

Woolly Budget

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Too often I hear how strong our Canadian Banks are in comparison to other countries, Bloomberg¹ May 2, 2012 announces "Canadians Dominate World's 10 Strongest Banks"

As far back as Oct 2008, CTV News reported Prime Minister Harper on the likelihood of bank bailouts in Canada. "There is no question, no possibility, of bailing out the banks," he said at a campaign stop in Richmond, B.C. "The banks aren't seeking to be bailed out, the government won't be bailing them out. That isn't going to happen."

So today, we can understand how our Prime Minister is planning to ensure that it doesn't happen. In his government's recent federal budget titled *Economic Action Plan 2013*, on pages 144 states:

The Government proposes to implement a bail-in regime for systemically important banks. This regime will be designed to ensure that, in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through the very rapid conversion of certain bank liabilities into regulatory capital. This will reduce risks for taxpayers.³

So the Prime Minister kept to his promise of no bail outs; instead it's going to be a "bail-in."

First, this says a few things doesn't it? It's an admission that our government is at fault for not putting in place a mechanism so Canadian banks cannot and should not ever deplete their capital. Second, they claim this new scheme "bail-ins," is to protect the taxpayer when it's really to protect the bankers and government mismanagement. So what's a bail-in then?

The wool they are trying to pull over your eyes is this: instead of having the taxpayer pay for the bail-out due to poor management of the banks and poor decision making of the government, the government is now going to allow the banks (when they run into trouble) to default on what they owe to certain depositors. Mind you, they word it in a fashion which almost sounds legitimate: "...the very rapid conversion of certain bank liabilities into regulatory capital." Translated, that actually says, "...before you realize what's happening we are going to confiscate certain people's deposits and tell the world banks our capital is secure." Interesting?

So, what's actually happening that our government would dare to make such utterly irresponsible decisions? What does this new "template" for protection really say about our government's confidence in our banking system? On April 5, 2013, StockhouseBlog² put it this way: "Going forward, this is expected to be the "template" for dealing with risky, over-levered banks and the countries which support them."

Now if *Bloomberg* is right in that Canada dominates the world's banking system, then what does that say about the state of the world's banking system and monetary stability worldwide?

They pull the wool over the eyes of the sacrificial lambs (taxpayers and depositors) to prevent them from discovering that in reality it's the lucrative banks that are asking for protection and the scheme gives the government some type of last-ditch defence.

The Christian Heritage Party would take the following steps to protect taxpayers and depositors:

- 1) We would reinstate the statutory reserve system that was abolished by Prime Minister Brian Mulroney in 1991. That would control the amount of money artificially created by the charter banks. These reserves would require the charter banks to retain a percentage of their customer's deposits to offset the loans issued by the banks. This step alone would reduce the risk of any bank depleting its capital.
- 2) We would also begin to reinstitute the Bank of Canada as the primary source for needed government funds. Today, the charter banks create our money as interest-bearing debt, a dubious process that devalues our currency, diminishes our standard of living, and that must be eventually paid back with taxpayers' funds, along with continuously compounding interest.

The transition to greater reliance on the Bank of Canada for new, interest-free money would protect the value and integrity of our currency, while the requirement for capital reserves would control the amount of debt-money created by the commercial banks. We see this as a double-edged sword for fighting debt and dependency. Securing the savings of Canadian depositors and protecting taxpayers from yet more cash grabs is important work and we're ready to take on the charter banks to do it.

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Footnotes

¹ www.bloomberg.com/news/articles/2012-05-02/canadians-dominate-world-s-10-strongest-banks

² www.stockhouse.com/opinion/independent-reports/2013/04/05/caveat-depositor