

Consent

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THINK TWICE BEFORE YOU DISPARAGE CAPITALISM

- Perry E. Gresham

{Dr. Perry Gresham, minister, educator, author, and President Emeritus at Bethany College in West Virginia was long a trustee of the Foundation for Economic Education (FEE). Excerpted from the *Freeman Library's* 1988 book, *The Freedom Philosophy*, this article first appeared in the March 1977 issue of *The Freeman* and has been widely reprinted and distributed as a defense of competitive enterprise under limited government.

"The tendency of governments to abuse powers delegated to them causes some victims to conclude that any government is evil. But anarchy is no part of the freedom philosophy.

There is need for government to police the market and keep it open, to protect the life and the property of each peaceful person. The problem is to limit the powers of government to such defensive purposes."}

"Everybody for himself, said the elephant as he danced around among the chickens."

This lampoon of capitalism came from a Canadian politician. The word "capitalism" has fallen into disrepute. It is associated with other pejorative terms such as "fat cat," "big business," "military-industrial complex," "greedy industrialists," "stand patters," "reactionaries," and "property values without regard to human values." Many serious scholars look on capitalism as a transitional system between late feudalism and inevitable socialism.

Adam Smith has been associated with the word "capitalism" even though he did not use the term. He did not so much as refer to capital by that name, but used the word "stock" to describe what we call capital. Karl Marx wrote in response to Adam Smith's *Wealth of Nations* and called his great work *Das Kapital*. There was disparagement and scorn --- even hate --- for the ideas of the free market economy. The term capitalism has been less that appealing to many people since that time even though they know little about the contents of the Marx benchmark in political economy.

Some political economists who cherish individual liberty and the free market have suggested that a new name be found to describe economic liberty and individual responsibility. Until a new name appears, however, the thoughtful person does well to think twice before he disparages the market economy with all of its implications implied by the term capitalism since there is now no ready alternative available for reasonable discourse.

Is The System Outmoded?

Many thoughtful citizens of America think of capitalism as a quaint and vanishing vestige of their Yankee industrial beginnings. With burgeoning population, urbanization, and industrialization, they argue, capitalism disappears. They are not quite ready to embrace socialism, but they heartily approve government planning and intervention. John Kenneth Galbraith, articulate spokesman for the liberal establishment, calls for the open acclaim of a new socialism which he believes to be both imminent and necessary:

"The new socialism allows of no acceptable alternatives; it cannot be escaped except at the price of grave discomfort, considerable social disorder and, on occasion, lethal damage to health and well-being. The new socialism is not ideological; it is compelled by circumstance." (*Economics and the Public Purpose*, 1973)

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Freedom Party
A Voice For
Freedom...



"To those who consent, no injustice is done."

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At first blush, the Marxian assumption of economic determinism is quite plausible, but I do not believe it can stand up to the scrutiny of experience. My study of history leads me to assume with many of my thoughtful colleagues that free people can, within certain limits, choose their own systems of political economy. This is precisely what happened in West Germany at the time of **L u d w i g**

Erhard. The Germans chose capitalism rather than the socialism recommended by many American, British, and Continental

economists and politicians. It is my opinion that Americans can and should call for a renewal of capitalism rather than a new socialism.

Capitalism has been neither understood nor sympathetically considered by most contemporary Americans. Capitalism is a radical and appealing system of political economy which needs a new and favorable review. The new socialism has never been tried. The old socialism is not very inviting. Consider Russia, China, Cuba, Chile, and now Britain. Capitalism has been tried with the most amazing success in all history. What is the nature of a political and economic system which has made the poor people of America more prosperous than the rich of many countries operating under State control?

Here are my paragraphs in praise of capitalism. They are somewhat lyrical but grounded in fact and open to review.

An Envable Record

Capitalism is the one system of political economy which works, has worked and, given a chance, will continue to work. The alternative system is socialism. Socialism is seductive in theory, but tends toward tyranny and serfdom in practice.

Capitalism was not born with *The Wealth of Nations*, nor will it die with *Das Kapital*. It is as old as history and as new as a paper route for a small boy. Capitalism is a point of view and a way of life. Its principles apply whether or not they are understood, approved, and cherished.

Capitalism is no relic of Colonial America. It has the genius of freedom to

change with the times and to meet the challenges of big industries, big unions, and big government if it can free itself from the restraints of

interest-group intervention with eventuates in needless government expansion and spending. Let the market work, and the ambition of each individual will serve the common good of society.

