A "Global Hope Plan" to End the Worldwide Financial Crisis

By Hon. Paul Hellyer
Global Research, March 20, 2012
20 March 2012

Region: Canada
Theme: Global Economy, Poverty & Social Inequality

Money is not a guarantee of happiness! But it can help solve many problems that affect our quality of life. These include the provision of job opportunities, adequate health care, public education at a cost that ordinary people can afford, the safety and efficiency of our public infrastructure, our ability to live in reasonable comfort when we retire, and the elimination of poverty in the midst of plenty. So if money is necessary to accomplish all of these things it is absolutely essential to understand what it is and where it comes from.

What Is Money?

Many different things have served as money from time-to-time throughout history, the most common being gold, silver, copper and iron coins. These were predominant until the volume of world commerce outpaced their usefulness as a convenient means of payment. They had to be supplemented by paper money which was much more convenient and easy to handle. Paper then gave way to electronic money – a mere computer entry, that, like paper, has no intrinsic value. What they all have in common is that they were accepted as claims on available goods and services and for the discharge of debts.

Balancing Budgets

Our views on balanced budgets are deeply influenced by our personal experience. If we are spending more than we earn we have two choices. We can spend less, or we can get a second or third job, if possible, to balance our budgets. Borrowing to meet the shortfall can be a temporary expedient but it is not a solution because the debt load will soon catch up with us and make our situation even worse.

Cities and provinces face similar problems. When they have deficits they can reduce services or raise taxes. Often they avoid this painful choice by borrowing. This is a way to postpone the pain until the debt load is so high, and the interest costs so high, that disaster strikes.

Conditioned as we are by these examples, it is not surprising that we believe that federal governments are similarly restricted. But that is not the case. Their situation is unique. They have the power to create money to balance their budgets and, by extension, to come to the relief of provinces, cities and individual taxpayers. They have the power to solve myriad problems, but they don't exercise that power for the common good. That is the trillion-dollar tragedy! 2 Who Owns the Patent to Create Money?

By tradition it was the prerogative of the monarch, who was sovereign. As their absolute power was eroded or relinquished, however, the successor republics and constitutional monarchies inherited the prerogatives of the crown. They now have the right to exercise sovereignty on behalf of the people. But they don't do it – except to an insignificant extent. Why not?

It is not an easy question to answer, however, because the problem goes back several centuries, at least, and is seldom talked about in polite circles. Sovereign governments, as a matter of expediency, licenced privately-owned corporations to create money for public and private uses. These institutions (banks) were allowed to take deposits, of course, and to lend these funds, at interest. They were also permitted to create or manufacture money in what became known as the "partial reserve system of banking." They consistently lent more than they had in their vaults, and got away with it because only a few depositors came in to collect their cash at any one time.

The scam had been legitimized when the Bank of England was chartered to help King William finance his war. Rich people subscribed £1,200,000 in gold and silver, as capital, to found the bank, which then was lent to the government at 8 percent. To show his appreciation, the King allowed the bank to print £1,200,000 in banknotes and lend them at high interest rates. In effect, the bank was allowed to lend the same money twice – once to the government and once to the people.

Over the years, due to the avarice of the banks and the complicity of politicians, that ratio has increased dramatically. In the early days of the 20th century, federally chartered U.S. banks were required to keep gold reserves of 25 percent. That means they were allowed to lend the same money four times. For many years Canadian banks were required to maintain a cash reserve of 8 percent. That means they were allowed to lend the same money 12½ times.

More recently, thanks to Milton Friedman's irrational flip-flop from being a proponent of 100% cash reserves to the opposite extreme of zero reserves, and the adoption of his ideas by the major central banks of the world in 1974, multiples have increased dramatically – in some cases to as much as 20 to 1 or more. Banks only keep enough cash to meet day-to-day demands for those few customers who go in and request it. Consequently, the existing world financial system is a total fraud – one gargantuan Ponzi scheme. This Ponzi scheme is alarmingly simple. The banks lend the same money to several people or institutions at the same time and collect interest on it from each. What the banks really lend, however, is their credit, and what they take back in compensation for that privilege is debt that must be repaid with interest.

