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SPECIAL COMMITTEE TO STUDY CONSTITUTIONAL MONEY

SUMMARY OF THE MEETING HELD AT VERNON CITY HALL'S COUNCIL ROOM 20TH FEBRUARY 1997

The meeting opened at 10.30 a.m.

PRESENT: Councillor Pat Cochrane (Chairman), Bernie Fehrmann (Vernon City Treasurer), Dennis Milligan (Canadians for Constitutional Money), Derek Hall, Lena Warrington and Marc Beerkens. Absent: Dave Harley.

The Chairman explained that, in accordance with Vernon city council's Resolution passed on the 20th January 1997 - and relative to earlier resolutions passed on the 18th April 1994 and 12th November 1996 - this special Committee had been struck to study the Canadian Constitutional Money proposal. The Committee's purpose is to examine the merits of a concept calling for interest-free money to be provided to municipal governments by the Bank of Canada under the direction of the Federal government. It is charged with providing suggested guidelines by which Vernon city council might promote support for the proposal by other Canadian municipalities.

CONSTITUTIONAL MONEY

Dennis Milligan began by emphasising that CCM (Canadians for Constitutional Money), in doggedly exploring our present debt problems, are not seeking scapegoats but solutions. He postulated that our present economic hardships and a pending economic collapse are the result of a basic flaw in our monetary system that creates all money as interest-bearing debt. It's not people that are at fault - it's the system. And it's the system that must be changed"

He familiarized the Committee with the details of CCM's original 1994 proposal. It called for interest-free loans to be made by the Federal government to municipalities for the purpose of building capital assets such as sewer and water lines, treatment plants, recreational facilities etc. and/or for the paying down of present interest-bearing loans negotiated via the Municipal Finance Authority. He emphasised that Constitutional Money loans could not be used to finance current assets - such as wages, operational costs etc; would be calculated on the basis of $1,000 per capita (roughly $30 million for Vernon) spread over a 4-year trial period; and re-payable, interest-free over a 20-year term. Individual projects would be subject to approval by local taxpayers via single-issue referenda.

CCM holds that all legislation is subordinate to the Constitution and anything in conflict with it is *ultra vires* (outside the law). The Supreme Court of Canada has upheld the Constitution as belonging solely to the people and has judged, in its wisdom, that it may not be amended without a national referendum process. Canadians for Constitutional Money are therefore committed to gradually replacing the present system of debt-money creation for public projects with a Constitutionally-sound and viable debt-free system aimed at re-vitalizing the nation from the grass-roots up.

Using an overhead projector, Milligan displayed copies of official government Bills and Acts, statistical information from StatsCan, Finance Ministries, charts, graphs and other evidence to support the legality and viability of the proposal. The following facts were highlighted:

THE MACHINERY OF DEBT

1. The British North America Act of 1867 and Section 91 of the Canadian Constitution Act of 1982 provide the Federal government with the sole and exclusive authority to issue the money of the nation. CCM's argument is that our elected government should be lending to the banks, not the other way around.

2. The Bank of Canada Act of 1934 transferred the sole right to issue money to the Bank of Canada (Section 21-1), a now publicly-owned but privately run "fiscal agent" whose Board contains no elected representative of the people of Canada (Section 5-2). It is authorized under Section 18(f) "to make loans to the Government of Canada and the provinces when guaranteed by them on the pledge of marketable securities". From this point on all money has come into existence only as interest-bearing debt. CCM argues that since only the principal is created at the time of the loan, the money required to cover the interest on such debt can only be created through further borrowing. Debts (*interest-bearing* debts) must thus continue to grow in order for the present system to be maintained - "a seemingly insane system and one that lies at the very root of the deficit and debt problems now being faced at every level of our society".

3. The Bank Act as revised by Bill C-19 passed on the 9th December 1991 - and currently under review - reflects the OECD "risk-based capital requirements" engineered by the Bank for International Settlements in Basle, Switzerland. Accordingly, financial institutions lending to any level of Canadian government are totally unlimited as to the amount of such loans and are not required to hold any reserves whatsoever against such loans. (Section 457). CCM queries why, in these circumstances, the federal government should pay interest to borrow money it has the constitutional right to issue debt-free in the first place.

