



5 WHITE GUYS

Canadian Banking Exposé

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

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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, but 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.

Three Central Questions

- **How is money created?** Not through printing presses, but through digital ledger entries that reflect new debt.³
- **Who benefits?** The architects of the system—bankers, executives, and early recipients of newly created credit.⁴
- **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:⁸

When a Canadian family applies for a mortgage, the bank does not withdraw \$500,000 from a vault or transfer it from other depositors' accounts. Instead, the bank's computer system performs two simultaneous entries: the borrower's account increases by \$500,000 (a new deposit) and the borrower owes \$500,000 (a new loan).

This is new money, created from nothing but the bank's willingness to extend credit and the borrower's promise to repay. The money does not pre-exist. 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.

The Bank of Canada and the Illusion of Central Control:¹⁰

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

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 is the policy interest rate—the rate at which commercial banks borrow from one another overnight. By adjusting this rate, it indirectly influences how much banks are willing to lend.¹³

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: The Misnomer:

Traditional textbooks describe fractional reserve banking as a system where banks must hold a fixed fraction of deposits in reserve. This does not apply to Canada. Canadian banks have no statutory reserve requirement.¹⁵ They are required to meet regulatory capital standards (Basel III), which prescribes ratios of capital to risk-weighted assets, not reserves to deposits.

This distinction is profound. Under a true fractional reserve system, money creation is mathematically limited. In

Canada's system, this ceiling does not exist. Banks can create as much money as they justify through credit risk models.¹⁶ During booms, money creation accelerates. During crises, it contracts. The system is inherently pro-cyclical, amplifying booms and busts.

The Cantillon Effect in Motion: Who Gets the Money First?¹⁷

One of the most underappreciated consequences of money creation is timing: who receives newly created money first.¹⁸ Imagine a bank creates \$100 million through commercial real estate loans. A developer borrows this money to acquire land. The developer immediately has \$100 million in purchasing power. They hire contractors, purchase materials, and pay architects. The construction sector experiences immediate demand.

Meanwhile, the rest of the economy does not yet know \$100 million in new money has been created. Prices remain unchanged. Early recipients can purchase assets at existing prices. They gain purchasing power before inflation erodes its value.

Later, as this money circulates—workers spend wages, suppliers increase prices—inflation rises. The general public, which did not receive any new money, faces higher costs. They have effectively subsidized the profits of those who received the money first. This is the **Cantillon Effect**, named after Richard Cantillon, an 18th-century economist who first described it.¹⁹ In practice, those closest to money creation—large corporations, real estate developers, financial institutions—benefit disproportionately.²⁰

Chapter 2: The Big Five Banks and Their Absolute Dominance

Canada's banking system is among the most concentrated in the world. Five banks control approximately 90% of total banking assets.²¹

Institution	Total Assets	Market Position
Royal Bank of Canada (RBC)	~\$800 Billion	Largest by market cap
Toronto-Dominion Bank (TD)	~\$1.7 Trillion	Largest by total assets
Bank of Montreal (BMO)	~\$850 Billion	Established 1817
Scotiabank	~\$750 Billion	International presence
CIBC	~\$600 Billion	Formed 1961

Combined, these five banks control over \$4 trillion in assets—approximately 1.5 times Canada's annual GDP.²² This concentration is extreme. The United States has hundreds of banks. Germany has dozens. Canada's Big Five structure gives each disproportionate market power.²³

Market Dominance and Political Consequence:²⁴

The dominance manifests in several ways: **Credit Allocation** - Approximately 85% of all business credit flows through the Big Five. A small business seeking a line of credit has few alternatives.²⁵ **Deposit Concentration** - The Big Five hold over 80% of all deposits. Canadians have no practical alternative for everyday banking.²⁶ **Mortgage Dominance** - The Big Five originate approximately 90% of residential mortgages, giving them extraordinary control over housing markets.²⁷ **Policy Influence** - The Big Five maintain permanent lobbying offices in Ottawa and provincial capitals. When they speak, governments listen.²⁸

The Five CEOs: Executive Power Without Democratic Accountability:²⁹

The CEOs of the Big Five (2023 compensation data):³⁰ Dave McKay (RBC): \$14.6 million. Bharat Masrani (TD): \$15.4 million. Brian Porter (Scotiabank): \$12.9 million. Darryl White (BMO): \$14.7 million. Victor Dodig (CIBC): \$13.5 million.