The system works this way. Suppose that you want to borrow $35,000 to buy a new car. You visit your friendly banker and ask for a loan. He or she will ask you for collateral – some stocks, bonds, a second mortgage on your house or cottage or, if you are unable to supply any of these, the co-signature of a well-to-do friend or relative.

When the collateral requirement is satisfied you will be asked to sign a note for the principal amount with an agreed rate of interest.

When the paperwork is complete, and the note signed, your banker will make an entry on the bank's computer and, presto, a $35,000 credit will appear in your account which you can use to buy your car. The important point is that seconds earlier that "money" did not exist. It was created out of thin air – so to speak.

The banking equation is a kind of double-entry bookkeeping where your note becomes an asset on the bank's books, and the new money that was deposited to your account is a liability. The profit for the bank comes from the difference between the low rate of interest, if any, you would be paid on your deposit if you didn't spend the borrowed money immediately, and the much higher rate you would be obliged to pay on your note – the technical term is "the spread."

At some point, however, you have to pay off your note, and any interest owing. And not only you, but everyone else who has borrowed "money" from banks – including governments. Anyone who defaults is in big trouble. Individuals who default will have the assets they pledged as collateral seized by the bank. A government that is in danger of defaulting, may be forced to borrow from the International Monetary Fund, which will then tell that government how to run its affairs including cutting back on services and selling off public assets to the international vulture capitalists.

In reality, then, the banks have turned the world into one humongous pawn shop. You hock your stocks, bonds, house, business, rich mother-in-law or country and the bank(s) will give you a loan based on the value of the collateral.

A world system where almost all the money is created as debt is a perpetual disaster in the making. It is like a giant balloon that the banks pump full of debt. The balloon gets larger and larger until the debt load becomes too heavy to carry, and then it is like a balloon with a pin stuck in it. The system crashes and hundreds of thousands or sometimes millions of innocent people lose their jobs, homes, farms and businesses unnecessarily. Experience proves that any monetary system based almost exclusively on debt creation is totally insane. The total world debt, mathematically, is always tending toward infinity – and there is no possible way of paying it off. The real money (legal tender) to do so doesn't exist. And the real economy that depends on cash to grow, shifts into low gear whenever the supply of credit money dries up.

Not surprisingly, there have been 25 recessions and depressions in the United States in the last 125 years. In several cases, including the Great Depression of the 1930s and the current Great Recession, the evidence indicates that the meltdown was anticipated by a few insiders who helped trigger the catastrophe.

The collateral damage from the recent meltdown has been staggering. The U.S. Bureau of Labor estimated that 8.4 million jobs were lost in the U.S. alone. Most countries experienced comparable dramatic losses. The reduction in asset values 4 worldwide has been estimated at $20-trillion U.S. dollars, yet not a single one of the culprits is in jail. You would think that someone would have had the decency to launch a class action for at least $10-trillion against every individual and every organization that contributed to the catastrophe in any way. The system is a shambles and must be fixed. One of the most absurd aspects of the present system is that the banks don't even pay royalties for the use of the people's patent. Even more ridiculous, if governments find themselves in deficit – even if the deficit is due to a recession triggered by the banking system – they have to go cap-in-hand and borrow the shortfall and pay market rates of interest on the loans or bonds. These are invariably higher than the rates private banks pay to the people's bank, the Bank of Canada, when they are short of cash and have to borrow overnight or short-term to balance their books.

It is Worth Addressing a Few Often-Asked Questions

Q. If the system is broken beyond repair who is going to rebuild it from the ground up?

A. Only governments, supported by parliaments, legislatures and congresses can do it. They are responsible for tolerating the system that got us into the present hopeless mess, and they are the only ones with the power to set it right.

