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Funding Public Health Care With a Publicly Owned Bank

How Canada Did It

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The story goes that Churchill offered a woman 5 million pounds to sleep with him. She hedged and said they would have to discuss terms. Then he offered her 5 pounds. "Sir!" she said. "What sort of woman do you think I am?" "Madam," he replied, "We've already established that. Now we're just haggling over the price."

The same might be said of President Obama's health care bill, which was sold out to corporate interests early on. The insurance lobby had its way with the bill; after that they were just haggling over the price. The "public option" was so watered down in congressional deal-making that it finally disappeared altogether.

However, the bill passed both Houses by razor-thin margins, and the stunning loss on January 19 of the late Ted Kennedy's Democratic seat to a Republican may force Obama to start over with his agenda. The good news is that this means there is still a chance of getting legislation that includes what Obama's supporters thought they were getting when they elected him – a universal health care plan on the model of Medicare.

That still leaves the question of price, but all industrialized countries except the United States have managed to foot the bill for universal health care. How is it that they can afford it when we can't? Do they have some secret funding source that we don't have?

In the case of our nearest neighbor Canada, the answer is actually that they do. At least, they did for the first two decades of their national health service — long enough to get it up and running. Now the Canadian government, too, is struggling with a mounting debt to private banks at compound interest; and its national health service is suffering along with other public programs. But when Canada first launched its national health service, the funding came from money created by its own central bank. Canada's innovative funding model is one that could still be followed by a President committed to deliver on his promises.

The Canadian National Health Service Today

Despite what you may have read in the corporate-controlled press, studies show that Canadians are generally happy with the care they receive; and they live an average of 2.5 years longer than Americans. They receive free health service for all diagnostic procedures, hospital and home care deemed medically necessary. People can choose the general practitioners they want; there are no deductibles on basic care; and co-pays are low or zero.

Care continues despite changing jobs, and no one is excluded for having a pre-existing condition. Drug prices are negotiated by the government and are paid with public money for the elderly and homeless. For the rest of the population, cost-sharing schemes are arranged between private insurers and provincial governments, with most provinces requiring families to pay small monthly premiums (generally around $100 for a family of four).

According to a 2007 study, the government pays for more than two-thirds of all Canadian health care costs. The US government, by contrast, pays for less than half of these costs. In 2007, the US spent a staggering 16% of GDP on health care compared to 10% in Canada. Health costs paid for out-of-pocket by Canadians amount to less than $300 per capita annually.

But while that arrangement may look good to people in the U.S., it is only a shadow of Canada's former system. Between 1990 and 2007, the portion of health care costs covered by the Canadian government fell a dramatic 74.5%, chiefly due to a change in how the program was financed. In its early years, Canada's public health system was funded under a provision of the Bank of Canada Act allowing the Bank to create the money to finance federal, provincial, and municipal projects on a nearly interest-free basis.

Money Created the Old-fashioned Way – by the Government Rather than the Banks

What was extraordinary about the Bank of Canada, however, was not so much that it created money on its books as that it managed to wrest that power away from the private banking monopoly. All banks actually create the money they lend simply with accounting entries. This fact was confirmed by Graham Towers, the first governor of the Bank of Canada, in hearings in 1935. Asked whether banks create "the medium of exchange," he replied:

"That is right. That is what they are there for. . . . That is the banking business, just in the way that a steel plant makes steel. The manufacturing process consists of making a pen-and-ink or typewriter entry on a card in a book. That is all."

The decision to fund government programs through a publicly-owned central bank was driven by a crisis much like that in the U.S. today. The country was in the throes of the Great Depression, and the money supply had radically contracted, causing businesses to close and unemployment to soar. Many Canadians blamed the private banks for making conditions worse by failing to extend loans.

Prior to the 1935 Bank of Canada Act, private banks in Canada issued their own banknotes, which were regulated less by the government than by the Canadian Banker's Association. The country's largest private bank, the Bank of Montreal, served as the government's de facto banker. By the eve of the Great Depression, interest on Canada's public debt had reached one-third of government expenditures, and many officials believed that the government needed a central bank to come up with the money to pay its foreign debts. A Royal Commission was put together in 1933 which supported creating a Bank. A major debate then ensued over whether the central bank should be public or private.

Much of the credit for the Canadian public banking model goes to a Canadian mayor named Gerald Gratton McGeer. He has been largely lost to history, and his book The Conquest of Poverty has been long out of print; but according to local historian Will Abrams, it was

McGeer's lengthy presentations to the Ottawa Common Banking Committee that clarified for bankers, economists and legislators how well a publicly-owned bank could work. McGeer's model was based on the public banking system of Guernsey, an island state between Britain and France. The Guernsey government began issuing currency to pay for public works as far back as 1816. To this day, its system of publicly-issued money has allowed its inhabitants to maintain full employment and enjoy quality infrastructure, while paying modest taxes and without suffering from price inflation.

The Bank of Canada became publicly-owned in 1938 under Prime Minister William Lyon Mackenzie King, a staunch supporter of McGeer's vision for a public central bank. King maintained:

"Until the control of the issue of currency and credit is restored to government and recognized as its most conspicuous and sacred responsibility, all talk of the sovereignty of Parliament and of democracy is idle and futile. Once a nation parts with the control of its currency and credit, it matters not who makes that nation's laws. Usury, once in control, will wreck any nation."

