HEALTHY, WEALTHY & WISE

A Plan to Improve Canadian Health Care, Retirement and Education

by
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About the author: *Paul McKeever is a lawyer practising employment and stockbroker malpractice law in the Greater Toronto Area. He is a happily married father of two. He has made many television appearances, including appearances on the Michael Coren Live! show, the Rhonda London Live show, CBC's Counterspin program, Rogers and Peterborough community television to discuss issues of law and politics that concern Canadians. He has been interviewed by the National Post, CA Magazine (the leading national publication for Chartered Accountants in Canada), and Canada's leading legal newspaper, The Lawyers' Weekly. He has written for The Wealthy Boomer magazine, and for Consent. Mr. McKeever owns and operates Mondo Politico (www.mondopolitico.com), a political web site serving Canada and a growing number of other countries and, as a public service has developed the Canada Taxing, Spending and the Constitution web site (www.ownlife.com/tax) for Canadians who are concerned about taxing, spending, and the rule of law in Canada. Mr. McKeever founded the Freedom Party of Canada with Robert Metz, who co-founded the Freedom Party of Ontario. Mr. McKeever is currently the Leader of the Freedom Party of Canada. You can write to him at mckeever@freedomparty.ca.*

Canada is a country rich in land, natural resources and human skill. Unquestionably, we have what it takes to attract higher-paying jobs and lead the world in prosperity. But Canada is losing higher-paying jobs, and it is not leading the world in prosperity. It is on a painful trend toward crises in health care, education, and retirement. Long waiting lists and limited access to medical machinery and procedures typify Canadian health care. Our country's young students lack even the most basic tool of education: text books. As the percentage of retirees is increasing, the percentage of working people - who currently fund retirement to a large degree in Canada - is decreasing. Why is a country so rich in human and natural resources on such an undesirable path?

There are numerous reasons, but it cannot be denied that the foremost problem facing Canada is its indebtedness. As unbelievable as it may seem, approximately 40% of the taxes you pay are used to pay interest and/or principal on the debts of our governments. If those debts did not exist, Canadians would have approximately 67% more money to spend on such things as health care, education and retirement. Clearly, the number one thing preventing Canada from having a better standard of living is debt.

How can government reduce or eliminate government debt? Most commonly, politicians focus on making bigger payments to *pay down* debt. To pay down debt, governments must either *increase taxes* or *reduce spending* (e.g., spending less on health care, education etc.). However, right now, Canada is

already one of the most heavily taxed countries in the industrialized world. And, whereas there clearly is some waste and inefficiency in government spending, it is dishonest to suggest that the growing crises in health care, education and retirement could be avoided by simply eliminating those inefficiencies: in truth, there is very little fat to cut. Better health care, education and retirement will require *more* spending rather than less: nothing good comes for free. So, with taxes already higher than we should tolerate, and spending already reduced greatly, the likelihood of *paying down* the debt is almost *zero*: if our governments do not try another approach, then the quality and availability of health care, education and retirement will crumble.

Given that the debt cannot be *paid down* significantly, the question must be asked: is there *another* way to reduce or eliminate the debt? Is there a way to ensure that Canadian health care, education and retirement will improve rather than fall into further disrepair? The answer, fortunately, is "yes".

THE ANSWER: REPAIRING CANADIAN MONEY and BANKING LAWS

Below, I propose legislative changes to solve the debt problem. However, to understand the solution I propose, you need to know a few things about money and banking in Canada. So here are the basics, in easy to understand language.

Dollars Currently Take Two Forms In Canada: Cash and Credit

There are about 700 billion dollars in use in Canada. About 35 billion of those dollars are in the form of "cash" (the correct legal word is "currency"): notes printed by the Bank of Canada, plus pennies, nickels, dimes, etc..

