in the 1980's, against the background of a real prospect of complete collapse of the international financial system, how governments - Mrs Thatcher's being a powerful case in point - were persuaded to deregulate their financial industries and in the process provide a lifeline to bankers and other financial operators at considerable cost to the rest of society. Krehm quotes extensively from the BIS annual report for 1991 to confirm BIS objectives in this matter, and he notes how bond traders and speculators have a "vested interest" in the fluctuating interest rates imposed by central banks. He maintains that the world has moved on to "a second generation of economic problems" (so called "jobless recoveries", escalating deficits at every level of government, and borrowing levels inhibiting attention to even the most pressing needs) and that these are related less to real inflation than to "false defences .... blindly imposed".

While these high interest rates are maintained in the interest of the international banking system, the results for the rest of

(continued on page 2)

Canadian society are devastating and are reflected in the attraction of foreign speculative capital, a highly valued $ Canadian with a resulting flood of cheap imports leading to escalating failure of the domestic economy, bankruptcies, liquidation and mass unemployment.

Here is a set of economic circumstances with which we are familiar in the UK and indeed throughout Europe.

Krehm is not content however simply to criticise the policies of the Bank of Canada and the bewildered politicians who blindly follow its lead. He emphasises a number of powerful steps that should be taken to "get the economy moving again" and to ensure that the exercise of economic policy is returned to the democratic control of the Canadian government.

He insists that the key move in this process must be to return to operating the economy on the basis of the Bank of Canada Act of 1934. Introduced in the midst of the last great depression, the preamble to the Act empowers the Bank to "regulate credit and currency in the best interests of the economic life of the nation, to control and protect...the national monetary unit, and to mitigate...the general level of production, trade, prices and employment...and generally to promote the economic and financial welfare of the Dominion..." A breadth of remit that is hardly fulfilled by the bank's current adhesion to a one policy instrument to achieve "price stability" at any cost.

The most important clauses in the Act however (of some interest to Social Crediters) are those that allow the central bank to lend significant sums direct to the federal government. Certainly the government must repay these loans but since "the central bank's profits revert to the government, borrowings from the bank as opposed to those from private lenders would in effect be interest free". He demonstrates then, how the resulting potential to stimulate the economy would lead quickly to a recovery of employment and of business profitability and improvement in the federal deficit.

To this first essential reform, he adds and discusses others such as:- A revision of government accounting procedures including the introduction of "capital budgeting" so that "double entry bookkeeping would finally arrive in Ottawa"; disaggregation of the price index; control of real interest rates and reclaiming economic government from the "bond markets".

In the Preface to his book Krehm advises us that his purpose in writing it was to keep these issues in the public domain and especially that the central bank should be brought to democratic account, and that discussion of them should be "stripped of mumbo-jumbo so that ordinary men and women can grasp what has been going on".

Although his tale is told in the context of the Canadian economy and of the ascendancy of the Bank of Canada over elected governments it is a story that has significant international implications as the power of international finance is increasingly centralised and directed via the Bank of International Settlements and other financial institutions that are organised on a world basis.

We need only consider the drive in Europe to ensure the creation of a single currency and an "Independent central Bank", first given substance by the "Delors Committee", to recognise that Krehm's concern for return of the Bank of Canada to democratic control has a relevance that extends well beyond Canada.

The members of the Delors Committee, after all comprised Jacques Delors, the Governors of the members' central banks, a member of the Commission, two economists (one of whom was none other than Mr Lamfalussy, General Manager of the Bank of International Settlements) and the President of "Banco Exterior de Espana"!

A Power Unto Itself" therefore is a timely comment on the dangers that government by bankers hold not just for economic performance, but for democracy itself.

A Power Unto Itself, The Bank of Canada - The Threat to Our Nation's Economy, by William Krehm.Published by Stoddart Publishing Co. Limited. Toronto Canada. $9.95 Can.

Alan Armstrong

THE HIDD

The Bank for International Settlements, mentioned in the leading article, is largely unknown outside the financial world but its existence and operations are as involved in current monetary policies as when C. H. Douglas first wrote about it. We reprint some of his comments, with references.

"Beyond question, the economic system which is dominated by the financial structure of banks and insurance companies is an unofficial and temporarily all-powerful government, neither elected, nor subject to effective criticism, the embodiment of the concept that externally imposed restraint is the first condition of a stable society." Monop of Cr 8)

"Now if we have an undertaking of which the directorate cannot be removed, however at variance with the desires of the proprietors may be its conduct... the outcome must be one of two things. Either the directors will, by superior adjustments of policy, produce such results as will in time remove cause for complaint, or alternatively, their policy being bad, the undertaking will go to shipwreck. Under these circumstances there is probably only one useful course of action, and that is... to make it clear to everyone concerned that in existing circumstances the directors cannot be removed, and that they alone are responsible for the outcome of their policy. (Monop of Cr 83)

"There have been many critics of this policy" (centralisation of financial power, Ed. TSC) "not alone amongst specialists on the question of monetary science, but in the ranks of both industry and of banking itself. Parliamentary discussion, industrial protests, and technical criticism, however, have been alike without any apparent influence upon the policy pursued... "The effect of such criticism, if any, must be sought in the acceleration of the measures taken to increase the strength of bank organization against this and similar attacks, a major feature being the formation of twenty-four central banks in the past decade, culminating in the launching of the super-central bank known as the Bank for International Settlements...

