

5 DUDES

Canadian Banking Exposé

A Critical Analysis of Money Creation,
Corporate Power, and Systemic
Inequality

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Author's Note: Stripping the Corporate Armor

The title of this book, *5 Dudes*, is a deliberate stylistic choice. It is meant to strip away the corporate armor, the polished PR, and the intimidating prestige of Bay Street. When we talk about "The Big Five," "The Markets," or "The Economy," we often forget that there is no invisible, omniscient hand turning the dials.

At the apex of Canada's \$7.36 trillion banking oligopoly are simply five individuals. Five unelected, ordinary humans—five dudes—who happen to sit in the chief executive offices of our largest commercial banks. By reducing them from "banking titans" to their fundamental ordinariness, the sheer absurdity of our system becomes glaringly apparent: Who are these people, and why have we allowed them to wield unaccountable, sovereign-level power over the financial lives of millions of Canadians?

Foreword

This book examines a fundamental but largely invisible system: how money is created in Canada, who controls that process, and what consequences flow from that concentration of power.^[1] The analysis is rooted in economic mechanics, historical precedent, and contemporary data.

Readers unfamiliar with banking may find certain concepts challenging; however, the core argument is straightforward: a tiny executive elite wields enormous influence over the financial lives of millions through a system that generates private profits while distributing risks across the public.

Understanding this system is not an exercise in conspiracy theory. It is an exercise in reading financial statements, following the money, and asking difficult questions about power, equity, and democratic governance.

The argument is neither left nor right in traditional terms. It is structural. The system operates exactly as designed—to concentrate wealth and power upward. Awareness of this design is the first step toward imagining alternatives.

Introduction: The Invisible Architecture of Canadian Finance

Walk into a bank in any Canadian city. Behind the glass and polished counters lies a deceptively simple transaction: you borrow money, the bank creates a deposit in your account, and you owe interest. This daily occurrence masks one of the most consequential facts about modern economies: the majority of money in circulation is not created by governments or central banks, but by private commercial banks issuing loans. [2]

In Canada, this system concentrates extraordinary power in the hands of five individuals—the CEOs of the Big Five banks. These executives are not household names. Few Canadians know their faces. Yet their decisions ripple through the entire economy, shaping housing markets, corporate strategy, investment patterns, and the debt obligations of millions.

This concentration of power is not accidental. It is the product of deliberate policy choices made over decades: decisions to deregulate financial markets, to permit bank mergers, to exempt banks from antitrust enforcement, and to structure executive compensation to reward profit maximization above all else.

Understanding the mechanics of money creation, public debt, executive incentive structures, and the historical roots of this system is essential to envisioning reforms that could democratize access to credit and reduce systemic inequity.

Three Central Questions

This book answers three interconnected questions:

1. **How is money created?** Not through printing presses, but through digital ledger entries that reflect new debt. ^[3]
2. **Who benefits?** The architects of the system—bankers, executives, and early recipients of newly created credit. ^[4]
3. **Who bears the cost?** The public, through inflation, interest payments, and systemic exposure to financial instability. ^[5]

Chapter 1: The Mechanics of Money Creation

The Modern Money Myth

Most people believe that money originates in one of two ways: either governments print it, or central banks issue it into circulation. Neither is accurate. In modern economies like Canada's, approximately 97% of the money supply consists of bank deposits—digital records of debt.^[6] When a bank issues a loan, it simultaneously creates a deposit. Both appear on the balance sheet: an asset for the bank (the loan owed) and a liability (the deposit the borrower can spend).

This is not a side effect of banking. It is the fundamental mechanism through which commercial banks create money.^[7]

How Loans Create Money

Consider a mortgage application: A family seeks to borrow \$500,000 to purchase a home. The bank does not withdraw this money from a vault or transfer it from other depositors' accounts.

Instead, the bank's computer system performs two simultaneous entries:^[8]

- **Debit side:** The borrower's account increases by \$500,000 (a new deposit).
- **Credit side:** The borrower owes \$500,000 (a new loan).

This is new money, created from nothing but the bank's assessment of creditworthiness and the borrower's promise to repay. This money is created *ex nihilo*—it comes into being at the moment the loan is issued.^[9]

This process happens millions of times daily across Canadian banks. Each mortgage, auto loan, business credit line, and student loan generates new money. Over time, this process inflates the money supply, but it also creates an obligation: the borrower must repay more than they borrowed (principal plus interest), requiring even more money creation in future periods to service the growing debt.