The rest of Canada's dollars (about 665 billion dollars) are created by private banks (the Royal Bank of Canada, the TD Bank, the Bank of Nova Scotia, the Bank of Montreal, etc.). Money created by private banks is usually called "credit". Every time you purchase anything with a debit card, a credit card, or a cheque, you are paying someone not cash, but bank-made credit. Like cash, credit gets passed from person to person. If you are like most Canadians, you are paid credit, not cash, on payday.

Where do you find credit? In your bank account. When you open your bank book and see a $10 balance, that means that the bank *owes* you $10 of Canadian *cash*: you hold $10 of *credit*. In other words: *credit is nothing but an IOU of the bank*, and your account balance is a record that tells you and the bank how much cash the bank owes to you.

Paying with Credit: Why Credit is Money

As you know, you can go to the bank and make a "withdrawal". A withdrawal is simply you telling the bank that you want some of the *cash* that it owes you. For example, if you have a $10 balance in your bank account, then you have $10 of credit. Because credit is a bank IOU, you can go to the bank and demand that it honour its IOU by paying you $10 of cash.

But maybe you don't like to carry cash. If not, you might choose just to give the $10 of credit to someone else. How do you do that? By giving them a cheque or by using your debit card. For example, imagine you have $10 in your bank account (the bank owes you $10 of cash) and a fellow named Joe has $0 in his bank account (the bank owes him no cash at all). Then you give Joe a cheque in the amount of $10, and he gives it to the bank. The cheque tells the bank to deduct $10 from your bank account balance and add $10 to Joe's bank account balance. In other words, the bank changes its records to indicate that it now owes Joe $10 of *cash*, and you none. The same thing happens if you pay Joe with a debit card: a debit card transaction is simply another way to tell the bank to lower your balance and increase Joe's. Now, with a $10 account balance (in other words, with $10 of *credit*), Joe can now demand that the bank give him $10 in *cash* (in other words, he can "withdraw" $10 as cash). Or Joe might just transfer the $10 of credit to someone else with a cheque or debit card.

So there are *two* ways to pay someone in Canada. You can pass *cash* from your hand to their hand, or you can move *credit* from your bank account to the other person's bank account using a cheque or debit card. Here's the critical thing to notice: because Canadians are willing to accept credit in exchange for goods or services, *credit is money*, just like cash.

Where Does Credit Come From?

It may surprise you, but when you borrow money from a bank, the bank doesn't actually lend you *cash*. Instead, it lends you *credit*: you and the bank already know that people are willing to accept credit as payment, so you are willing to borrow credit from the bank instead of borrowing cash from the bank.

Where do banks *get* the credit that they lend to you? Well, banks create credit (IOUs) out of thin air, just like you would if you were to print up an IOU. The only difference is that most people who do not know you will not accept an IOU from you in exchange for goods and services: people cannot trust strangers to honour their IOUs in the future. But people *do* trust an IOU that was made by a bank. Most people have heard of (and have done business with) the Bank of Montreal, the CIBC, the Royal Bank of Canada, etc. Those institutions have built reputations of honouring their IOUs: for years, people with bank accounts have been able to rely upon these banks to pay them cash upon demand

(i.e., when they make a withdrawal). As a result, most people are confident that, if they in the future go to the bank to make a withdrawal of cash, the bank will again give them the *cash* that is owed to them. Because of that confidence, stores, restaurants, landlords, service providers etc. will usually accept *credit* as payment for goods and services: a bank's IOU (i.e., credit) is money, your IOU is not, and only reason for the difference is that most people, rightly or wrongly, wittingly or unwittingly, trust a bank to honour its own IOUs.

For this reason, when you "borrow" money from a bank, you - quite literally - are giving your IOU to the bank *in exchange for* an IOU of the bank: you are exchanging an IOU that is not money (because people won't accept your IOU as payment) for an IOU that is money (because people will accept a bank's IOU as payment). You agree to pay the bank a fee for the use of their IOU: interest. In addition, because the bank does not trust you to honour your IOU much more than anyone else, a bank will often require you to put up some collateral: should you fail to honour your IOU, the bank will have your collateral taken and sold, and will use the proceeds to satisfy some or all of your IOU to the bank.