These men earn, on average, \$14 million annually. For context: 400 times median household income, 200 times average worker salary, 1,000 times minimum wage.^{31,32,33} Their compensation is justified as necessary to retain talent. But it raises a fundamental question: what creates \$14 million in annual value?

How Banks Really Make Money:³⁴

Banks generate revenue through: **Net Interest Margin** - The difference between rates charged on loans and paid on deposits. With trillions in assets, even small margins generate billions. **Fees** - Overdraft fees, FX fees, mutual fund fees. A customer base of millions generates billions in fee revenue. **Investment Banking** - Underwriting, M&A advice, wealth management. **Trading** - Securities, FX, derivatives trading on their own account.

None of this requires creating value in the productive economy. A bank can generate profit by widening spreads, raising fees, or engaging in speculation.³⁵ The incentive structure rewards executives for maximizing bank

profitability, not for serving the public or funding productive enterprise. This misalignment is fundamental to understanding how banks operate.

Chapter 3: Executive Compensation and the Misalignment of Incentives

Each Big Five CEO receives a base salary of \$1.5–\$2 million, annual bonuses of \$4–\$8 million (tied to profit and stock price), stock options of \$7–\$12 million (vesting over years), and pension/benefits of \$1–\$3 million.³⁶

This structure heavily emphasizes short-term financial performance. A CEO is compensated when bank profits increase (via credit expansion), stock prices rise, and dividends increase. These incentives do not reward prudent lending, long-term stability, fair treatment of borrowers, or public welfare. This creates moral hazard.³⁷ A CEO who expands lending aggressively, widens spreads, and raises fees will increase profitability and personal compensation. If this leads to a crisis five years later, the CEO may have already received \$70 million and moved on.³⁸

When banks take excessive risks and crises occur, the public absorbs losses.³⁹ **2008 Financial Crisis** - Canadian banks required implicit government guarantees to remain solvent. The cost to taxpayers was tens of billions.⁴⁰ **Mortgage Defaults** - When borrowers default, unemployment rises, tax revenues fall, government spending increases. **Inflation** - When banks expand lending excessively, inflation rises. Savers and retirees lose purchasing power. Bank executives, meanwhile, earned their profits during expansion and are insulated from inflation effects.⁴¹

This is not balanced. Bank executives enjoy upside (substantial compensation when profitable) and limited downside (even if bets go wrong, they retain wealth).⁴² The public experiences limited upside and substantial downside. This asymmetry ensures those making decisions have strong incentives to maximize private gain with little personal exposure to downside risk.

Chapter 4: The Cantillon Effect in Canadian Markets

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.⁴³

Housing Timeline:⁴⁴ **2002-2007:** Banks expand mortgage lending. Housing prices increase 50-100%. **2008-2009:** Crisis. But governments respond with stimulus. **2009-2019:** Decade of expansion. Mortgage lending resumes. Bank of Canada keeps rates near zero. Housing prices double again. **2020-2021:** COVID stimulus. Government transfers money directly to households. Banks expand lending to historic levels. Housing prices surge 30-50%. **2022-2023:** Central banks raise rates. Lending contracts. Housing prices decline modestly. But early buyers retain gains. Late buyers face higher payments for the same property.

Who benefits? Developers who borrowed early and completed before inflation peaked, early homebuyers who locked in low prices, banks that collected interest and fees.⁴⁵ **Who loses?** First-time buyers entering when prices peak, renters priced out of homeownership, savers who held cash and lost to inflation, workers whose wages lagged inflation.⁴⁶

The Cantillon Effect, mediated through banking, is a transfer of wealth from later recipients of new money to earlier recipients. It is a hidden tax on the economically vulnerable, a redistribution mechanism that concentrates wealth upward.⁴⁷

Stock Markets and Wealth Concentration:⁴⁸ The same mechanism operates in equity markets. When banks and central banks inject liquidity, asset prices rise. Those who own stocks benefit disproportionately.