In many ways the situation now is as bad or worse than it was in the Great Depression. In 1929, U.S. federal debt was only $17-billion, equal to about 16% of GDP. In 2010 the debt was $15-trillion, roughly 100% of GDP.

So instead of saving all of their sympathy for the bankers and bond dealers, governments should think about the other 99% of the population for a change – the middle-class that is fast disappearing; the poor who are getting even poorer relatively; the unemployed who are desperate for jobs; the debt-encumbered graduating students who have little to look forward to; and untold numbers of people who are going to die because international medical aid is being scaled back as a budget-cutting measure. So here is one tired old protestor's free advice to governments as to how they could put a human face into economics. The solution is painfully simple.

The Canadian Solution

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

2. Simultaneously the Justice Department should be asked for a legal opinion as to whether the share certificates qualify as collateral under Section 38 of the Bank of Canada Act. If this takes more than 48 hours, legislation should be introduced to amend the Act to specify their eligibility.

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

4. The above might be adequate to get Canada out of the slump, but if not, a second major infusion of debt-free money might be required until unemployment is reduced by half and the GDP growth rates reach 3½% or 4% annually, minimum.

5. Concurrently with the above, the federal government must introduce amendments to the Bank Act to reinstate cash reserves against deposits and to give the Governor in Council (the federal government) the power to set the level of cash reserves from time-totime. Their elimination in the early 1990s cost the Canadian people billions in lost seigniorage, i.e. the profit from printing the cash. The legislation should allow the Governor in Council to delegate to the Bank of Canada its power to establish the level of cash reserves provided the increase is not less than 5% per annum until 34% cash reserves have been established in 7 years or less.

What Would Make the Money Valuable?

Every job that was saved from the axe at one of the three levels of government and every new job created in the arts, medicine, education, the construction of infrastructure, and so on would mean an increase in the real goods and services available to the economy. And each new job created has a multiplier effect. The process would be exactly the same as from bank-created money with one absolutely essential difference – the money would not have to be paid back with interest! In addition, each job saved and each one created would mean someone paying taxes who would not otherwise be in a position to do so. So governments at all levels would be beneficiaries. Business, too, would benefit. Each additional person employed would be a potential market for the goods and services that they provide. So it's a win-win situation.

Aims of the Game

Q. What are the short and long term objectives?

A. The first, and most urgent, is to end the recession/depression, first in Canada and then in the rest of the world. The infusion of $10-trillion initially, worldwide, and more if necessary, of what might be called government-created, debt-free money (GCM) will accomplish that.

The second objective is to put some semblance of morality into the system and stop privately-owned banks from lending the same money so many times to different people. So I am proposing that bank leverages be reduced from their present high levels. (In Canada the Bank Act allows the banks to own assets up to 20 times their capital) to 2 to 1, where interest-bearing assets could not be greater than two times the cash in their vaults or on deposit with the central banks. This could be achieved in seven years or less by federal governments creating enough GCM to keep their economies growing while at the same time buying back about 1/3 of their outstanding debt.

Once banks have achieved 34% cash reserves, the money-creation function would be shared between government and the private banks 34% GCM, 66% BCM. The biggest achievement of the whole process, however, would be the democratization of the so-called democracies. At the present time there is not one country in the western world that is master of its own destiny – not Canada, not the United States, not Germany and certainly not any of the countries that are mentioned in the daily news. They are all under the control of the international banking cartel, both financially and politically. It's time for the sham to end and for electors to gain control. Would this be Inflationary?

Q. Is government-created money inflationary?

A. No more so than bank-created money. It is the total quantity of money in circulation that determines prices, not who prints it. There should actually be less inflation with cash reserve requirements under government control than there has been with the current capital (in)adequacy system.

Principle with Prudence

Q. If GCM is such a good thing, why shouldn't governments create all of the money? A. I have never been able to convince myself that it is the preferred solution. It would mean that the banks would have to have one dollar in their vaults, or on deposit with the central bank, for every dollar they lent out. This was the solution that Milton Friedman favoured all his life but that he finally abandoned because he concluded it was politically impossible.