Visualizing Commercial Money Creation

graph TD
A[Borrower Applies for \$500,000 Loan] --> B[Bank Approves Creditworthiness]
B --> C[Computer Ledger Entry Created]
C --> D[Liability: New Deposit of \$500,000]
C --> E[Asset: New Debt of \$500,000]
D --> F[New Purchasing Power Enters Economy]
E --> G[Obligation to Repay Principal + Interest]
F --> H[Money Supply Inflates]
G --> I[Future Wealth Transfer to Bank]

The Bank of Canada and the Illusion of Central Control

The Bank of Canada, established in 1935, serves as Canada's central bank.^[10] Its responsibilities include issuing physical currency (banknotes), acting as banker to the federal government, managing the country's foreign exchange reserves, and executing monetary policy through interest rate decisions.
[11]



The Bank of Canada Building in Ottawa. Despite popular belief, physical currency issued by the central bank represents less than 3% of the total money supply.

Many assume the Bank of Canada creates most Canadian money. It does not. Physical currency represents less than 3% of the total money supply.^[12] The Bank of Canada's primary tool for influencing the money supply is the *policy interest rate*—the rate at which commercial banks borrow from one another overnight. By adjusting this rate, the Bank of Canada indirectly influences how much banks are willing to lend, and therefore how much money they create.^[13]

But the Bank of Canada does not directly control the quantity of money created by commercial banks. That power resides with the banks themselves, constrained only by regulatory capital requirements, risk management models, and market perception.^[14]

Fractional Reserve Banking vs. Capital Requirements

Traditional economic textbooks describe fractional reserve banking as a system where banks must hold a fixed fraction of deposits in reserve. This description is technically inaccurate for modern Canada. Canadian banks have a statutory reserve requirement of zero percent. ^[15]

Instead of holding traditional deposit reserves, Canadian banks are regulated by capital adequacy requirements (primarily the Basel III framework enforced by the Office of the Superintendent of Financial Institutions, or OSFI). This means they must maintain specific ratios of equity capital to risk-weighted assets, alongside liquidity coverage ratios (LCR) and net stable funding ratios (NSFR). While these regulations ensure a buffer against losses, they do not function as a hard mathematical ceiling on money creation in the way traditional fractional reserve theory suggests. ^[16]

In Canada's system, banks can create as much money as they can justify through credit risk models and capital acquisitions. During economic booms, when banks are confident in lending and regulators are lenient, money creation accelerates. During crises, it contracts sharply. The system is inherently pro-cyclical, amplifying booms and busts.

The Cantillon Effect in Motion: Who Gets the Money First?

One of the most underappreciated consequences of money creation is *who receives newly created money first*. This timing matters enormously.^[17]

Imagine a bank creates \$100 million in new money through commercial real estate loans. A developer borrows this money to acquire land and construct a building. The developer immediately has \$100 million in purchasing power. They use it to hire contractors, purchase materials, and pay architects. The construction sector experiences immediate demand.

Meanwhile, the rest of the economy does not yet know that \$100 million in new money has been created. Prices in the broader economy remain unchanged. The early recipients of this new money can purchase assets, hire labor, and acquire resources at existing prices. They gain purchasing power before inflation erodes its value.^[18]

Later, as this \$100 million circulates through the economy—workers spend wages, suppliers increase prices—inflation rises. The general public, which did not receive any of the newly

created money, faces higher costs for the same goods. They have effectively subsidized the profits of those who received the new money first.

This is the **Cantillon Effect**, named after Richard Cantillon, an 18th-century economist who first described it.^[19] It is a mechanism of wealth transfer embedded in the structure of modern money creation. In practice, the Cantillon Effect means that those closest to the spigot of credit creation—large corporations, real estate developers, financial institutions—benefit disproportionately.^[20]

Digital Money and the Velocity Problem

Modern money creation raises another consequence: the velocity of money. Velocity measures how quickly money circulates through the economy. If the money supply increases but velocity declines (people and businesses hold money rather than spend it), inflation may not rise proportionally.

From 2008 to 2020, central banks worldwide created trillions in new money through quantitative easing. The monetary base expanded dramatically. Yet consumer inflation remained subdued in many developed economies. Why? Because much of this new money was captured by financial markets rather than

flowing into goods and services. Banks, corporations, and wealthy individuals accumulated financial assets. Velocity declined.

However, during periods of strong lending and economic growth, velocity accelerates. New money flows quickly into wages, spending, and investments. In recent years (2020–2023), as banks increased lending after pandemic shutdowns, velocity accelerated, and consumer inflation surged.