Consider 2009-2020: Central banks created trillions through quantitative easing.⁴⁹ Stock markets worldwide increased 200-300%. Wealth inequality increased dramatically. The top 1% captured most gains as they own most stocks.⁵⁰ Meanwhile, the median household received limited direct benefit. By holding savings in cash (which lost purchasing power) or low-yield accounts, the median household subsidized asset owners' gains.

Chapter 5: The Public Pays; The Elite Profit

Mechanism 1: Interest Payments—A Transfer from Debtors to Creditors:⁵¹

Approximate annual interest payments: Mortgage interest ~\$100 billion, Corporate debt interest ~\$50 billion, Government debt interest ~\$30 billion. Total: ~\$180 billion annually.⁵²

Where does this go? To banks and bondholders. For banks, interest flows to their bottom line, funding executive bonuses and dividends. For government bonds, interest flows to wealthy investors.⁵³ This \$180 billion represents a massive annual transfer from those who borrow (the economically vulnerable) to those who lend (the financially secure).

Mechanism 2: Inflation Tax—Savers Subsidize Debtors and Banks:⁵⁴

A retiree with \$500,000 in savings earning 0.5% interest, facing 3% inflation, loses 2.5% of purchasing power annually—\$12,500. Over five years, the loss is substantial. Who benefits? Borrowers (fixed-rate mortgages are worth less in real terms), banks (can increase lending rates), asset owners (inflation pushes asset prices higher).

The inflation tax is regressive: it falls heaviest on the elderly, savers, and fixed-income earners, and benefits asset owners, debtors with fixed liabilities, and banks.⁵⁵

Mechanism 3: Fee Extraction—Death by a Thousand Cuts:⁵⁶

Overdraft fees: ~\$3 billion annually. FX and wire fees: ~\$2 billion. Monthly account fees: ~\$1 billion. ATM fees: ~\$500 million. Mutual fund fees: ~\$10 billion. Credit card fees: ~\$2 billion. Total: approximately \$18-20 billion annually in direct fees.⁵⁷

This is pure extracted profit, often from those least able to afford it. A household living paycheck to paycheck is most likely to incur overdraft fees. A recent immigrant may overpay for foreign exchange. A retiree seeking advice may be steered toward high-fee mutual funds. Fees are wealth extraction disguised as service charges.⁵⁸

Mechanism 4: Stock Price Appreciation and Executive Wealth:⁵⁹

Bank executives hold substantial stock: typically \$1-5 million per senior executive. Over a decade, Big Five bank stocks increased 2-3x.⁶⁰ Banks typically pay 3-4% annual dividends. An executive with \$5 million in stock ten years ago may see it worth \$12-15 million today, plus cumulative dividends of several million more.

This wealth is generated not through innovation in the productive economy, but through credit expansion, fee extraction, and asset inflation driven by money creation. It is captured wealth, not earned wealth.⁶¹

Chapter 6: Historical Roots and the Persistence of Banking Power

Medieval Banking to Modern Finance:⁶²

Banking emerged in medieval Italy—Florence and Venice.⁶³ The Medici family's banking enterprise funded the Renaissance and gave the family enormous political power. Florence's rulers answered to the Medici bank.⁶⁴

The Rothschild Dynasty:⁶⁵ In 18th-century Frankfurt, the Rothschilds established branches across Europe—London, Paris, Vienna.⁶⁶ They coordinated international finance, financed government bonds, orchestrated currency exchanges, and shaped policy through loans and threats of withholding capital. By the 19th century, their banking network was so extensive that Keynes observed they wielded more influence than many governments.⁶⁷

Canadian Banking Origins:⁶⁸ The Dominion Bank (merged into TD) was founded in 1869. Imperial Bank of Canada (merged into CIBC) in 1873. Royal Bank of Canada in 1869 as Merchants Bank of Halifax.^{69,70} These institutions were created by Canada's business class—merchants, industrialists, railway barons. Banking existed to serve their capital accumulation.