Capitalism is an economic system which believes with Locke and Jefferson that life, liberty, and property are among the inalienable rights of man.

Capitalism denies the banal dichotomy between property values and human values. Property values *are* human values. Imagine the disjunction when it is applied to a person with a mechanical limb or a cardiac pacemaker. The workman with his tools and the farmer with his land are almost as dramatic in the exemplification of the identity between a person and his property.

Capitalism is belief in man --- an assumption that prosperity and happiness are best achieved when each person lives by his own will and his own intelligence. Each person is a responsible citizen.

Limited Government

Capitalism recognizes the potential tyranny of any government. The government is made for man, not man for the government. Therefore, government should be limited in size and function, lest free individuals lose their identity, become wards of the State. **Frederic Bastiat** has called the State a "great fiction wherein everybody tries to live at the expense of everybody else."

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"YOU UP THERE! TRYING TO DUMP FOREIGN PRODUCTS ON DOMESTIC MARKETS. EH?
WE'LL SEE ABOUT THAT! COME DOWN WITH YOUR HANDS UP!"

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Capitalism denies the naïve and mystic faith in the State to control wages and prices. A fair price is the amount agreed upon by the buyer and seller. Competition in a free market is far more trustworthy than any government administrator. The government is a worthy defense against force and fraud, but the market is much better at protecting against monopoly, inflation, soaring prices, depressed wages, and the problems of scarcity. Capitalism works to the advantage of consumer and worker alike.

Capitalism denies the right of government to take the property of a private citizen at will, or to tax away his livelihood at will, or to tell him when and where he must work or how and where he must live. Capitalism is built on the firm foundation of individual liberty.

Capitalism believes that every person deserves an opportunity. "All men are created equal" in terms of opportunity, but people are not equal --- nor should they be. How dull a world in which nobody could outrun anybody! Competition is a good thing no matter how much people try to avoid it. Equality and liberty are contradictory. Capitalism chooses liberty!

Equality of Opportunity

Capitalism gives a poor person an opportunity to become rich. It does not lock people into the condition of poverty. It calls on every individual to help his neighbor, but not to pauperize him by making him dependent. Independence for every person is the capitalist ideal.

When a person contracts to work for a day, a week, or a month before he is paid, he is practicing capitalism. It is a series of contracts for transactions to be

completed in the future. Capitalism is promise and fulfillment.

Capitalism offers full employment to those who wish to work. The worker is free to accept a job at any wage he can get. He can join with his fellows in voluntary association to improve his salary and working conditions. He can change jobs or start his won business. He relies on his ability to perform rather than on the coercive power of the State to force his employment.

Capitalism is color-blind. Black, brown, yellow, red, and white are alike in the market place. A person is regarded for his ability rather than his race. Economic rewards in the market place, like honor and acclaim on the playing field, are proportionate to performance.

The person who has the most skill, ability, and ingenuity to produce, is paid accordingly by the people who value and need his goods and services.

Trust In The Market

Capitalism is a belief that nobody is wise enough and knows enough to control the lives of other people. When each person buys, sells, consumes, produces, saves, and spends at will, what Leonard Read calls "the miracle of the market" enables everyone to benefit.

Capitalism respects the market as the only effective and fair means of allocating scarce goods. A free market responds to shortages and spurs production by raising prices. Arbitrary controls merely accept and keep the shortages. When rising prices inspire human ingenuity to invent and produce, the goods return and prices fall.

Nobody knows enough to build an airplane or a computer, but hundreds of

people working together perform these amazing acts of creation. This is the notable human achievement which Adam Smith called "The Division of Labor."

Capitalism derives its name from the fact that capital is essential to the success of any venture whether it involves an individual, a corporation, or a nation-state. Capital is formed by thrift. The person who accumulates capital is personally rewarded and, at the same time, a public benefactor.

Capitalism makes every person a trustee of what he has. It appoints him general manager of his own life and property, and it holds him responsible for that trusteeship.

Church and Family Ties

Capitalism is a natural ally of religion. The Judeo-Christian doctrines of stewardship and vocation are reflected in a free market economy. Churches and synagogues can be free and thriving with capitalism. When the churches falter, the moral strength of capitalism is diminished.

Capitalism depends on the family for much of its social and moral strength. When the family disintegrates, the capitalist order falls into confusion and disarray. The motive power for the pursuit of life, liberty, and property is in the filial and parental love of a home with its dimensions of ancestry and posterity.

Capitalism enables entrepreneurs to be free people, taking their own risks and collecting their own rewards. Work is a privilege and a virtue under capitalism. Leisure is honored, but idleness is suspect. The idea that work is a scourge and a curse has no place in the climate of capitalism.