"This institution opened its doors in May 1930, ostensibly to deal with the transfer of the large sums of money involved in the International Debts and reparations which are the legacy of the Peace Treaties... the ostensible objective of the bank, however, can be recognised as a cover for much larger activities.

"The constitution of the Board of Directors... consists, first, of the governors of the central banks of Belgium, France, Germany, Great Britain, and Italy, with a nominee of the Bank of Japan and a representative of United States banking. Added to this are seven additional directors nominated individually by the first seven, having the same nationalities as their nominators. There being a maximum of only nine other seats on the Board, it is clear that the

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original central banks constituting the appointers of the first directors have permanent control over the policies of the Bank...

"Obviously the intention... was that the B.I.S. should be essentially the Central Bank of central banks, that it should hold reserves of gold as a basis of the cash reserves of the banks, and that in consequence it should act as the supreme regulator of the world's money supplies... and thus it may be said that the B.I.S. places the final stone upon the pyramid of financial organization.

"While no doubt the working banker would be tempted to deny it, it seems true beyond all reasonable doubt, to say that the system is directed to the constitution of a series of bottlenecks in the organization of the economic system, these bottlenecks operating through the financial system to place both production and distribution under the control of financial interests. In the modern world, the considerable sums of purchasing power which are required to finance industrial undertakings cannot be obtained without access to the mechanism of public credit which has come under the control of this system. The Joint Stock Banks therefore may be said to be in control at this point. Their own adherence to the system in Great Britain is insured by their dependency upon the Bank of England for currency, and in other countries by somewhat similar arrangements in regard to the central banks. These central banks in turn are, by the costing system, forced to make provision for considerable transactions in the various national currencies, and these transactions as between nations are destined to come under the control of the Bank for International Settlements, which obviously places the power of veto on the interchange of industrial commodities as between nations with this institution. (Monop of Cr 60-64)

"The possibility of manipulating economic prosperity as between one country and another through an international financial organisation, such as is growing up independent of effective national control, and having ends to serve which are not those of the populations affected, is perhaps one of the most serious aspects of the annexation of financial credit." (Macmillan Report).

"Only the exercise of a childlike faith... would secure agreement with the proposition that a system which has produced undesirable results in cumulative measure as its power increases, would produce better results if its power became absolute." (Monop of Cr. 75)

"It seems difficult to doubt that the efforts of those in control of financial policy are primarily, if not entirely, concerned with making the world safe for bankers, rather than making the world safe. By one of those curious ironies which seem to be present in great crises... it happens that the world cannot be made safe without removing the banker... from the commanding position which he now occupies... Nothing effective can be done to protect civilization from its major risks which is not an attack upon the power of finance." (Monop of Cr 83)

"The characteristic of orthodox Finance is the centralization or monopoly of Credit... The distribution of Credit is its antithesis. While the details of such a system are better left for discussion until such time as they might come into the region of practical politics, I do not think there is much doubt of the principles they would be obliged to follow. In the first place, they must provide a financial reflection of the physical facts of the producing, distributing and consuming systems, which the existing financial system signally fails to do."

(Warning Democracy 73)

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GREEN FOR GO

Canada has always been a prime site for social initiative and Toronto a likely locale for innovation. The evidence that this remains the case lies with a publication called Get a Life! It is sub-titled.. A Green Cure for Canada's Economic Blues and is styled as "an interactive book designed as a magazine. That's because green economics is happening too fast to wrap it up in a traditional book".

Indeed, so fast that this feature cannot be termed 'a review' - a new edition should already be out, after only six months. The aim is to have reader input by way of correction and insight. As it stands, the text sets off at a giddy pace and hardly drops below a canter as it switches from a global overview to national issues and on to community endeavours worthy of emulation.

The zippy prose can become a bit tiresome and even exhausting and the student zeal of the ideas belies the learned thought of its co-authors. The senior of them is Wayne Roberts, a columnist for NOW magazine in Toronto, who has written a PhD and several major studies on Canadian labour history. John Bacher has a PhD in the history of Canadian social policy, and Brian Nelson has worked with clients across North America on waste reduction proposals. They invite feedback at 2255B Queen St East, Suite 127, Toronto M4E 1G3 - phone 416-699-6070.

They dot their presentation with quotes, the first of which comes from Dr David Suzuki, addressing 250 financial planners in Waterloo, Ontario, on October 5, 1993:

"I can't imagine a more screwed-up notion than that human beings must be sacrificed to serve economics...Economics is fundamentally warped because economics is divorced from the things that keep us alive."

