TO:
The Right Honourable Justin Trudeau, P.C., M.P., Prime Minister of Canada
The Honourable Bill Morneau, P.C., Minister of Finance
Mr. Nathaniel Erskine-Smith, M.P., House of Commons

Dear Prime Minister, Minister, and Mr. Erskine-Smith,

Last year an e-petition was submitted to the government **requesting the Bank of Canada fulfill its stated role *"to promote the economic and financial welfare of Canada"***, by returning to previous levels of monetary financing and economic activity[1], as opposed to only focusing on inflation through the blunt and indirect instrument of influencing short-term interest rates in overnight markets.

Minister Morneau's response to the petition was troubling, as it cites disproven assumptions about inflation that Canada's own history belies. **Empirical evidence shows higher levels of federal monetary financing did not affect inflation in Canada[2].** Careful analyses of instances of hyperinflation by institutions like the IMF have proven public money creation alone is never the culprit, but rather currency speculation, corruption, a poor understanding of monetary policy and economics, and market forces are of greater influence[3].

Claiming government monetary financing is inflationary ignores that private bank money creation dwarfs government money creation at approximately 97%[4] of our money supply created as debt with interest attached[5]. It is their loans and credit that have caused consumer debt rise to nearly 170% of average income and over 100% of GDP[6], while also inflating asset prices resulting in the soaring housing prices in Toronto and Vancouver[7]. The elimination of reserve requirements at the BoC in 1991, replaced by the amorphous and ephemeral capital requirements, ensured what little control over the money supply the BoC had was gone[8]. Also disproving the notion is that the massive amounts of QE injected into various economies after the ‘08 crisis were not inflationary to consumer prices either (although it did inflate asset prices)[9]. Simply put, there is no historical or empirical evidence proving unequivocally an increase in reserves spent into the economy is inflationary, especially when the BoC pays interest (the deposit rate) on those reserves. More importantly, it is not the government spending reserves into the economy that is inflationary: it is the potential actions of private banks in response to the reserves. Even the Fed admits to this[10].

However, the most alarmingly ironic statements come from our current BoC governor Mr. Poloz[11]. In selling the notion that a nation with a public central bank counter-intuitively needs foreign investment to fund public infrastructure, he then lists two projects, the St. Lawrence Seaway and the Trans-Canada Highway, which required no foreign investment whatsoever and were primarily funded through monetary financing using the Bank of Canada. **The St. Lawrence Seaway did not need US investment, in fact, after the US dragged its heels for too long Canada threatened to go it alone[12]**, and the US finally got involved because it would not have a claim to any revenues if it didn’t share the cost. Either Mr. Poloz is intentionally misleading the public on this history, or he is unaware of the history of the institution he is leading.

The two most economically beneficial banks in the history of Canada are the Bank of Canada and the Industrial Development Bank (now the BDC). Both had the same auspicious beginnings with a capitalization injection of publicly created funds[13]. At the same time the BoC was nationalized in 1938, the government enacted Bill 143, the Municipal Improvements Assistance Act, which allowed municipalities to borrow directly from the federal government for building municipal infrastructure[14]. **The Bank of Canada was once the largest holder of federal debt, using monetary financing to bring us into the unprecedented growth of our golden years in the post-war period,** funding many important public infrastructure projects like the St. Lawrence Seaway, Trans Canada Highway, and early parts of the 401 Highway. Even more significant, we had no problem using the BoC to fund our efforts in WWII[15], but somehow we can't use it for peaceful purposes? As we did until we joined the Bank for International Settlements' first Basel Committee in 1974[16] and proceeded to adopt monetarism, the now disproven notion that the money supply is the main driver of inflation[17]. The resulting increase in federal debt after 1974 is painfully clear[18], and was a direct and immediate result of these policy changes. The following year the government rescinded Bill 143 in line with the dictates of the BIS. Monetarism forced increased private sector borrowing instead of public money creation, and since then the federal share of the total public debt burden has shifted onto municipalities[19] and is set to further burden cities now that the 2017 budget has reduced their access to federal funding[20].