Borrowing and Repaying Credit: Increasing and Decreasing the Supply of Canadian Dollars

Because a dollar of *credit* (i.e., a dollar of bank IOU) is a dollar of *money*, every time a bank creates a dollar of new credit and lends it to someone, it adds a dollar to the total supply of Canadian dollars. The reverse is also true: every time a borrower repays a dollar of his bank loan, the bank destroys a dollar of credit: in that way, one dollar is removed from the total supply of Canadian dollars.

A large percentage of a bank's revenue is the interest payments it receives from those who borrow credit. Therefore, to keep revenues up, banks continue to create credit and lend it out to new borrowers while previous borrowers pay down their loans to the bank. In fact, over the long term, the banks have tended to create and lend out much more credit than they destroy: banks have tended to cause the total supply of Canadian dollars to increase over time.

*Is it **Right** for Someone to Increase the Supply of Canadian Dollars?: An Answer Through Six Scenarios*

Banks have added dollars to the Canadian money supply for over a century. Before suggesting a change to this system, it is appropriate to consider whether the current system is proper and sound. It is helpful, for the purpose, to consider six Scenarios.

Scenario 1. Imagine that Canada has only $50 in Bank of Canada notes (in other words, cash) and that you have $5 of that cash in savings. You own 10% of the total supply of Canadian dollars, which permits you to buy 10% of the

goods and services that the entire Canadian money supply can buy. *Your 10% of the money supply is a claim on 10% of Canada's wealth, if you will*. Now, imagine that some other person - let's call the person Pat - is incredibly well-skilled at counterfeiting Bank of Canada notes. Pat decides to print up $50 of counterfeit Canadian dollars for herself so that she can buy goods and services without working for them. The whole $50 enters the marketplace, and nobody is the wiser. What is the effect on the economy? Unless other factors change as well, the prices of goods and services end up doubling because there is twice as much money around to pay for them. What is the effect of Pat's counterfeiting activity on *you*? Well, you still have $5 of cash in savings, but now there is $100 of cash in circulation, so now you hold only 5% of the total supply of dollars: *Your $5 is now a claim on only 5% of Canada's wealth*. Who got your other 5% of the money supply (and your other 5% of Canada's wealth)? Pat did, after she spent her $50 of counterfeit into the economy. In summary, Pat robbed you of half of your wealth by printing up dollars for herself and spending them. So, ask yourself: was it desirable to have Pat increase the supply of dollars? Of course, the answer is no, and *that* is why counterfeiting is a *criminal* offence in Canada. Now, let's move on to Scenario 2.

Scenario 2. Imagine the same facts as Scenario 1, but change one thing: instead of Pat printing up counterfeit Canadian dollars, imagine that the government of Canada's bank, the Bank of Canada, prints up $50 of *real* Bank of Canada notes. Is there any difference in effect? No. The prices of goods and services will double to soak up the extra cash, and you will go from holding 10% of the money supply to owning 5% of the money supply: from owning 10% of Canada's wealth to owning 5% of it. The only difference is that the Bank of Canada, instead of Pat, steals your wealth. So, is it desirable for the government to increase the supply of dollars via the Bank of Canada? Of course the answer is no: either way, wealth gets taken from you without your consent.

Scenario 3. Let's go back to Pat. Imagine the same facts as in Scenario 1, except that Pat does something different with her counterfeit dollars. Imagine that Pat decides to use them to earn money by helping people in need. For example, imagine that Pat buys a special bus with the counterfeit dollars and earns money with the bus by transporting the physically disabled about town. She's doing a good thing with the wealth that she stole from you: now the disabled have greater freedom to get around. But does that change the fact that Pat stole half your wealth? Not in the least. And, had Pat not stolen your percentage of the money supply with her counterfeit money, maybe you would have been the one who decided to earn money with a bus for the disabled: now that Pat has stolen half of your wealth, you will not have the same opportunity to do so. Was it desirable, in this example, for Pat to increase the supply of dollars? Of course, the answer is no: it is wrong for a person to steal, even if they use the stolen wealth to earn a living by helping people.