I agree that it is politically impossible, but I have never been able to convince myself that it is the best solution even if it were possible. To be blunt, I don't trust politicians with that much power! It is the kind of absolute power that would inevitably lead to corruption. We have already seen the kind of chaos that the bankers have created by abusing their virtually unlimited power. They are directly responsible for both the Great Depression and the current Great Recession. We would not want to see a system where very different but similarly corrupting practices would evolve.

My reservations apply both to the principle of 100% reserves and the potentially negative consequences of its implementation. If banks were suddenly required to convert from near zero cash reserves to 100% they would have to call the majority of their loans and bring on the worst depression the world has ever seen. That is a result that can and must be avoided.

The criteria for any worthwhile reform must include a fast, smooth transition to full employment and the transfer of the ultimate power over interest rates and the rates of growth of the money supply, from unelected, unaccountable bankers to representatives of the people who, in theory at least, should operate the system in the interests of their electors.

This is not just an academic issue. It means that the whole notion of "capital adequacy" has to be abandoned. There is no such thing as "capital adequacy" because it is just a benchmark, someone's best guess as to a line that might reduce the number of bank insolvencies when the next meltdown occurs.

A leverage of 2 to 1 would still leave the banks with sufficient capacity to finance commercial and industrial development, as well as increased consumption. It would deprive them, however, of their ability to engage in all of the risky gambling games they have developed in the last few decades. No money for hedge funds, no money for exotic derivatives, no money for margin purchases of stocks and bonds, etc. It would be back to basics.

The seemingly miraculous flipside is that the 34% annual creation of new money by governments would allow them to balance budgets at all levels, federal, state and municipal, with reasonable tax levels – certainly lower than they are at present. This ability to get by with lower taxes would be augmented by the fact that very significant amounts of existing debt would be monetized over the period of time banks were allowed to achieve their 34% cash reserve levels. With an approximate reduction of sovereign debts by one-third worldwide, the interest components of taxes should be dramatically reduced. This could be augmented if government budgets included provision for perhaps a 1% or 2% a year reduction in outstanding debt as part of their new regime. The new system would be one of checks and balances where governments would be key players in the rate of expansion of their economies, and business cycles, as we have known them, would become a thing of the past. The banking industry would survive as profitable businesses that would be good investments for anyone, including individuals and retirement funds. More good news is that most of the people working in the industry, with the exception of the rogue traders and others who have caused so much trouble, would preserve their jobs.

Why Canada First

Q. Why Canada first?

A. Because it is the easiest. We own the Bank of Canada outright which is the bedrock of a new and sustainable system. So even if the governor of the Bank were inclined to say no to the government's request, he could be over-ruled by the Minister of Finance. In case of dispute the minister can send the governor a letter instructing him to take the essential action. The letter then has to be published in the Canada Gazette so the people can decide which one is working in their interests. The government has a majority in both the Commons and Senate so the whole process of getting Canada back on track could be accomplished in a matter of weeks, or even less if the government really pushed it.

These problems are universal in nature and affect the whole western world. These Canadian solutions could be adapted to other countries.

The United Kingdom nationalized the Bank of England in 1947 so it, at least in theory, should be able to act quickly.

The United States faces a more formidable set of obstacles, including the immense power of Wall Street. Consequently, action required there could include: (a) A law making it a criminal offense for any bank or other financial institution to give, or offer to give, any cash or other benefit to anyone holding political office or any candidate for potential office.

(b) The Federal Reserve System has to be nationalized. Contrary to public belief, it is owned by member banks and often acts in their best interests at the expense of the public interest.

(c) Because those steps would take time, the Treasury Department should immediately issue $1½-trillion in Treasury Notes (comparable to the greenbacks issued by Abraham Lincoln) and share the proceeds with the financially-starved states. Once the FED has been converted to, or replaced by, a Central Bank of the United States it could follow the recommended pattern.