Capitalism holds profits derived from risk and investment to be as honorable as wages or rent. Dividends paid to

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those who invest capital in an enterprise are as worthy as interest paid to a depositor in a savings bank. The idea abroad that risk capital is unproductive is patently false.

The Voluntary Way

Capitalism honors and promotes charity and virtue. True charity cannot be compelled. Universities, hospitals, social agencies, are more satisfactory and more fun when they derive from voluntary support. Money taken by force and bestowed by formula is no gift.

The consumer is sovereign under capitalism. No bureaucrat, marketing expert, advertiser, politician, or self-appointed protector can tell him what to buy, sell, or make.

Capitalism encourages invention, innovation, and technological advance. Creativity cannot be legislated. Only free people can bring significant discovery to society. Thomas A. Edison was not commissioned by the government.

The concept of free and private enterprise applies to learning and living as well as to the production of goods and services. When a student learns anything it is his own. Nobody, let alone a state, ever taught anybody anything. The State can compel conformity of a sort, but genuine learning is an individual matter -- an act of free enterprise and discovery.

Respect For The Individual

Capitalism honors the liberty and dignity of every person. The private citizen is not regarded as a stupid dupe to every crook and con man. He is regarded as a free citizen under God and under the law --- able to make his own choices, not a ward of the State who must be protected by his self-appointed superiors who administer government offices.

Capitalism is a system which distributes power to the worker, the young, the consumer, and the disadvantaged by offering freedom for voluntary organization, dissent, change, choice, and

political preference, without hindrance from the police power of government.

The renewal of capitalism could be the renewal of America. Nothing could be more radical, more timely, or more beneficial to the responsible and trustworthy common people who are now beguiled by the soft and seductive promises of the new socialism.

No political and economic system is perfect. Plato's *Republic* was in heaven --- not on earth. If people were all generous and good, any system would work.

"The concept of free and private enterprise applies to learning and living as well as to the production of goods and services."

Since people are self-centered, they are more free and happy in a system which allows the avarice and aggressiveness of each to serve the best interest of all. Capitalism is such a system. It is modestly effective even in chains. The time has come for daring people to release it and let us once more startle the world with the initiative and productivity of free people!

Some of my academic colleagues will deny, dispute, or scorn the foregoing laudatory comments about capitalism. They will say that socialism benefits the poor, the young, the consumer, the minorities, and that capitalism protects the rich and the powerful. When discussion is joined, however, they will argue in terms of politics rather than economics, ideology rather than empirical evidence, and they will accuse me of doing the same. When the most persuasive case is produced, it will not convince. Political opinions are not changed by rational argument.

A Call For Renewal

Those who have socialist ideological preferences are merely annoyed to the point of arrogance and disdain by such honest appreciation of capitalism as I

have presented. Those scholars, however, who like Ludwig von Mises, Friedrich Hayek, and Milton Friedman have explored the relevance of capitalism to our present predicament, will join in the call for renewal of a system that works. Those who, like the late Joseph Schumpeter, have watched the apparently relentless disintegration of capitalism, and have concluded that socialism will work, albeit with painful disadvantages, will heave a long sad sigh of regret at the passing of the happy and prosperous capitalist way of life. They will, as people must, accept what appears from their perspective inevitable, and try to make the best of the gray and level life of socialism.

Schumpeter, however, was no defeatist. He was a perceptive analyst of human affairs. In the preface to the second edition of his magnum opus he wrote, "This, finally, leads to the charge of 'defeatism.' I deny entirely that this term is applicable to a piece of analysis. Defeatism denotes a certain psychic state that has meaning only in reference to action. Facts in themselves and inferences from them can never be defeatist or the opposite whatever that might be. The report that a given ship is sinking is not defeatist. Only the spirit in which this report is received can be defeatist: The crew can sit down and drink. But it can also rush to the pumps." (*Capitalism, Socialism and Democracy*, 1950)

Friends of liberty, to the pumps!

Those who love liberty more than equality, those who are uneasy with unlimited government, those who have faith in man's ability to shape his own destiny, those who have marveled at the miracle of the market will join me in this call for renewal of this simple, reasonable, versatile, and open system of capitalism which has worked, is working, and will work if freed from the fetters of limitless state intervention.

The choice, I believe, is ours. The alternative is the stifling sovereign State. {end}

'SCREW VOTING...'

- David Schmidt

{What if they gave an election and nobody came? When is *not* voting the "democratic" thing to do?