The key point: money creation does not automatically translate to consumer inflation. The path money takes through the economy determines its inflationary impact. But over time, persistent money creation without corresponding growth in productive capacity leads to inflation, eroding the purchasing power of savers and fixed-income earners.

Chapter 2: The Big Five Banks and Their Absolute Dominance

The Oligopoly Structure of Canadian Banking

Canada's banking system is among the most concentrated in the world. The Big Five banks control the vast majority of total banking assets in the country. Following major consolidations—including Royal Bank of Canada's acquisition of HSBC Canada in early 2024—the concentration of financial power has reached historic highs. ^[21]

Institution	Total Assets (Approx. 2024/2025)	Market Position & Notes
Royal Bank of Canada (RBC)	~\$2.0 Trillion	Largest by market cap and assets (Post-HSBC acquisition)
Toronto-Dominion Bank (TD)	~\$1.7 Trillion	Second largest; constrained by 2024 US regulatory asset caps
Scotiabank	~\$1.46 Trillion	Strong international footprint in Latin America
Bank of Montreal (BMO)	~\$1.3 Trillion	Established 1817; expanded significantly in US markets
CIBC	~\$0.90 Trillion (\$900 Billion)	Highly concentrated in domestic Canadian mortgages

Combined, these five banks control approximately **\$7.36 trillion** in assets—equivalent to far more than double Canada’s annual GDP.^[22] This concentration is extreme. The United States, with a population roughly 10 times larger, has hundreds of banks. Canada’s Big Five structure gives each institution disproportionate market power.^[23] When factoring in Desjardins (the Quebec credit union giant with ~\$400 billion in assets) and other credit unions, the Big Five still control roughly 90% of the entire \$8.16 trillion domestic financial landscape.

Canadian Banking Asset Concentration (Approx. \$8.16 Trillion)

pie title Near Total Oligopoly Control "RBC (\$2.0T)" :
 2000 "TD (\$1.7T)" : 1700 "Scotiabank (\$1.46T)" : 1460
 "BMO (\$1.3T)" : 1300 "CIBC (\$0.9T)" : 900 "Desjardins
 (\$0.4T)" : 400 "Other Credit Unions/Banks (\$0.4T)" :
 400



The Toronto skyline, physically dominated by the glittering

Market Dominance and Political Consequence

The dominance of the Big Five manifests in several concrete ways:^[24]

Credit Allocation: Approximately 85% of all business credit in Canada flows through the Big Five.^[25] This means five executive boards decide which industries, companies, and entrepreneurs receive capital. A startup seeking venture capital may approach multiple sources, but a small business seeking a line of credit has few alternatives. If the Big Five decline to lend, the business faces severely constrained options.

Deposit Concentration: The Big Five hold over 80% of all deposits. Canadians have no practical alternative for everyday banking. While online-only banks and credit unions exist, they are significantly smaller and offer fewer services.^[26]

Mortgage Dominance: The Big Five originate approximately 90% of residential mortgages.^[27] This gives them extraordinary control over housing markets. If banks decide to tighten lending

standards or raise mortgage rates, housing becomes less affordable across the country.

Policy Influence: The Big Five banks maintain permanent lobbying offices in Ottawa and provincial capitals. They employ dozens of government affairs professionals. When the Big Five speak, governments listen. [28]

The Revolving Door: Banks, Government, and Regulatory Capture

A consistent pattern emerges when examining the careers of banking executives and government officials: rapid movement between the financial sector and regulatory positions. This revolving door ensures that the perspectives of the banking elite are inherently baked into federal policy.

Quintessential examples include:

- **Mark Carney:** The quintessential embodiment of the finance-to-government pipeline. After a 13-year career as a senior executive at Goldman Sachs, Carney was appointed Governor of the Bank of Canada (2008–2013), then Governor of the Bank of England (2013–2020), and

ultimately vaulted into the role of Prime Minister of Canada in March 2025 (initially unelected, having won a party leadership convention). [29]

- **Tiff Macklem:** Served as Deputy Governor at the Bank of Canada (2010–2014), moved to academia as Dean of the Rotman School of Management (deeply integrated with Bay Street), and then returned as the current Governor of the Bank of Canada (2020–present).
- **Bill Morneau:** Prior to serving as Canada's Minister of Finance, he was the CEO of Morneau Shepell, a massive human resources and financial consulting firm deeply tied to the corporate banking ecosystem.