The authors have no hesitation in pinning the blame: "governments are part of the problem, not part of the solution... The bottom line is that there's not one anti-environmental industry that could survive if it was cut loose from the government trough."

For their part, "we see self-reliance as independence from big government and corporations, not isolation from the world. A self-reliant economy is the same kind of balancing act as a self-reliant person, who takes a drink without becoming an alcoholic, who counts on friends and neighbours for favors without becoming a sponge, who's strong without being a loner or a miser...self-reliant communities are based on permanent needs and trading patterns."

They go on:

"The danger signs of dependency - the opposite of self-reliance - are everywhere. Ontario's 1-billion-dollar-a-year increase of imported vegetables and fruits that were grown locally as recently as 1980, the loss of 25,000 food processing jobs across Canada since 1988, one-industry towns, suburban bedroom communities, corporate concentration, nationally chartered banks that siphon money from local communities but won't finance local businesses, foreign ownership of 33 key sectors of Canada's economy, widespread unemployment and welfare: all these are measures of dependency, the result of specialisation and absentee owners that isolate people from their surroundings and their own community's potential power.

"Near-unanimous support from politicians of all stripes for a competitive world-class economy pitched to exports reflects the hold of dependency, as does the obsession with trade strategies that promise to lead to the end of the rainbow."

By contrast, the writers advocate the 'bio-region' -"a cohesive area that can provide a balance of agriculture, manufacturing and services drawing on local resources and geared to the local market. That kind of community economy, by its very nature, highlights a good neighbour policy among people who depend on each other and on diverse natural resources."

They cite the present money-flow as a witness to their case: Foreign debt rose by 21.6 billion dollars in the first three months of 1993. The Ontario Government and its agencies alone export about 1.4 billion dollars a year to service - not retire - foreign debts. Much of Canadians' $52 billion savings in the bank is invested overseas. Another $72 billion in pension funds is also invested outside the country.

"Ontario college teachers and municipal and hospital workers, now suffering mass layoffs related to the province's foreign debt, have eight per cent of their funds with tobacco giant Philip Morris, for example. There's more than enough here to stop the outflow of 24 billion dollars in interested payments. If these kinds of funds were mobilised in Green Victory Bonds to buy back the debt - not an unreasonable demand, given the total tax write-off on pension savings - the money we now owe to outsiders would be owed to ourselves."

Localised spending power, they say, by this means would create over 400,000 jobs. Thousands more could result from the consequent lower value of the Canadian dollar internationally. Increased exports and home consumption alike would relieve the welfare pressure.

But, really GET A LIFE! is most at ease in the world of co-ops, credit unions and barter where a shortage of cash doesn't get in the way of things that need doing, as they put it.

"The point of the exercise is to redefine value in terms of need and use, not cash."

Michael Linton of Courtenay, British Columbia, is credited with starting Local Economy Trading System (LETS) with sophisticated computerisation in 1982. Possible contributions to this and other self-help efforts are described briefly besides allusion to what might be described as defensive measures. One such is the couple now billing firms for the service rendered in receiving junkmail - reluctant payers can be taken to a small-claims court.

However, it is the wider angle we must consider. Their reform package is more of a critique than an answer in Social Credit terms - but therein lies our chance as readers' response. "Municipalism", they suggest, "is a mindset that allows problems and solutions to be defined locally, not on the basis of legislated cookie-cutter designs made for the ease, convenience and predictability of central bureaucracies."

One such is fingered:

"There's little doubt that the North American Free Trade deal (NAFTA) is the spearhead of a new world constitutional order for multi-nationals. Trade rights prevail over all others in this new constitution. Under NAFTA, for instance, unelected trade panels will decide in secret whether the health, social and environmental legislation of Mexico, Canada or the U.S. violate trade rights."

Mission control, say the writers, has moved from political capitals to multi-national corporations.

"Since the right to trade covers such a wide ambit - protection of intellectual property rights, access to markets, access to raw materials, decisions on production methods, levels of social assistance that might be deemed unfair subsidies, and so on - there's virtually no limit to their expansion into areas once regulated by governments."

In face of this self-same tendency in Europe and the Pacific we can but hope some of the Canadian commitment will spread. They fly, they say, on a wing and a prayer (we know the feeling). The project, as stated, was "an effort to stir debate about green economies and the new politics". It can't be left there.

Ian McGregor

RECOMMENDED READING

Douglas, C. H.	The Development of World Dominion.
	Economic Democracy.
	The Monopoly of Credit.
	The Policy of a Philosophy.
	Social Credit.
Maré, Eric de	A Matter of Life or Debt.
Monahan, Bryan W.	Why I am a Social Crediter.
Robertson, Thomas	Human Ecology.
Social Credit Secretariat	Elements of Social Credit.

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