Eighteen year old **David Schmidt** is a university student studying philosophy and history in Alberta, Canada ("...which means I am subject to tons of statist and socialist propaganda."). His interest in economics has made him a fan of the Ludwig von Mises Institute, and despite the indoctrination received in his formal education, he now considers himself to be an 'Austrian Economist.'

The following essay was originally distributed by the author as an open letter to *Rush the Vote*, all media outlets, the *Liberal Party of Canada*, the *Conservative Party of Canada*, the *Bloc Quebecois*, and the *New Democratic Party of Canada*.

To everyone telling me to 'vote':

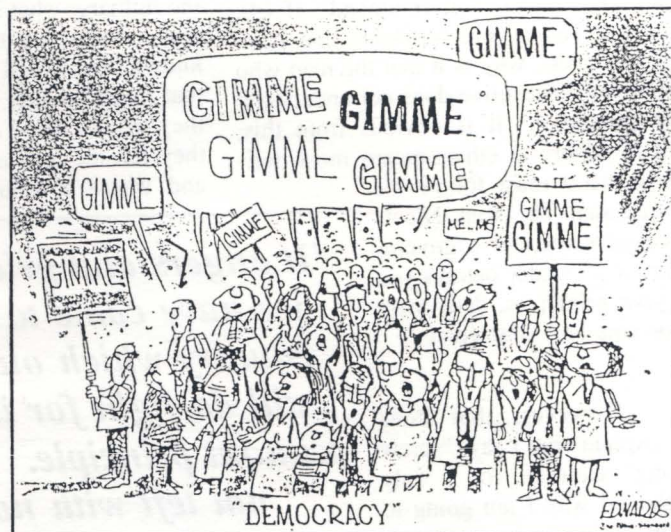
I am eighteen, and finally eligible to vote. And even though I have been involved in politics and political organizations for years, I say: "screw voting."

I do not say this because I'm apathetic. As I said, I've been involved in politics and the world around me for years. I am *not* apathetic. I don't say it because I feel my vote is wasted or doesn't matter; "without the leaf there is no forest." I *know* every vote counts; it's called the butterfly effect. I don't say it to be rebellious, at least not entirely, and I don't say it to get attention, since there are better ways to do that (i.e. start a *Marijuana Party*, oops, already been done) No, *I say it because it is the only democratic thing to do.*

I have grown up in Canada and it is not just my *country*, it is my *home*. Having been here my entire life, one of the things I learned is how a democracy is *supposed* to work. The main point everyone loves to drill into our youth is that "democracy is voting." However, I believe history has eroded the meaning behind the last part of that phrase. I believe that democracy is voting *on principles*. That is why I propose to screw voting.

One part of those democratic principles is that if a politician or party lies to me, cheats me, steals from me, or otherwise angers me I am permitted within five years to throw them out.

When I went to the *Forum for Young Albertans*, this is what I was told by the politicians there: "If we do something wrong you can vote *against* us." Of course this ignores that I may be forced to vote "for" someone who has also done wrong



simply because I know their opponents will do worse, but it still seems like a laudable principle, eh?

However, once they do wrong, instead of taking responsibility and resigning or accepting their fate, they sidestep the issue. Recently, we found out that the finances of the country had been misappropriated and put into the coffers of supporters of the ruling party, which sounds more like something out of a dictatorship in a third world country than what should be going on in Canada.

"I know every vote counts, (and) I do not say this because I'm apathetic. No, I say it because it is the only democratic thing to do."

However, the man in charge of finances did not resign; in fact, he set his sights on even higher goals! While he could not police and control the finances while they were under his control and prevent them from being misused, he yet believes he can control and police the entire scope of all the portfolios without similar mishaps. However, even if he could perhaps improve himself and better watch over the finances and the rest of the country's concerns if elected, this still does not absolve him of responsibility.

When Willi Brandt found out one of his staff was a communist spy he did not let his Minister of the Interior take the fall, neither did he blame anti-communists who might have allowed that spy into Brandt's service in order to discredit him. Instead, Willi Brandt resigned and took full responsibility for what had happened.

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While I was in the *Royal Canadian Army Cadets* I learned the same principle, every leader is responsible for not only the achievements, but also the mistakes of whoever is under their command. If 14-, 15-, and 16-year-old teenagers can learn that in Cadets, why is it that the man who is our chief executive does not understand that principle? It is obvious from this, that to adhere to ethics means most definitely that I must follow the advice that Dr. Ken Nicols once gave me, "if a government or its leader betrays you or your principles, deny them your vote and your voice."