The Deregulation Era: 1980s-2000s:⁷¹ Glass-Steagall equivalents were weakened. Banks expanded into investment banking, mutual funds, insurance. Interest rate caps were removed. Capital requirements were eased. CEO compensation exploded—increasing 300-500% beginning in the 1990s.⁷²

2008 Financial Crisis and Lessons Not Learned:⁷³ Canadian banks required implicit government guarantees to remain solvent.⁷⁴ Policy response: CMHC expanded mortgage insurance, effectively subsidizing bank risk. Bank CEOs retained positions. Compensation increased after the crisis.⁷⁵

No structural reform. No executive accountability. No fundamental regulatory change. The lesson: when crises occur, governments bail out banks, preserving executive and shareholder power. The system proves resilient to reform because those controlling it have power to prevent change.⁷⁶

Chapter 7: Structural Consequences of Concentrated Banking Power

Consequence 1: Inequality and Wealth Concentration:⁷⁷

Canada's wealth distribution: Top 1% owns 25%, Top 10% owns 60%, Bottom 50% owns 3%.⁷⁸ The mechanism is clear: those with access to capital borrow at favorable rates, invest in assets, and capture gains from asset inflation. Those without access face high borrowing costs, cannot invest, and lose purchasing power to inflation.⁷⁹

The banking system concentrates credit in five institutions, which distribute credit based on creditworthiness (ability to repay, existing collateral) rather than social need. This ensures existing wealth produces more wealth, while those without wealth struggle to access capital.

Consequence 2: Inefficient Capital Allocation:⁸⁰ Because five banks control 90% of credit, allocation is based on their profit models, not social benefit. Capital flows into speculative real estate (which inflates housing but doesn't expand productive capacity), corporate buybacks (enriching shareholders but not funding research or worker training), and short-term projects (prioritized over long-term green energy, education, or infrastructure).⁸¹

Consequence 3: Systemic Fragility and Boom-Bust Cycles:⁸² Concentration of credit creation in five institutions creates systemic risk. All five use similar risk models, herd toward the same investments, and share common risk exposure. Boom-bust dynamics are built into the system—not anomalies but inevitable consequences of credit-driven money creation with concentrated decision-making.⁸³

Consequence 4: Political Capture and Democratic Erosion:⁸⁴ Lobbying expenditure: ~\$30-40 million annually from the Big Five combined. A revolving door: dozens of government officials work for banks or vice versa. Bank executives sit on government advisory bodies. The result: regulations are diluted before enactment, enforcement is weak, tax policy favors finance, and antitrust action is not pursued.⁸⁵ When powerful institutions can shape policy through lobbying, democracy is compromised.

Consequence 5: Environmental and Social Externalities:⁸⁶ Bank credit flows toward profitable activities, not necessarily beneficial ones. The Big Five have financed trillions in fossil fuels globally despite climate commitments.⁸⁷ They finance agricultural consolidation (accelerating small farm displacement) and urban sprawl (driving car dependency and environmental damage). Banks are designed to maximize profit, not serve environmental or social goals.

Chapter 8: International Perspective—Canada in Global Context

Comparative Banking Concentration:⁸⁸ Canada is extreme: 90% assets in Big Five. USA: 100+ banks, 45% in top five. Germany: 30+ banks, 40%. Australia: 4 banks, 85%. Canada and Australia stand out for concentration. The US maintains more competitive banking due to historical antitrust enforcement.⁸⁹

Lessons from Other Systems:⁹⁰ **Germany's Landesbanken:** Publicly owned regional banks, cooperative banks, and savings banks limit any single bank's power and provide credit alternatives. Trade-off: lower profitability and executive compensation.⁹¹ **Japan's Main Bank System:** Each corporation maintains relationships with a "main bank" providing long-term capital and oversight. Prioritizes relationship banking and long-term stability over short-term profit maximization.⁹² **Nordic Models:** More regulated financial systems with stronger labor protections and generous social safety nets. This reduces inequality and fragility, though at cost of lower financial system profitability.⁹³

Why Canada Remains Concentrated:⁹⁴ Path dependency: the Big Five are deeply embedded. Political capture: banks' lobbying power prevents antitrust action. Shareholder interests: current owners benefit from oligopoly and have no incentive to support reform. International capital flows: large banks facilitate trade that smaller institutions cannot match. Reform would require political will that does not currently exist.