What Can Be Done by a Government Issuing Its Own Currency

Along with New Zealand, Australia and other progressive countries, Canada proceeded to fund infrastructure and social programs using national credit issued by its own central bank. The potential of this new credit tool for the Canadian economy was first demonstrated in World War II, in which Canada ranked fourth among the Allies for production of war goods. Under the Returning Veterans Rehabilitation Act of 1945, some 54,000 returning vets were given financial aid to attend university. The Department of Veterans Affairs provided another 80,000 vets with vocational training, and the Veterans' Land Act helped 33,000 vets buy farmland.

After the War, the Industrial Development Bank, a subsidiary of the Bank of Canada, was formed to boost Canadian businesses by offering loans at low interest rates. The Bank of Canada also funded many infrastructure projects and social programs directly. Under the 1950 Trans Canada Highway Act, Canada built the world's longest road and the world's longest inland waterway (a joint venture with the United States), as well as the 28-mile Welland Canal. People over 70, regardless of income or assets, received $40 a month from the government under the Old Age Security Act; and children under 15 got a tax-free allowance of $5-$8 a month.

Canadians first began talking about a government-run health system during the Great Depression, but at that time the government felt it could not afford the service. Various provincial programs were launched in the 1940s, often to care for returning veterans. But it was not until 1957 that the Canadian federal health care system was actually initiated, with funding from the Bank of Canada. A Hospital Act was passed under which the federal government agreed to pay half its citizens' bills at most hospitals; and a Diagnostic Services Act gave all Canadians free acute hospital care, as well as lab and radiology work. In 1966, the Hospital Act was expanded to cover physician services. In 1984, the Canada Health Act ensured that no medically-necessary care would include private fees or a charge to citizens.

A Misguided Economic Policy Kills the Golden Goose

For three decades, Canada paid for these projects through its own government-owned central bank, without sparking price inflation. Then in the late 1960s, a period of "stagflation" set in –rising prices accompanied by high unemployment. According to former Canadian Defense Minister Paul Hellyer, these elevated prices were the result of "cost-push" inflation, which could be traced to a combination of causes. Big labor unions, big government, and big corporations all negotiated top dollar for their contracts. In 1971, President Richard Nixon took the U.S. dollar off the gold standard, putting a strain on currencies in international markets. In 1974, the price of oil quadrupled, following a secret deal between Henry Kissinger and the OPEC countries in which the latter agreed to sell their oil only in U.S. dollars and to deposit the dollars in U.S. banks. Countries without sufficient dollar reserves had to borrow from these banks to buy the oil they needed, setting a debt trap that sprang shut when U.S. Federal Reserve Chairman Paul Volcker raised interest rates to 20% in 1980.

These increased costs drove up prices worldwide; but in Canada, price inflation was blamed on the government drawing money from its own central bank. Under the sway of the classical monetarist theory promoted by U.S. economist Milton Friedman, the Canadian government abandoned its successful experiment in self-funding and began borrowing from private international lenders. These private banks created "credit" on their books just as the Bank of Canada had done; but they lent it to the government at compound interest, creating a soaring national debt. Today, interest on the debt is the Canadian government's single largest budget expenditure — larger than health care, senior entitlements or national defense.

The provision of government-paid services is gradually being undermined by a combination of cuts to funding and provision of private services. Canada's health care system is suffering along with the rest of the economy, necessitating the cutbacks and long waits for elective procedures described by critics. But the achievements of an earlier debt-free era attest to the sustainability of a system of public health care funded with money issued through the government's own central bank.

Goosing the Economy Again

The Bank of Canada was created to end the hardships of the depression and give the government full responsibility for the health of the economy. As it turned out, the Bank also funded the health of the Canadian people.

The U.S. government could fund universal health coverage in the same way. Ideally, it would nationalize the Federal Reserve or set up a separate government-owned bank for this purpose. However, the same result could be achieved by borrowing from the privately-owned Federal Reserve, which always rebates the interest to the government after deducting its costs. The federal debt is never paid off but is just rolled over from year to year. Interest-free loans rolled over from year to year are the equivalent of debt-free government-issued money.

Contrary to popular belief, adding to the money supply in this way would not be inflationary. Inflation results when "demand" ("money") exceeds "supply" (goods and services). In this case the new money would be used to create new goods and services, so supply would be kept in balance with demand. The result would particularly not be inflationary today, when we are suffering from a deflationary crisis. As in the Great Depression, money is not available to buy products and fund programs because the money supply itself has collapsed. The solution is not to slash programs but to put more money into the economy; and that can be done by authorizing the government to create the funds it needs through its own bank.

***Ellen Brown** developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her eleven books include Forbidden Medicine, Nature's Pharmacy (co-authored with Dr. Lynne Walker), and The Key to Ultimate Health (co-authored with Dr. Richard Hansen). Her websites are www.webofdebt.com, www.ellenbrown.com, and www.public-banking.com.*

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