However, that does not explain why I say "screw voting" entirely, for I only explained why I am going to screw voting for one party. It was that realization about the one party which led me to my overall decision though. Dr. Nicols meant his comment to apply to only a specific party, but I realize now that it applies also to the system itself.

So if a system betrays us or our principles, we should deny it our vote and our voice. And the present system has most assuredly betrayed at least my principles, if not the principles that Canada was founded on and the principles which Canadians hold dear.

This lack of responsibility pervades the entire system and is not an aberration, but rather the norm. In such a case it must be that the system is and has been creating the situations and circumstances which promote this lack of principles. It is not just about the principles of action; it is also about the principles of election. No longer can I say with certainty what either of the two major parties will do if in power.

Military men know that "no plan survives contact with the enemy" and political leaders used to know the same about election plans. Once you are elected, your promises will change, but your constituents should know roughly what you want to do. Yet with the campaign promises of both parties, there is no honesty in realizing that events may

change what they promise, instead they dishonestly imply to the people that everything will go exactly as they plan.

Consequently, when told the Conservatives will spend 1.6 billion dollars on the military, what am I supposed to figure from that? In the past I could have known they would probably spend at least that much, or that that would be the most they would spend and I would know why they felt the military needed such funding and where it would be directed. Now

"It angers and grieves me to know that we have come to this point, that the country which our soldiers have and still do fight for is ruled by a system without principle. I am appalled that I am left with no other choice."

they don't bother with details and instead just give dollar signs.

They sell the price rather than the product.

Obviously the price will change, as circumstances will change, but the principle of acknowledging this and giving us the pillars of their parties is gone, instead we only get dollar signs. The parties have gone from being objective with definite plans, to being "all relative." Now all I can know is how they plan to spend in relation to each other, but if extenuating circumstances come, I will have no idea what they will do.

Is it any wonder that Canadians hesitate to identify themselves with political parties? Is it any wonder so many don't vote?

If a hockey team was to advertise solely on the basis of its ticket price and ignore its players, its coaches, and its history could they really hope to obtain many fans? No, the teams know that people identify with players, coaches, playing styles, and the history of the team; ticket prices just won't make fans.

Unfortunately, political parties don't see this same problem and instead keep on harping on the 'ticket price' rather than the substance of their parties.

This is a product of the whole system, and until we change the system we are going to be left with a problematic turn of events. Like a sport focused on ticket prices rather than the game, so is our political system focused on dollar signs rather than on principles.

To change will require commitment not only by the political parties, but also by the media outlets which serve to help build this system. A media which focuses on numbers before principles and the biases of individual reporters will never serve to help build a proper democracy. What is especially frightening is that the government serves to subsidize the media, in any other country such a thing would be called (by our own media outlets even) bribery or corruption, but in Canada it is called "preserving Canada."

Such tight ties between one of the major checks built into our democratic system and the government is neither prudent nor principled, but such is the plight we have allowed ourselves to fall into.

Obviously change will then require some hard work to eliminate possible weaknesses in our system as well as unprincipled sections of our system. Until such changes occur in both the parties and the media, I have realized that a vote for any of the major parties is a vote for the present system as much as a vote for a specific candidate is a vote for their party.

So unless I find an independent candidate who is indeed outside this system and trying to change it, I will screw voting. On June 28th (2004) I will take my ballot and destroy it, nullify it, and otherwise forgo my vote. It angers and grieves me to know that we have come to this point, that the country which our soldiers have and still do fight for is ruled by a system without principle. I am appalled that I am left with no other choice. But unless such steps are taken, the sacrifices of so many Canadian men and women will be in vain and though I might be the only one to take such a step.

I know that without the leaf there is no forest. Without my step, there will not be change. That is why I am choosing to "screw voting." {end}

"FOLLOW THE MONEY..."

- Paul McKeever

B.Sc.(Hons), M.A., LL.B.

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 Freedom Party.