Let's say the government needs to build $1 billion in new infrastructure. It can either:

- create the money with the Bank of Canada

OR

- borrow the funds selling bonds in capital markets

Either way, $1 billion is spent on public goods, **it will have the same result economically** and socially and create the exact same number of jobs and result in the same physical asset[21], it's just in the latter option it needs to be paid back with higher interest than the deposit rate at the BoC. The way our monetary system is constructed there is no such thing as "interest-free money creation" unless printing cash or minting coin, because when the government spends money into the economy it shifts reserves from the Receiver General's account at the BoC to a private bank's account at the BoC, on which the BoC must pay the deposit rate (.25% less than the target for the overnight rate). However, the deposit rate is always less than what we pay in interest on our bonds, else it would incentivize banks to hold more reserves, which in a 0% reserve requirement environment they do not want to do. The point is, even with the deposit rate on reserves, the interest paid is cheaper when the BoC creates the money for the government than when it gets the money from banks' purchases of bonds.

It is most worrying to hear Prime Minister Trudeau speak to business audiences wooing them with promises of high returns with an unnecessary Canada Infrastructure Bank[22], when we already have one that does not require private investors in the Bank of Canada. The greatest concern of all however comes from the government's admission, allowance, and dismissal of the obvious conflict of interest in allowing a council heavily tilted in favour of big business interests, representatives from BlackRock (the world's largest asset manager) and McKinsey & Co., to devise the plans for the infrastructure bank that will facilitate the high returns on their investments[23]. Despite the clear conflict, no disclosures were made and no one recused themselves for any of the council decisions. The government worked for months with these advisers to prepare for the closed door meeting, organized by BlackRock, between Prime Minister Trudeau and institutional investors. BlackRock even tailored and vetted the Infrastructure Minister's presentation to ensure it was what investors wanted to hear. Furthering the conflict of interest is Michael Sabia, the president of the Caisse who wants $1.3 billion from Ottawa for light rail, leading policy discussions on the CIB as a member of Minister Morneau's Advisory Council on Economic Growth. How are Canadians to have faith in a bank structured by the very players that will profit from it?

The manner in which the infrastructure bank was presented in legislation does little to inspire faith in it either. **Following in Harper's tradition the CIB was jammed into the undemocratic omnibus Bill C-44, which had debate stifled[24], and which even the Senate is considering severing into separate legislation[25]**, as it should be for such an important change to our system. Even a KPMG report for Infrastructure Canada itself calls for caution and not to rush in before more impacts can be considered[26].

With our debt as high as it is (over $1 trillion and counting[27]) and inequality worsening[28], why would we make it worse promising above average returns and monetizing public infrastructure into a revenue stream for private investors? **Even without public money creation, we can use traditional bond issues at a lower rate than investors would expect from an infrastructure bank[29]**. The proposed infrastructure bank is a huge deviation from the Liberal election platform to "use its strong credit rating and lending authority to make it easier and more affordable for municipalities to build the projects their communities need."[30] Multiple studies from around the world have proven that using private investment to build assets, for example P3s, costs the public more money, as evidenced by Ontario's Auditor General[31] and the reversal of privatizations in Europe[32].

Are you suggesting an infrastructure bank to build infrastructure or to provide a new revenue stream for large institutional investors? How exactly are we supposed to pay back investors? Are you planning to saddle the new infrastructure with user fees so they become an ongoing revenue stream? Why do documents show the government plans to take on more risk to ensure investors get paid first, and the government last[33]? How much more debt will tax payers be on the hook for? We already made our debt worse when in February this year the BoC reduced its automatic minimum purchase of government bonds from 15% to 14%, increasing our debt burden for no apparent reason except perhaps to increase the available general collateral in overnight markets[34]. Harper's first budget in a majority cranked the rate up to 20% to suit his needs, the BoC market notice makes clear it was done "to accommodate the planned increase in government deposits held at the Bank of Canada associated with the Government of Canada's plan announced in the June 2011 budget to increase its prudential liquidity over the next 3 fiscal years"[3]. Not the BoC's plan, the Government of Canada's plan, so why can't we do the same? The BoC is not autonomous; the disagreement with Governor Coyne that necessitated an additional clause in the BoC Act proves that[35], as does the disagreements with Governor Crow that led to him not being renewed for another term[36].