This revolving door creates regulatory capture. The result is that banking regulation is highly permissive. Capital requirements, conduct standards, and anti-monopoly rules are set in close consultation with the banks themselves. Banks effectively write their own rules.

Chapter 3: Executive Compensation and the Misalignment of Incentives

The Five CEOs: Unelected Power

The Big Five are technically owned by millions of shareholders, many of whom are ordinary Canadians with retirement savings. But daily decision-making is concentrated in the hands of the CEOs and their executive teams. These individuals are not elected. They answer to boards of directors composed primarily of other corporate executives, creating an insular environment disconnected from public accountability. ^[30]

The leaders of the Big Five navigate global markets, but are compensated at breathtaking scales: ^[31]

- **Dave McKay (RBC):** Joined RBC in 1988 as a computer programmer, became CEO in 2015. In 2024, his total compensation was boosted to approximately \$17 million.
- **Raymond Chun (TD):** Appointed CEO effective February 1, 2025. He replaced Bharat Masrani, who historically earned upwards of \$15 million annually but had his 2024

compensation slashed by 89% to ~\$1.5 million following a catastrophic anti-money laundering (AML) scandal. [32]

- **Scott Thomson (Scotiabank):** Assumed the CEO role on January 1, 2023, following the retirement of Brian Porter. Thomson commands compensation in the range of \$12.9 million annually.
- **Darryl White (BMO):** Joined BMO in 1994, became CEO in 2017. Compensation sits around \$14.7 million annually.
- **Victor Dodig (CIBC):** Joined CIBC as an executive in 2013 and became CEO in 2014. Compensation is roughly \$13.5 million. Dodig announced his retirement for late 2025, passing the baton to Harry Culham. [33]

These executives earn, on average, \$14 million annually, not including lucrative pension contributions and historical stock accumulations. For context, an annual haul of \$14 million is:

- **350 times** the median Canadian individual income (~\$40,000) [34]
- **200 times** the average Canadian worker's salary (~\$70,000) [35]
- **1,000 times** the minimum wage in most Canadian provinces (~\$14,000 annually)

How Banks Really Make Money

Before analyzing why executives are paid these multiples, it is critical to understand how the revenue is generated. ^[36]

1. **Net Interest Margin (NIM):** The spread between interest rates charged on loans and paid on deposits. With trillions in assets, a simple 2% or 3% margin generates billions in pure revenue.
2. **Fees:** Overdraft fees, foreign exchange fees, wire transfer fees, mutual fund management expense ratios. A captive customer base generates an avalanche of fee revenue.
3. **Investment Banking & Trading:** Underwriting stocks, advising on mergers, and trading securities on the bank's own account.

None of this requires creating inherent value in the productive economy. A bank generates immense profit by widening its deposit-loan spread, hiking administrative fees, or engaging in aggressive lending. ^[37]

Incentive Misalignment and Moral Hazard

The structure of executive compensation heavily emphasizes short-term financial performance. A CEO is compensated massively when bank credit expands, stock prices rise, and dividends increase. [38]

These incentives do *not* reward long-term macroeconomic stability or public welfare. This creates an extreme **moral hazard**. [39] A CEO who expands lending aggressively and widens spreads will increase profitability and secure tens of millions in personal bonuses. If this aggressive lending leads to a systemic crisis five years later, the CEO has already cashed out.

The Executive Moral Hazard Cycle

graph LR
A[Executive Chooses Aggressive Lending & Risk] --> B[Bank Short-Term Profits Surge]
B --> C[Stock Price & Dividends Rise]
C --> D[CEO Secures Massive Bonuses & Options]
D --> E[Executive Exits or Retains Wealth]
A -. F[Delayed Systemic Defaults & Crises] .-> F
F --> G[Public Absorbs the Bailout/Losses]

style D fill:#c5a059,stroke:#333,stroke-width:2px,color:#fff
style G fill:#e53e3e,stroke:#333,stroke-width:2px,color:#fff

Asymmetric Risk: Executives Win, Public Loses

When banks take excessive risks and crises occur, the public absorbs the losses. ^[40]

- **2008 Financial Crisis:** While heralded as "safe," Canadian banks required massive implicit and explicit government support. Through the Insured Mortgage Purchase Program (IMPP), the Canada Mortgage and Housing Corporation (CMHC) purchased \$125 billion in mortgages from the banks, injecting immediate liquidity and effectively subsidizing bank risk. ^[41]
- **TD's 2024 AML Catastrophe:** In a stark display of prioritizing rapid growth over compliance, TD Bank allowed illicit funds to flow through its US operations, including proceeds from fentanyl trafficking. The bank was hit with a historic \$3.09 billion fine and an asset cap. While the outgoing CEO took a steep pay cut, the broader systemic damage to market integrity and community safety from laundered drug money is borne by the public. ^[42]
- **Inflation & Defaults:** When banks expand lending excessively to chase quarterly profits, asset inflation rises. Savers lose purchasing power. When the bust comes,

workers lose jobs.