Scenario 4. Imagine again that Canada has only $50 of cash and that you own $5 of that cash: you own 10% of the total supply of Canadian dollars. Now, imagine that Pat owns a safe, and that she is willing to let you store your $5 in her safe: when you give Pat the $5 of cash, Pat gives you 5 IOUs of $1: whoever gives one of the IOUs back to Pat will be given $1 of the cash you gave her. It turns out that people trust Pat a lot, so the IOUs end up being used as money, and are passed from person to person in exchange for goods and services: one $1 IOU of Pat can buy whatever can be bought with $1 of cash. One day, Pat realizes that people have been using her IOUs as money. She also notices that, because her IOUs are as good as cash, it is rare for someone to come to her and ask her to honour one of her IOUs. Without anyone giving her any additional cash to store in her safe, Pat decides to print up another $50 worth of IOUs and to use them to buy a special bus. She will then earn money by using the bus to transport the disabled. Once Pat uses the IOUs to buy the bus, the amount of money in use doubles to $100 (remember, Pat's IOUs are money). What effect does this have on your wealth? Again, you have gone from owing 10% to owning only 5% of the total supply of dollars because Pat has doubled the number of dollars to $100 with her IOUs. Was it desirable, in this example, for Pat to increase the supply of dollars? Of course not. To print up money in the form of IOUs instead of in the form of counterfeit cash makes no difference: either way, Pat has doubled the supply of dollars and has thereby taken wealth from you without your consent.

Scenario 5. Imagine that Pat doesn't like driving, but she still wants to print up $50 worth of IOUs (again, without anyone giving her any extra cash to store) and use those IOUs to earn an income. She decides that, instead of buying the bus herself and collecting fares, she will lend the $50 of IOUs to another person, and charge him interest for the use of her IOUs. The borrower takes the $50 and uses it to buy a bus so that he can earn fares from the disabled. Again, the supply of dollars has gone from $50 to $100, because Pat's IOUs are money, just as good as cash. Now, instead of driving and earning fares, Pat earns interest from the borrower using a percentage of the money supply - a percentage of the wealth - that she took from you. If she had not printed up the extra $50 in IOUs - if she had not thereby stolen half of your wealth - perhaps *you* would have been the person lending the borrower the money to buy a bus, and earning interest. Was it desirable for Pat to increase the money supply by increasing the supply of IOUs in this example? Of course not. Let's move on to our last example.

Scenario 6. Imagine that Pat applies to the government for a charter to become a bank. Now imagine that the Bank of Pat does the exact same thing as in Scenario 5. Does the fact that we replace Pat with the Bank of Pat make any difference at all? Of course not: either way, by printing up $50 in IOUs (i.e., "credit") for themselves, Pat or the Bank of Pat have stolen half of your wealth, and are now earning interest on the wealth that used to be yours.

Summary: When you increase the supply of dollars, you decrease the buying power of each dollar. Whoever adds dollars to the money supply adds dollars

to his own pocket and takes buying power out of your pocket by devaluing the dollars in your pocket. Whether the person spends the extra dollars or lends them out, it doesn't change the fact that the buying power - wealth - has been stolen from you. It doesn't matter whether the extra dollars come in the form of cash or credit (i.e., bank IOUs). It doesn't matter whether the person doing it is a regular Joe (e.g., a counterfeiter), a government, or a bank. No matter who does it, you are the loser, and they are the winner: the buying power leaves the dollars in your pocket, and enters the newly created dollars in theirs. So, is it desirable to allow anyone to increase the supply of dollars? Obviously, the answer is no: not individuals, not governments, and not banks.