The following essay was originally published in booklet form by the *Freedom Party of Canada*, under the title: "Healthy, Wealthy & Wise - A Plan to Improve Canadian Health Care, Retirement and Education." (Copyright 2003, Paul McKeever)

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: textbooks. 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

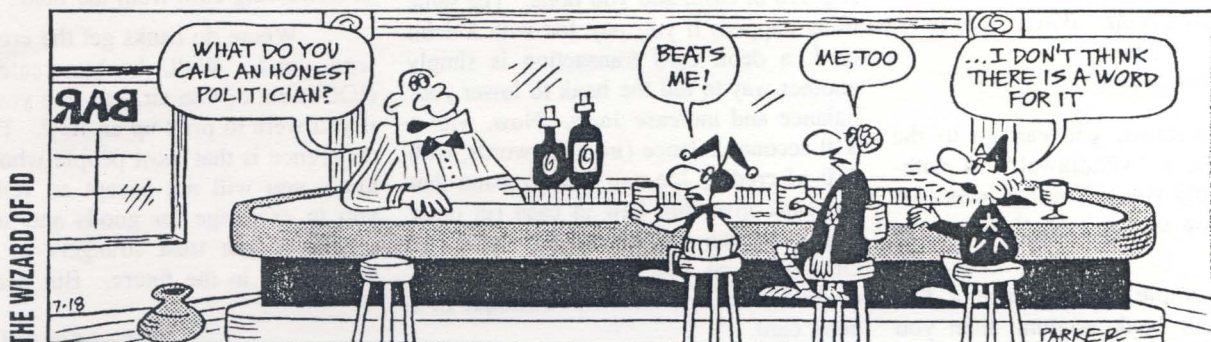
payments to pay down debt. To pay down debt, governments must either *increase* taxes or *reduce* spending (e.g., spending less on health care, education, etc.). However, right now, Canada is already one of the most heavily taxed countries in the industrialized world. And, whereas there clearly is some 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."

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SOLUTION: REPAIRING CANADIAN MONEY AND BANKING LAWS

In the last section of this essay, 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 term 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 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 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 a 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 a debit card. Here's the critical thing to notice: because Canadians are willing to accept credit in exchange for goods and 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 they lend 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

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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, and your IOU is not, and the 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 the 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 on you? Well, since 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 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:

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

***"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."***

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 help-

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ing 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?

"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 for an IOU that is money."

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.

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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 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 mon-

ies 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 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

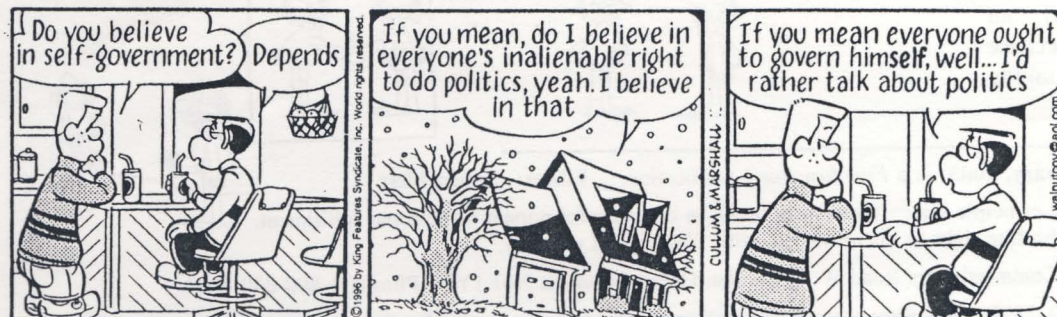
"Whoever adds dollars to the money supply adds dollars to his own pocket and takes buying power out of your pocket by devaluing the dollars in your pocket."

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?

Walnut Cove



Some might think that, because the government has not done this already, it would not work. They would be wrong.

In 1933 and in 1935, the US government faced a horrible banking crisis. There was a run on the banks;

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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 the 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.

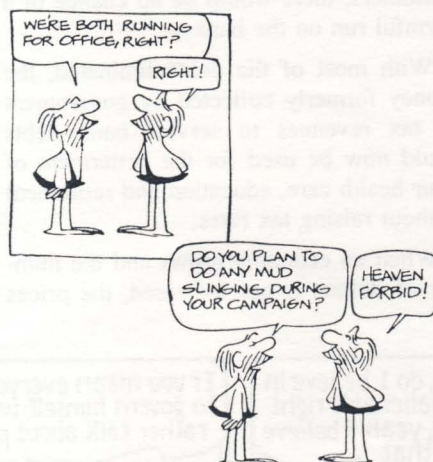
Consider, also, this true story. A few short years ago, I once spoke with former Liberal Canadian Deputy Prime Minister Paul Hellyer. He had just started the *Canadian Action Party*. Mr. Hellyer has similar objections to the banks being permitted to create and lend out credit, but

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 breathe 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. {end}

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Freedom Party is founded on the principle that: "Every individual, in the peaceful pursuit of personal fulfillment, has an absolute right to his or her own life, liberty, and property."

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