This asymmetry is a feature of the system, not a bug. Executives capture the upside; the public underwrites the downside. ^[43]

Chapter 4: The Cantillon Effect in Canadian Markets

Housing and Asset Inflation: The Visible Face of Money Creation

The Cantillon Effect manifests most visibly in housing markets. When banks decide to expand mortgage lending, they create new money and new housing demand simultaneously. Developers, property speculators, and existing homeowners are the first recipients of this new purchasing power.

Timeline of Housing Inflation and Credit Expansion

- **2002–2007:** Canadian banks expand mortgage lending aggressively. Housing prices across major cities increase 50–100%.
- **2008–2009:** The global financial crisis hits. Lending contracts momentarily, but governments and central banks respond with massive stimulus and slashed rates.

- **2009–2019:** A decade of unbridled credit expansion. The Bank of Canada keeps interest rates near zero. Commercial banks pump billions into mortgages. Housing prices double again.
- **2020–2021:** COVID stimulus. Banks expand lending to historic levels. Housing prices surge 30–50% in just two years.
- **2022–2023:** Central banks aggressively raise rates to combat the resulting inflation. Lending contracts. Housing prices decline modestly, but the affordability crisis sets in.
[44]
- **2024–2025:** The housing affordability crisis reaches a critical threshold. A whole generation is locked out of homeownership. The Bank of Canada implements rate cuts to stave off deep recession, re-igniting the exact same cycle of asset inflation.

Who benefits? And who loses?

Who benefits? Real estate developers who borrowed early and completed projects before inflation peaked, investors who locked in low prices and hoarded properties, the commercial banks that

collected immense interest and fees on the credit expansion, and executives who earned bonuses based on that profit growth.

Who loses? First-time homebuyers entering the market when prices peak, renters permanently priced out of homeownership, savers who held cash and lost purchasing power to inflation, and workers whose wage growth completely lagged behind the cost of shelter.

The Cantillon Effect, mediated through the banking system, is a direct transfer of wealth from later recipients of new money (wage earners) to earlier recipients (banks and asset owners). It is a hidden, regressive tax.

Stock Markets and Wealth Concentration

The exact same mechanism operates in equity markets. When banks and central banks inject liquidity (create money), asset prices rise. Those who own stocks and bonds benefit disproportionately. Those living paycheck to paycheck do not.

Consider the era of Quantitative Easing (2009–2020): Central banks globally created trillions. Stock markets worldwide increased 200–300%. Wealth inequality accelerated dramatically

because a significant fraction of wealth gains accrued to the top 1%, who own the vast majority of financial assets. The median household, by holding savings in cash or low-yield accounts, effectively subsidized the gains of asset owners.

Chapter 5: The Public Pays; The Elite Profit

The banking system operates as an intricate, legally sanctioned mechanism for transferring wealth upward. Four primary mechanisms operate continuously.

Mechanism 1: Interest Payments—A Transfer from Debtors to Creditors

Every mortgage, auto loan, and credit card swipe involves an interest payment. For the Canadian economy, the total sum of interest payments dwarfs almost all other economic categories.

Total household debt in Canada hovers near \$3 trillion.^[45] Factoring in an average interest rate environment of roughly 5%, Canadian households pay approximately \$150 billion annually just to service their debt. Combine this with corporate debt interest (~\$50 billion) and government debt interest paid from tax revenues (~\$30 billion), and the total drag reaches **\$230 billion annually**.

Where does this staggering sum go? In the case of banks, interest income flows directly to the bottom line, funding the aforementioned executive bonuses and shareholder dividends. In mathematical terms, if roughly \$180 billion in interest (household + government tax-funded) is borne directly by Canada's 10 million households, that represents a hidden extraction of **\$18,000 per household, per year**. It is a massive annual transfer from those who must borrow to survive to those who lend.

Mechanism 2: Inflation Tax—Savers Subsidize Debtors and Banks

When banks create money through aggressive lending, inflation often results. Inflation mathematically erodes the purchasing power of saved fiat currency.