We don't need to be a source of unearned income for investment funds, and we don't need to sell off public assets. These are capital assets for which *"the cost of acquiring fixed assets is treated as expenditure at the time of acquisition"*[37] instead of being depreciated over the life of the asset the way private companies can. That capital cost is also is accounted for in the same budget as the operating budget providing services, unlike municipalities' ability to separate capital and operating expenditures[38], the net effect making deficits appear worse than they are. If we really need money we're not willing to create ourselves we should be going after the billions in tax avoidance and evasion and closing the loopholes that allow it[39]. We don't even attempt to measure the tax gap in Canada[40]. Or consider raising corporate tax rates, as Canada itself has become a tax haven as evidenced by Burger King's acquisition of Tim Horton's[41], while corporations sit on billions in "dead money"[42], and Canada has now hit an unenviable milestone, for the first time ever getting more tax revenue from people than from businesses[43].

We need to provide the public with the infrastructure and services needed to ensure a high standard of living befitting a country of our wealth. Deficits are mere accounting, and recent economic studies have proven that **austerity shrinks economies and deficit spending grows them[44]**. I hope you let evidence and history, and not the specious assumptions espoused by neoliberal institutions like BlackRock, McKinsey & Co, the London School of Economics, and the private banking community, guide you to the conclusion that **we already have the ultimate driver of prosperity and growth: The Bank of Canada.**

Thank you for your time,

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Sources:

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[1] https://petitions.parl.gc.ca/en/Petition/Details?Petition=e-337

[2] Figure 1: Monetary financing and inflation in Canada, 1958–2012 "Is Monetary Financing Inflationary? A Case Study of the Canadian Economy, 1935-1975" by Josh Ryan-Collins http://www.levyinstitute.org/pubs/wp_848.pdf
https://www.thestar.com/opinion/commentary/2015/01/17/monetarism-is-dead-finally.html

[3] Quote about hyperinflation in the Weimar Republic from the IMF *"this episode can therefore clearly not be blamed on excessive money printing by a government-run central bank, but rather on a combination of excessive reparations claims and of massive money creation by private speculators, aided and abetted by a private central bank."* http://positivemoney.org/2015/12/hyperinflation-how-the-wrong-lessons-were-learned-from-weimar-and-zimbabwe-a-history-of-pqe-part-2-of-8/

[4] M0 divided by M3 http://www.tradingeconomics.com/canada/money-supply-m3

[5] http://www.lop.parl.gc.ca/Content/LOP/ResearchPublications/2015-51-e.html?cat=economics

[6] http://business.financialpost.com/news/economy/canadas-household-debt-is-now-bigger-than-its-gdp-for-the-first-time

[7] http://business.financialpost.com/news/economy/bank-of-canada-warns-elevated-housing-market-a-major-risk-with-high-prices-in-vancouver-toronto-unsustainable

[8] https://gilliganscorner.wordpress.com/2008/04/06/canadas-private-banks-have-no-reserve-requirements/

[9] http://tsi-blog.com/2015/11/why-hasnt-the-feds-qe-caused-inflation/

https://www.theregister.co.uk/2015/06/07/so_why_didnt_quantitative_easing_produce_huge_inflation/

http://themarketmogul.com/brief-history-quantitative-easing/

[10] "What potentially matters about high excess reserves is that they provide a means by which decisions made by *banks*—not those made by the monetary authority, the Federal Reserve System—could increase inflation-inducing liquidity dramatically and quickly."
https://minneapolisfed.org/research/economic-policy-papers/should-we-worry-about-excess-reserves

https://www.frbsf.org/education/publications/doctor-econ/2010/may/excess-reserves-inflationary/

[11] http://www.macleans.ca/economy/for-the-record-stephen-poloz-on-canadian-economic-openness/

[12] *"However, the project was met with resistance from railway and port lobbyists in the US, and hampered by war and depression in the first half of the century. After rejecting numerous agreements to construct a Seaway, the US Senate finally assented in 1954 when Canada declared it was ready to proceed unilaterally with its own Seaway."*
https://web.archive.org/web/20080625044719/http://www.infrastructure.gc.ca/research-recherche/result/alt_formats/pdf/hm05_e.pdf