A SOUND SOLUTION TO THE DEBT PROBLEM

Canada's federal, provincial, and municipal governments are deeply in debt because they borrowed money. Primarily to win votes, our politicians have borrowed and spent money to please voters in the past, and have left Canadians today - many years later - to pick up the tab.

Did banks get us into debt? No. A handful of irresponsible politicians did. Banks are not to blame for irresponsible borrowing, but that is not to say that our current banking laws don't need to be fixed. In Canada, *counterfeiting is a crime because counterfeiting increases the supply of dollars and thereby transfers wealth from the pockets of Canadians to the pockets of the counterfeiter*. Yet our banking laws actually allow banks to increase the supply of dollars by creating credit out of thin air: to transfer wealth from the pockets of Canadians to the pockets of banks. The banks then lend out the wealth to earn interest revenues for themselves. Right now, about 95% of Canadian dollars are in the form of credit that has been created by banks and loaned to individuals and Canadian federal, provincial and municipal governments: in effect, 95% of the Canadian money supply is being *rented* from the private banks (Royal, TD, Bank of Nova Scotia, etc.) needlessly and unjustly. It is time for our banking laws to change.

A sound solution to the debt problem would also remedy the problems with Canada's banking laws. I propose making these 3 reforms:

- Pass a law that prevents banks from creating and lending out credit (economists call this a "100% reserve requirement"), but which does not prevent banks from lending out cash;

- Pass a law that prevents governments (including central banks), and banks from increasing the total supply of Canadian dollars; and

- Have our chartered banks transfer their loan assets to the Bank of Canada: the credit borrowed from banks by persons and by Canadian federal provincial and municipal governments would be owed to the Bank of Canada instead of to the banks. *In exchange for each $1 of*

loan assets transferred to the bank of Canada, the bank of Canada would issue and forward to the banks $1 of cash (or a right to obtain $1 of cash from the Bank of Canada). In effect, this would be like having your father pay off the student loan you got from the bank, having you owe your father instead of the bank.

It is important to note that the Bank of Canada is owned by the federal government. Accordingly, all monies owed to the banks by the federal government would, as a result of the above changes, be owed to itself: in effect, the federal debt would be cancelled to that extent. Also, because there is no just reason to require the provinces and the municipalities to owe the federal government, their respective debts could be forgiven by the Bank of Canada without affecting the number of dollars in Canada. In addition, as a result of the above three reforms:

- The banks would *actually have* $1 of cash for every dollar they owe to their customers: there would be no chance of a harmful run on the banks;

- With most of the debt eliminated, the money formerly collected by government as tax revenues to service bank debts could now be used for the betterment of your health care, education, and retirement: if every dollar were spent on those things, that would represent an increase in spending on health care, education and retirement *without* raising tax rates;

- When an economy grows and the number of dollars is not increased, the prices of goods and services drop very gradually: your wages buy more goods and services even if you don't get a raise. When banks increase the number of dollars by printing up extra credit, the prices of goods and services don't drop as much as they otherwise would and, usually, they actually increase: your wages buy fewer goods and services if you don't get a raise or if your raise isn't big enough. By preventing banks and the Bank of Canada from increasing the money supply, every Canadian's unchanged earnings would confer on him or her an increased standard of living in a growing economy.

- You could continue to use cheques and debit cards, if you wished, because cash can be transferred electronically, just like credit is now;

- You could still borrow money from banks. There would be just as much money as there is now. Banks would still lend you the money deposited by their depositors. The banks and their depositors would still receive interest from borrowers. The only real difference would be that the borrowed money would be cash, not bank-created credit (borrowers would not need to have physical possession of the cash: as

mentioned above, they could spend borrowed cash with cheques or debit cards instead, if they preferred).

IF IT IS SO EASY, WHY HASN'T THE GOVERNMENT DONE THIS ALREADY?