4. The Municipal Finance Authority Act provides to a select private syndicate of international moneylenders an exclusive monopoly on all municipal capital financing (Section 19-1). Re-payment of such loans is secured by a number of clauses in the Act that require from municipalities:

a) The establishment of a Trust in the form of Sinking Funds (Section 12),
b) A special Debt Reserve fund (Section 13-1)
and includes
c) Special clauses (13-9a and 14) that enable a private banking consortium (fronted by the MFA) to levy taxes on municipal lands and improvements in the province of BC.

COMPOUND INTEREST

It was pointed out that the Canadian Auditor General's Office published in 1993 a "Layman's Guide to Deficits and Debt". The "Guide" calculated that of the $423 billion in net Federal debt accumulated between 1867 and 1992 only $37 billion had been used to finance government programs while $386 billion had been consumed by the cost of debt servicing (interest, exchange losses and bank service charges).

A Federal publication issued in 1990 under the authority of Michael Wilson, Minister of Finance, also identified "the devastating effects of compound interest". It pointed out that at a compound interest rate of 10% an unpaid debt doubles in 7 years. It went on to point out that "The debt grows all by itself to the tune of $80 million a day!" and that "Canada now spends more on interest payments than it does on any single program".

CCM questions why amidst such compelling arguments our governments still insist on trying to balance the budget on the backs of the poor and fail to recognize the heart of the debt problem as being the extortionate usury of our present banking system. He queried why there should be such strong resistance to interest-free Constitutional Money when it represents one of the few sensible means of avoiding total economic collapse. He pointed out that it took 115 years from Confederation to 1982 for Canada's federal government debt to reach $100 billion, only 5 years to double to $200 billion and only 6 years to double again to $400 billion. It has now soared past $600 billion in an almost vertical climb "that can no longer be overcome by working harder, paying more taxes, contracting out, laying off more workers, closing hospitals, cutting back more programs or selling off all our national assets under the guise of privatization".

To emphasise the devastating power of compounding interest he shared 90-year debt graphs from Canada, the U.K. and the U.S. together with a curve of debt calculated at an average of 6% compound interest per annum over the same period. All 4 charts proved almost identical, confirming the exponential nature of compound interest paid to private investment banks as the prime cause of debilitating public debt and not the profligacy of succeeding generations of politicians.

THE MAGNITUDE OF DEBT

Milligan demonstrated that, at $5.2 million, the City of Vernon's debt charges in 1995 consumed more than 60% of the $8.6 million tax revenue of this City of roughly 30,000 people. More than two-thirds of the debt charges (i.e. $3.4 million) were taken up largely with interest payments to the MFA. Less than one-third ($1.6 million) went toward paying down the principal. He further pointed out that on the City's total outstanding debenture debt of $23 million, rates of interest (some on US$ borrowings via the MFA) ran as high as 14%.

Using Vernon's Sewer debt as an example, he showed that in the four years from 1992 to 1995, total interest payments extracted from Vernon taxpayers against sewer construction alone amounted to more than $7 million.

He estimated that *total* interest payments made, unconstitutionally, by the City of Vernon to the MFA since their inception 25 years ago could well exceed $75 million. "This is an astronomical drain on local taxpayers that has denied the community a vast array of amenities and community services – young and old alike". He pointed out that this was, however, "only the tip of the iceberg". N.O.R.D's current long-term debt exceeds $38 million. The Regional Hospital District's debenture debts exceed $41 million. School District #22's fast-growing Sinking Fund Debenture debts are now more than $55 million - a total debt of $134 million to private banks that cost taxpayers nearly $22 million to service in the one year of 1995 alone. (A gross cost of debt servicing that exceeds 16%).

Milligan pointed out that this immense sum is being extracted from a small town population base of less than 18,000 families while the same system was operating across a nation of roughly 7.5 million families to the immense profit of private banks.

A November 1995 study by the Fraser Institute was used to demonstrate that the province of BC's debenture debts, now in the region of $30 billion, places the province "among the ranks of the Third World Nations". The study estimated that against a Federal government debt of $500 billion in 1995, Canada's total "all-government" debt was just over $3 trillion - a multiplying factor of 6.