Consider a retiree with \$500,000 in savings in a bank account earning 0.5% interest. If inflation is 3%, the retiree loses 2.5% of their purchasing power annually—a hidden tax of \$12,500 in a single year. Over five years, the destruction of wealth is substantial.

Who benefits from this inflation tax? Banks, who can immediately increase lending rates and widen their spreads. Asset owners, whose real estate and stock portfolios inflate in nominal value. The inflation tax is incredibly regressive: it falls heaviest on the elderly, savers, and wage earners on fixed incomes.

Mechanism 3: Fee Extraction—Nickel and Diming the Vulnerable

Beyond interest and inflation, Canadian banks generate enormous profit through punitive fee structures:

- **Overdraft fees:** ~\$3 billion annually (paid almost exclusively by households falling briefly into the negative) [46]
- **Foreign exchange and wire fees:** ~\$2 billion annually
- **Monthly account maintenance fees:** ~\$1 billion annually
- **Credit card fees:** ~\$2 billion annually

In total, banks extract approximately \$18–20 billion annually in direct account and transaction fees from customers. This is not interest for lending risk; this is pure administrative extraction. A household struggling to make ends meet is the most likely to incur non-sufficient funds (NSF) and overdraft fees. Fees operate as wealth extraction disguised as service charges.

The Mutual Fund Scandal: Compounding this extraction, Canada has some of the highest mutual fund Management Expense Ratios (MERs) in the developed world, often exceeding 2% compared to ~0.5% in the US. This quietly drains billions from the retirement accounts of ordinary Canadians straight into the asset management divisions of the Big Five.

Mechanism 4: Stock Price Appreciation and Executive Wealth

Because the Big Five operate as an oligopoly, their profitability is virtually guaranteed. Over a decade, Big Five bank stocks have increased 2–3x in value, paying reliable 3–4% annual dividends.

[47]

Senior executives are heavily compensated in stock. An executive granted \$5 million in stock ten years ago holds a position worth \$12–15 million today, plus millions in cash dividends. This immense wealth is not generated by technological innovation or expanding the productive capacity of the nation; it is generated by expanding credit, maintaining wide NIM spreads, and extracting fees. It is captured wealth, not earned wealth.

Chapter 6: Historical Roots and the Persistence of Banking Power

Medieval Banking to Modern Finance

Banking—the practice of accepting deposits and issuing loans at interest—emerged in medieval Italy, particularly in Florence and Venice.^[48] The Medici family’s banking enterprise funded the Renaissance and gave the family enormous political power. Florence’s rulers answered to the Medici bank.

This pattern repeated throughout European history: families accumulated wealth and political power in tandem by controlling the flow of credit. Private bankers wielded power that rivaled—and sometimes exceeded—that of monarchs.

The Transition to Institutional Banking

The most famous banking dynasty emerged in 18th-century Frankfurt: the Rothschilds. The family established branches across Europe—London, Paris, Vienna, Naples—and coordinated

international finance during the Napoleonic Wars and beyond.
[49]

Historians note that the Rothschilds' model was revolutionary for its time: centralized decision-making, coordinated capital deployment across borders, and immense political influence secured through government bond financing. By the 19th century, their banking network was so extensive that economist John Maynard Keynes observed they wielded more influence than many sovereign governments. [50]



The Eye of Providence atop the unfinished pyramid. In an economic context, it serves as a stark visual metaphor for elite oversight and the architecture of centralized financial power.

While contemporary discourse sometimes unfairly extrapolates these historical facts into conspiracy tropes, the academic reality is straightforward: the transition from family-based dynasty banking (like the Fuggers or the Rothschilds) to institutional, concentrated corporate banking laid the architectural foundation for today's financial oligopolies.

Canadian Banking Origins

By the 20th century, family banking dynasties were gradually replaced by institutional banking conglomerates. In Canada, banking has historically served the established business class:
[51]

- **The Dominion Bank** (later merged into TD) was founded by Canada's business elite in 1869.
- **Imperial Bank of Canada** (later merged into CIBC) was founded in 1873.
- **Royal Bank of Canada** was founded in 1869, initially as Merchants Bank of Halifax.

These institutions were created by and for merchants, industrialists, and railway barons. Banking existed to serve capital accumulation. For much of the 20th century, however, Canadian banking was relatively stable, heavily regulated, and conservative.