[13] *"the Prime Minister, as a reflationary measure, introduced legislation calling for an expenditure of $39 million on public works to be financed by an expansion of the note issue"* from "The Bank of Canada: Origins and Early History" by George S. Watts

"the Bank of Canada subscribed for the full initial stock issue of $25 million and as funds were required drew it down and paid for it. By starting off with only equity money and no borrowed funds, the new Bank (IDB) was to have a favourable start and develop some strength and attractiveness in its operating record before it should have to borrow and pay interest." From "The IDB: A History of Canada's Industrial Development Bank" by E. Ritchie Clark. (for context, that is $652 million and $418 million respectively in today's dollars)

[14] *"This Bill authorizes the Minister of Finance, with the approval of the Governor in Council, to enter into agreements to make loans to municipalities to enable them to pay the whole or part of the cost of constructing or making extension, or improvements to or renewals of a municipal waterworks system, gas plant, electric light system or any other self-liquidating project."*

https://www.dropbox.com/s/hftdt0yn5uvzkgo/C-143.pdf?dl=0

[15] *"During the war period, $517.8 million of securities were bought directly from the government with newly created central bank money and by converting numerous maturing securities into new Government of Canada issues (Neufeld 1958a, 145; Mcivor 1958, 174). As Plumptre (1941, 155–56) remarks, the effect of this increase in note issue was to provide "a sort of interest-free loan to the Government through the medium of the Bank of Canada." The Bank issued the notes at virtually zero cost to itself, whilst the profits paid to it by the government for holding government debt were all paid back to government which owned all of its stock."* http://www.levyinstitute.org/pubs/wp_848.pdf

[16] http://www.bis.org/bcbs/history.htm

[17] https://www.thestar.com/opinion/commentary/2015/01/17/monetarism-is-dead-finally.html

[18] https://www.fraserinstitute.org/sites/default/files/authors/brief%20history%2012.png

[19] chart 4 Asset Shares By Order of Government, General Government, 1955–2011 https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/01/Canada's%20Infrastructure%20Gap_0.pdf

[20] http://www.theglobeandmail.com//report-on-business/economy/ottawa-eyes-more-private-cash-in-infrastructure-push/article34392164/

[21] *"If a loan funds the building of a house, or a railway or a broadband network, it is creating a productive asset. A productive asset creates value over many years, providing a continuous flow of increased products and services over time. Money spent on such an asset should thus be able to be absorbed in to the economy without creating inflation."* http://b.3cdn.net/nefoundation/e79789e1e31f261e95_ypm6b49z7.pdf

[22] http://www.cbc.ca/news/politics/trudeau-public-private-infrastructure-1.3850155

[23]https://www.theglobeandmail.com/news/politics/liberals-gave-investors-extraordinary-control-over-infrastructure-bank-opposition/article34910106/

https://www.theglobeandmail.com/news/politics/ottawas-dealings-to-secure-infrastructure-funds-raise-questions/article34904963/

[24] https://www.theglobeandmail.com/news/politics/ndp-forces-commons-debate-on-infrastructure-bank/article34945759/

[25] https://www.theglobeandmail.com/news/politics/senators-discuss-removal-of-infrastructure-bank-from-omnibus-budget-bill/article35011859/

[26] https://www.theglobeandmail.com/news/politics/be-extremely-careful-in-launching-infrastructure-bank-internal-report-warns-ottawa/article34952796/

[27] http://www.nationaldebtclocks.org/debtclock/canada

[28] http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx

[29] *"There's no shortage of low-cost public financing available to Canadian governments. Ottawa can now borrow at 0.6 per cent over a year and issue 30-year bonds at 1.8 per cent, with provinces a percentage point higher. Long-term borrowing rates have never been this low. Meanwhile large private infrastructure investors expect 'stable, predictable returns in the 7 to 9 per cent range'...It doesn't take an economist to understand it makes no sense to*

finance projects at seven to nine per cent when you can do so at two per cent."
https://canadians.org/blog/trudeau-government-announces-privatization-bank

"This argument doesn't hold up. Borrowing money is largely a balance sheet transaction, and if it's used to invest in infrastructure there will be assets to match these liabilities for many years to come," the report states. Further, they note that Canada has the lowest net debt-to-GDP ratio of the Group of Seven countries by far.