To drive home the point "that our disastrous accumulated debt position is only the world's dilemma in microcosm", Milligan shared figures from various international sources. They indicated that while the Canadian federal debt alone now exceeds $600,000,000,000 ($600 billion), that of the U.S. exceeds $5,000,000,000,000 ($5 trillion) and that the combined federal debts of G-7 (U.S., Canada, Japan, U.K., France, Germany and Italy) surpasses $10 trillion. The addition of the E.U.'s senior government debt drove it up to $12 trillion.

He postulated that using the Fraser Institute's factor of 6 to convert developed nations' federal debt to "all-government" debt expanded these figures to around $72 trillion. "To this must be added the balance of 180 nations, including Third World debt and that of the old U.S.S.R and Eastern bloc nations". It placed global debt well in excess of $100,000,000,000,000 ($100trillion). It begged the question, "If every nation in the world is in debt, to whom do we all owe this astronomical sum of money if not to the international banking system of which the MFA consortium is but a very small part?"

CONCLUSION OF CCM PRESENTATION

"CCM's arguments are based on the belief that there is absolutely no shortage of money, merely a blockage in terms of its fair and equitable distribution". Milligan pointed out that the obscure and esoteric marketing of derivatives alone has created a \$35 trillion investment industry. He added that more than \$1,000,000,000,000 (\$1 trillion) pass through the FOREX (foreign exchange) markets of the world every day - vast sums of money that are created within the present system largely for the purpose of speculative profit. "All without creating inflation". CCM argues "that the time has come for that money to be created without debt and to the benefit of the *people* as well as to the banks. They hold this to be particularly relevant in the case of public debt. "It's bad enough that ordinary people are required to pay for three homes in order to live in one. It makes absolutely no sense for governments, who hold the exclusive right to issue the money of the nation, to follow the same practice for the purpose of building public infrastructure".

He referred to the Canadian and US "debt clocks" as "profit clocks to the present banking system", pointing out that for every liability there must somewhere in the system be an asset. "Clearly", he insisted, "with every nation on the face of the planet in deep debt that asset can only lie to the benefit of the banks". He showed statistics indicating that financial corporations and regular corporate donors, intent upon maintaining the present system, contribute millions of dollars to the major political parties. "It is a system that serves them well... at the expense of ordinary citizens. It's a system that perpetuates profit-driven consumerism, supported by built-in obsolescence at the cost of environmental destruction".

CCM contends that the solutions to our present deep economic crisis can best be introduced at a municipal level; that, in fact, the first move back toward fiscal sanity must come from the grass roots if it is to have any hope of success.

Milligan demonstrated the constitutionality of direct municipal loans by presenting a copy of Bill 143, passed by the House of Commons in 1938. It provides for direct assistance to municipalities for the purpose of "making self-liquidating improvements". He also showed evidence that the Bank of Canada's percentage of money creation has been steadily slipping since World War II - from more than 50% to less than 3%. It provides proof, he contended, "that the Bank of Canada has been slowly transferring its money creation role to the private banking sector at the cost of unredeemable debt to the people of Canada".

QUESTIONS

Bernie Fehrmann, in the closing minutes of the meeting, questioned whether the \$30 billion national cost of the CCM proposal would add to the money supply, thereby causing inflation. Milligan responded that the interest-free \$30 billion constitutionally created by the Federal government for the benefit of municipalities would require \$30 billion less interest-bearing public debt to be created by private banks. Asked whether this "loss" to the banks of \$30 billion would "squeeze out" funding for private lending, Milligan emphasised the importance of separating the functions of public and private financing. "It is CCM's contention that the banking industry provides many valuable services to the private sector, but that they have no right to be creating interest-bearing loans to governments. If a government can create bonds, it can create money. The only difference is that one fattens the banks and the other benefits the people"

Bernie Fehrmann made the final point that the high interest rates applicable to municipal debentures raised in the early 80's - and still on the books - reflected the then current market rates. He pointed out that the MFA would have had no option but to offer competitive rates to lenders if the debentures were to be successfully placed. Milligan conceded this point but reiterated that the purpose of the CCM proposal was to question the logic of public borrowing from private sources when our elected federal government should be constitutionally creating municipal funding interest-free.

The meeting closed at 12.10 p.m.