The Euro zone is even more complicated because sovereign governments have given up the right to print their own money. So to maintain the euro, which would be good for the world, and be egg-in-the-face for the two pillars of the international cartel, Wall Street and the City of London (the square-mile in London that claims it is not subject to British law), it would be necessary to change the Lisbon Treaty to give the European Central Bank the right to print money for the member states in proportion to their population. At the same time they would have to democratize the ECB, a tough process but one that is absolutely essential when compared to the alternatives! The G20

Q. Why hasn't the G20 group of world leaders come up with something positive along these lines?

A. One can only assume that none of the 20 leaders has specialized knowledge of how the monetary system works. This is not surprising in light of the fact that only about one person in every hundred does. Consequently they have to rely on their advisers who are nearly all bankers or economists. The former have a vested interest. They have had the financial playing field all to themselves for generations. The new rules they are now recommending for their industry are more cosmetic than substantive.

Orthodox economists, with a few rare exceptions, have closed minds. They have known that the "balanced budget" approach adopted in the 1930s only succeeded in extending the misery for years. They have had 70 years to design a system that would be a firewall against a recurrence, yet with the rarest of exceptions there has been no effort to do so. So today they are recommending the same approach that was taken in the 1930s with the same disastrous consequences. That tells the story. No one seems to have stumbled on to the fact that what is needed is a massive infusive of debt-free or at least interest-free money to dilute the ocean of debt and create the purchasing power necessary to provide the millions of unemployed with jobs and renewed hope. It was Einstein who said, "The definition of insanity is doing the same thing over and over again and expecting different results." That is what governments, on the advice of their chief economists, are doing today.

A medical analogy proves the point. In the mid-19th century a Hungarian doctor, Ignaz Semmelweis, was working in a hospital in Vienna. He became deeply distressed by the high number of women who were dying from childbed fever. One day inspiration struck and he was sure he knew the reason why. So he wrote a paper on it and showed it to his medical colleagues. The doctors were incensed. We are university graduates, they exclaimed, and you are not going to insult our intelligence with your simplistic solutions. They took away his license to practice and drummed him out of the hospital. Almost two decades passed before first Louis Pasteur and then the British scientist Joseph Lister, authenticated Semmelweis' discovery. The problem was that doctors had not been washing their hands when going from cadavers to live patients and from one patient to another. So for almost 20 years hundreds of women died unnecessarily because the educated doctors of the day were too stubborn to consider the possibility they could be wrong. Today we see history being repeated in the field of economics.

The Stakes are Too High to Fail

The stakes in the world today are so high that they are virtually incalculable!

Many of the earth's seven billion inhabitants will die unnecessarily from starvation or lack of medical treatment – problems that could be greatly alleviated by money and a more general application of the Golden Rule between rich people and poor people, and between rich countries and poor countries.

Equally profound is the absolute necessity for all humanity to cooperate in arresting global warming before it is too late. We probably have 10 years to convert every car, truck, airplane and home from reliance on fossil fuels to clean energy. It is a monumental task but could be done with a mobilization comparable to fighting a war for survival – which it is for people living in many low-lying areas.

Sadly, however, even the necessity for immediate action is not on the political radar now, and won't be as long as nation states are more concerned about deficits and debts than they are about the welfare of their people and the future habitability of the planet which is our common heritage.

The entire financial landscape could be changed in a very short period of time. All that is necessary is for nation states individually and the euro block collectively to exercise their legitimate powers as they have a profound moral obligation to do. A miracle is possible.

Victor Hugo said: "Nothing is more powerful than an idea whose time has come." That time is now.

Former Canadian Defence Minister Hon. Paul Hellyer is author of A Miracle in Waiting:

Economics That Make Sense and Light at the End of the Tunnel: A Survival Plan for the Human Species. All profits from the sale of these two books will be donated to UNICEF.

For a list of recommended books and essays on the urgent subject of monetary reform visit www.victoryfortheworld.net or my website *www.paulhellyerweb.com*

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Hon. Paul Hellyer