"The case for establishing the CIB is not compelling, as it has the potential to increase overall costs to taxpayers while privatizing the most high-return, low-risk infrastructure assets."

https://www.theglobeandmail.com/news/politics/case-for-canada-infrastructure-bank-not-compelling-researchers-warn/article34898110/

[30] https://www.liberal.ca/wp-content/uploads/2015/10/New-plan-for-a-strong-middle-class.pdf

[31] http://www.theglobeandmail.com/news/politics/private-partnerships-cost-ontario-taxpayers-8-billion-auditor-general/article22012009/

[32] *"a growing number of cities worldwide deciding to end their experiments with privatisation. Since 2007, 170 municipalities in Germany alone have brought energy services back into public hands. Globally, at least 100 cities have done the same with privatised water services over the past 15 years, including dozens of municipalities in France – once seen as a growing focus for water privatisation."*
https://www.theguardian.com/cities/2014/nov/12/hamburg-global-reverse-privatisation-city-services

[33] http://ipolitics.ca/2017/05/31/documents-raise-new-questions-about-taxpayer-risk-in-liberal-infrastructure-bank/

[34] http://www.bankofcanada.ca/2017/02/bank-canada-announces-reduction-minimum-amount-government/

[35] *"Minister's directive (2) If, notwithstanding the consultations provided for in subsection (1), there should emerge a difference of opinion between the Minister and the Bank concerning the monetary policy to be followed, the Minister may, after consultation with the Governor and with the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy, in specific terms and applicable for a specified period, and the Bank shall comply with that directive."* http://laws-lois.justice.gc.ca/eng/acts/B-2/FullText.html

[36] *"This will mean discarding the polite fiction that the Bank has any real say over, and therefore responsibility for, monetary policy formulation – however convenient that story may be for the government and however flattering the Bank of Canada may find it."* From "Making Money" by John Crow

[37] http://www.statcan.gc.ca/pub/68f0023x/2006001/chap/chap7-eng.htm

[38] *"An Ontario municipality may issue long-term debt only for capital purposes and cannot borrow for operations… Repayment of municipal debt is amortized over the term of the debenture with regular contributions being made to the sinking fund."*
http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=ace3c1b8c8412410VgnVCM10000071d60f89RCRD

[39] https://www.thestar.com/news/world/2016/06/17/offshore-tax-avoidance-fixing-it-made-it-worse.html

[40] http://www.cra-arc.gc.ca/nwsrm/fctshts/2015/m04/fs150410-eng.html

[41] http://www.cbc.ca/news/business/burger-king-tim-hortons-deal-skirts-taxes-u-s-group-says-1.2871070

[42] https://www.theglobeandmail.com/news/national/canadian-businesses-accumulating-dead-money-faster-than-other-g7-countries/article18832683/

[43] http://www.huffingtonpost.ca/2013/11/24/corporate-personal-taxes-canada_n_4333694.html

[44] *"Since the global turn to austerity in 2010, every country that introduced significant austerity has seen its economy suffer, with the depth of the suffering closely related to the harshness of the austerity… Meanwhile, all of the economic research that allegedly supported the austerity push has been discredited… An economy that is depressed even with zero interest rates is, in effect, an economy in which the public is trying to save more than businesses are willing to invest. In such an economy the government does everyone a service by running deficits and giving frustrated savers a chance to put their money to work. Nor does this borrowing compete with private investment. An economy where interest rates cannot go any lower is an economy awash in desired saving with no place to go, and deficit spending that expands the economy is, if anything, likely to lead to higher private investment than would otherwise materialise."* "The Austerity Delusion" by Paul Krugman
https://www.theguardian.com/business/ng-interactive/2015/apr/29/the-austerity-delusion
http://michael-hudson.com/2017/03/why-deficits-hurt-banking-profits/