Some might think that, because the government has not done this already, it would not work. They would be wrong. In 1933 and 1935, the US government faced a horrible banking crisis. There was a run on the banks: people were trying to withdraw cash from their banks, but the banks didn't have enough cash to honour all of the IOUs (i.e., credit) they had issued. While President Roosevelt sought a solution to the problem, he declared several "banking holidays": with the banks closed, people would not be rioting to get into them to collect cash that just wasn't there. In response to this crisis, a group of highly respected economists, including Irving Fisher and Henry Simon, drafted a proposal for the President's consideration: this was called the "Chicago Plan" because the economists were all professors at the University of Chicago. Many parts of the proposal were implemented but the key part of the proposal - a law preventing the banks from creating and lending out credit (i.e., a 100% reserve requirement) - was not adopted: Wall Street banks lobbied hard to keep their power to create and rent out money, and they won. In short, it's not that the plan wouldn't work: to the contrary, it is because the banks knew it *would* work that they lobbied the government so hard to prevent the adoption of that proposal (for a detailed history of the Chicago Plan and the politics that surrounded it, see Ronnie Phillip's excellent Levy Institute article on the subject, "The Chicago Plan and New Deal Banking Reform" at *www.levy.org/docs/wrkpap/pdf/76.pdf*).

Since that time, a 100% reserve requirement has continued to be supported by a large number of highly respected economists, including Irving Fisher (see his book "100% Money"), Milton Friedman (see his book "A Program for Monetary Stability"), and Murray Rothbard (see his book "What has Government Done to our Money?", available online for free at *http://www.mises.org/money.asp*), just to mention a few. The 100% reserve requirement is economically sound, but banks do not want it put in place because they would be prevented from taking wealth from you, and from earning interest upon every dollar of it.

Banks do not want to lose the power to take wealth from Canadians, and the power to take upon themselves all of the extra buying power that results from a growing economy. They also do not want government debts to be eliminated: they are currently earning interest every year on hundreds of billions of dollars that they have loaned out to our governments. That amounts to over a *hundred million* dollars of interest revenue *every day*.

There has been no change to Canada's obviously broken banking laws because most politicians either (a) are not familiar with banking practices in Canada, or (b) don't like having banks as enemies. With respect to (a), keep in mind that politicians come from a variety of fields of endeavor: salespersons,

doctors, coffee vendors, etc., many of whom have never studied money and banking law. With respect to (b), consider that the annual Canadian Bankers Association dinner is the yearly event most well-attended by our MPs in Ottawa. Consider, also, this true story. A few short years ago, I once spoke with former Liberal Canadian Deputy Prime Minister Paul Hellyer. He had just started the Canadian Action Party. Mr. Hellyer has similar objections to the banks being permitted to create and lend out credit, but he does not propose preventing the banks from creating and lending out credit altogether. Instead, his proposal is that the government place a limit on how much credit the banks can create, and that the government be *permitted* to increase the money supply too. Essentially, rather than preventing the redistribution of wealth, he wants the government to get in on the action with banks on a 50/50 basis. I asked Mr. Hellyer why he wouldn't just prevent banks from creating and lending out credit altogether. His answer, being an answer from a former Deputy Prime Minister, was authoritative, and it was delivered with sincerity. He said, quite simply, "They would shoot you". Perhaps an exaggeration, but the point is that banks can be pretty intimidating, and their power to make life extremely difficult for someone could hardly be questioned.

That said, only a fool lives life grieving over intimidation that may never come to pass. We must, instead, take responsibility for our future and resolve the problems that are currently and certainly causing us grief. If Canada is to cope with the debt, we must put an end to the poor and unjust management of Canada's economy. The time has come to object to disintegrating health care, education and retirement standards, and to once again breath the fresh Canadian air of prosperity. The cost, for you, is tiny: a bit of pencil lead, and a couple seconds of your time voting for the right party's candidates in the ballot box.

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A Plan to Improve Canadian Health Care, Retirement and Education”

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