The Deregulation Era: 1980s–2000s

The era of extreme CEO compensation, systemic risk, and aggressive lending arrived with financial deregulation beginning in the 1980s and 1990s:

- **Glass-Steagall equivalents were weakened:** Canadian banks expanded beyond traditional deposit-taking into high-risk investment banking, mutual funds, and insurance.
- **Interest rate caps were removed:** Banks were permitted to charge whatever rates the market would bear.
- **Capital requirements evolved:** The rise of complex risk-weighted asset models allowed banks to optimize and expand their lending relative to their equity base.
- **Executive compensation exploded:** Beginning in the 1990s, CEO compensation in Canadian banks increased by 300–500%, detaching completely from the median worker wage.

The 2008 Financial Crisis and Lessons Not Learned

When the 2008 global financial crisis hit, Canadian banks survived better than their US counterparts, primarily due to pre-existing regulations and a heavily consolidated market. However,

they were not immune. They required massive liquidity support.

[52] The federal government, via the CMHC, purchased \$125 billion in mortgages from the banks through the Insured Mortgage Purchase Program, effectively subsidizing their risk and providing a massive bailout via liquidity injection.

No structural reform was implemented in Canada. No executive was held accountable for systemic risk. Bank CEOs retained their positions, and compensation actually increased in the years following the crisis. The ultimate lesson was learned by the banking elite: when crises occur, governments will intervene to preserve the system, guaranteeing executive and shareholder power.

Chapter 7: The Structural Consequences of Concentrated Banking Power

Consequence 1: Inequality and Wealth Concentration

The most visible, devastating consequence of the banking system is economic inequality. Canada's wealth distribution has become increasingly concentrated: ^[53]

- **Top 1%:** Owns approximately 25% of all wealth
- **Top 10%:** Owns approximately 60% of all wealth
- **Bottom 50%:** Owns a mere 3% of all wealth

The mechanism is mathematically clear: those with access to capital borrow at favorable rates, invest in real estate or equities, and capture the immense gains from asset inflation. Those without access face high borrowing costs (credit cards, payday loans), cannot invest, and lose their baseline purchasing power to consumer inflation. ^[54]

The banking system distributes credit based on "creditworthiness" (existing collateral and ability to repay) rather than societal need. This ensures that existing wealth produces more wealth.

Consequence 2: Inefficient Capital Allocation

Because just five banks control roughly 90% of the credit tap, capital allocation is entirely based on their internal risk models and quarterly profit incentives. The result is massive misallocation of capital away from productive sectors: [55]

- **Speculative real estate:** Enormous credit flows into residential real estate speculation, inflating housing prices to crisis levels without expanding the nation's actual productive capacity.
- **Corporate buybacks:** Banks finance massive stock buyback programs for major corporations. These buybacks enrich existing shareholders but do not fund research and development or worker training.

- **Short-termism:** Banks prioritize loans with quick payback periods. Long-term, socially vital investments in green energy transition, education, or deep infrastructure receive less favorable treatment.

Consequence 3: Systemic Fragility and Boom-Bust Cycles

The concentration of credit creation in five massive institutions creates severe systemic risk. All five use nearly identical risk models, herd toward the exact same investments (like Canadian mortgages), and share common risk exposure. ^[56]

Boom-bust dynamics are not anomalies; they are built into the credit-driven money creation system. Banks expand lending aggressively during good times (driving up asset prices), but when growth slows, they tighten lending simultaneously. Credit markets freeze, defaults accelerate, and recessions occur.

Consequence 4: Political Capture and Democratic Erosion

The Big Five banks spend an estimated \$30–40 million annually on lobbying.^[57] Bank executives sit on government advisory boards, and federal regulators frequently transition into lucrative banking roles. When powerful private institutions shape public policy through lobbying, democracy is compromised. Proposed regulations are diluted, antitrust action is abandoned, and tax policies heavily favor financial sector activities.

Consequence 5: Environmental and Social Externalities

Bank credit flows toward profitable activities, regardless of the environmental cost. The Big Five have financed hundreds of billions in fossil fuel projects globally, completely undermining international climate commitments. Furthermore, Canadian banks have over \$7 trillion in assets exposed to physical and transition climate risks.^[58] They finance agricultural consolidation (displacing small farms) and urban sprawl (driving car dependency). Banks are designed to maximize profit, meaning society bears the severe environmental externalities while the banks collect the interest.

Chapter 8: International Perspective—Canada in Global Context

Comparative Banking Concentration

Canada is not unique in having a consolidated banking sector, but the degree of its concentration is extreme when compared to global peers: ^[59]

Country	Number of Major Banks	Approx. % Assets in Top Institutions
Canada	5	90% (Top 5)
Australia	4	~80% (Top 4)
France	10+	~60% (Top 5)
United Kingdom	15+	~50% (Top 5)
United States	100+	~45% (Top 5)
Germany	30+	~30% (Top 5)

Canada and Australia stand out globally for their extreme financial oligopolies. The US, despite its massive economic size, maintains far more competitive banking due to a historical commitment to antitrust enforcement and geographic banking

regulation.^[60] The European Union's Banking Union also aims to ensure a diversified, competitive landscape to prevent systemic localized failures.

Lessons from Other Systems

Germany's Landesbanken Model: Germany maintains a highly fragmented, diverse banking ecosystem. Alongside private banks, it features publicly owned regional banks (Landesbanken), cooperative banks, and savings banks (Sparkassen). This limits the power of any single private bank and ensures credit flows to local small businesses. The trade-off is lower overall profitability per institution—and consequently, significantly lower executive compensation.^[61]

Japan's Main Bank System: In Japan, corporations maintain deep relationships with a "main bank" that provides long-term capital and oversight. This model prioritizes relationship banking, long-term stability, and employment protection over short-term quarterly profit maximization.^[62]

Nordic Social Democratic Models: Scandinavian countries maintain regulated financial systems but pair them with incredibly strong labor protections and generous social safety

nets. This dramatically reduces wealth inequality and economic fragility, ensuring the public is protected from the worst excesses of banking crises.

Why Canada Remains Concentrated

Despite clear evidence that concentrated banking creates systemic risks, exacerbates inequality, and starves productive innovation, Canada maintains its oligopoly for several reasons: [63]

1. **Path dependency:** The Big Five are deeply, structurally embedded in Canadian financial infrastructure. Dislodging them would require massive, highly disruptive intervention.
2. **Political capture:** The banks' immense lobbying power prevents any serious antitrust action or competition reform from succeeding in Parliament.
3. **Shareholder interests:** Millions of Canadians hold bank stocks in their retirement portfolios (RRSPs, pensions). Current owners benefit from the oligopoly's guaranteed profits and dividends, creating a perverse incentive against reform.

Implementing meaningful reform would require political will and public pressure that, currently, does not exist in sufficient mass.

Chapter 9: Reform Possibilities and Alternatives

The banking system described in this book is not an unchangeable law of nature. History shows that financial systems can be restructured. Multiple reform paths exist, each with different advantages and trade-offs.

Option 1: Sovereign Money / Full-Reserve Banking

Model: Remove the power of money creation from private commercial banks entirely. Only the central bank creates new money. Commercial banks are restricted to only lending out existing deposits (100% reserve requirement). Money supply grows steadily to match economic growth, rather than wildly fluctuating based on credit cycles. ^[64]

Advantages: Eliminates the boom-bust cycle driven by private credit creation. Prevents banks from creating money specifically for real estate speculation. Allows the public (through democratic

processes) to control the growth of the money supply. Reduces inequality by decoupling the creation of money from collateralized debt.

Disadvantages: Requires a massive, unprecedented restructuring of the entire financial system. It would likely cause a severe initial contraction in available credit. Banks would lose their primary profit engine and become mere intermediaries.

Political feasibility: Very low. The Big Five banks would deploy their full lobbying capacity to oppose this.

Option 2: Public Credit System and Universal Dividend

Model: The government establishes a public credit institution that provides capital directly to citizens and businesses at below-market or zero interest rates for productive purposes. Additionally, citizens receive regular dividend payments from government-created money, distributing the financial gains of money creation equitably rather than concentrating it in bank profits. [65]

Advantages: Democratizes access to capital for those without existing wealth. Prioritizes productive investments (green energy, education) over speculative real estate. Radically reduces inequality.

Disadvantages: Requires a massive expansion of government administration. Introduces the risk of political favoritism in credit decisions. Significant inflation risk if public money creation is not carefully balanced.

Political feasibility: Low. Would require a major political realignment and a public rejection of free-market banking mechanisms.

Option 3: Decentralized Finance and Cooperative Banking

Model: Aggressively expand credit unions and cooperative banks, which are member-owned and operate on non-profit or community-first principles. Break the regulatory moat to encourage fintech innovation and peer-to-peer lending.^[66]

Advantages: Maintains market competition without requiring total government takeover. Reduces the concentration of power in Toronto. Aligns the institution's interests directly with its