Chapter 9: Reform Possibilities and Alternatives

Option 1: Sovereign Money / Full-Reserve Banking:⁹⁵ Only the central bank creates money. Commercial banks can only lend existing deposits. **Advantages:** Eliminates boom-bust cycles, prevents speculative money creation, allows public democratic control, reduces inequality by decoupling money creation from creditworthiness. **Disadvantages:** Massive system restructuring required, reduces absolute credit available initially, banks become less profitable, central bank gains enormous power. **Political Feasibility:** Very low. Banks would oppose fiercely.⁹⁶

Option 2: Public Credit System and Universal Dividend:⁹⁷ Government establishes public credit for productive purposes at below-market rates. Citizens receive regular dividend payments from government-created money, distributing gains. **Advantages:** Democratizes capital access, reduces inequality by distributing money creation gains, prioritizes productive over speculative investment. **Disadvantages:** Massive government expansion, risk of credit politicization, inflation risk if excessive. **Political Feasibility:** Low. Requires major realignment.⁹⁸

Option 3: Decentralized Finance and Cooperative Banking:⁹⁹ Expand credit unions and cooperative banks (member-owned, non-profit). Encourage peer-to-peer lending through blockchain. **Advantages:** Maintains market mechanisms, reduces concentration, aligns interests with members, implementable incrementally. **Disadvantages:** Smaller institutions less efficient at some functions, requires coordinated expansion, blockchain systems unproven at scale. **Political Feasibility:** Moderate.¹⁰⁰

Option 4: Executive Compensation Reform:¹⁰¹ Cap CEO pay at multiples of median worker salary (e.g., 20x), require employee ownership, tie compensation to long-term stability. **Advantages:** Implementable within current structures, addresses perverse incentives, distributes ownership, international precedents exist. **Disadvantages:** Executives resist, social welfare metrics difficult to define, market forces may still drive risk-taking. **Political Feasibility:** Low to moderate.¹⁰²

Option 5: Antitrust and Bank Breakup:¹⁰³ Enforce antitrust law. Force divestiture to create 10-15 competing regional banks. Separate investment and commercial banking. **Advantages:** Maintains market mechanisms, reduces risk concentration, increases competition and innovation. **Disadvantages:** Reduces economies of scale, may impair international competitiveness, requires sustained political will. **Political Feasibility:** Low. Industry opposition would be fierce.¹⁰⁴

A Pragmatic Path: Incremental Reform:¹⁰⁵ Most realistic approach combines incremental measures: Strengthen regulation (higher capital requirements, stress testing, enforcement). Support alternatives (credit unions, community banks, fintech). Increase transparency (require detailed lending and compensation disclosure). Establish accountability (hold executives liable for criminal/reckless conduct). Educate the public about money creation to build pressure for reform.

These measures would not eliminate the Big Five but would reduce their power and address the most harmful incentive misalignments.¹⁰⁶

Chapter 10: Conclusion—The Path Forward

The Core Reality:¹⁰⁷ Canada's financial system concentrates extraordinary power in five CEOs. This enables: Inefficient capital allocation based on private profit rather than social need. Wealth extraction through interest, fees, and inflation. Systemic fragility from boom-bust credit cycles. Political capture preventing democratic control. Environmental externalities from financing fossil fuels.¹⁰⁸ This system is not accidental or inevitable. It results from deliberate choices: to deregulate, encourage executive compensation, protect bank size, and prioritize financial profitability over public welfare.¹⁰⁹

The Challenge of Change:¹¹⁰ Transformation faces substantial obstacles: Entrenchment (Big Five deeply embedded), complexity (most Canadians don't understand money creation), power imbalance (banks' lobbying power exceeds reform advocates'), international constraints (banks operate globally). Yet change is possible. History shows financial systems can be reformed.¹¹¹

The Role of Awareness:¹¹² This book illuminates hidden mechanisms. Most Canadians sense "banks are powerful" or "CEOs are overpaid" but don't understand how these realities emerge from money creation itself. Awareness precedes change. Until the public understands money is created as debt by commercial banks, this process is concentrated in five institutions, and executives profit enormously while risks are socialized—nothing will change.¹¹³

A Call for Democratic Control:¹¹⁴ The ultimate question: Who should control money creation? Currently: five private institutions accountable only to shareholders. Alternative answers: Central bank directly creates money (eliminating private creation). Democratic institutions allocate credit through democratically-accountable processes. Decentralized competition fosters thousands of small providers.

Each has trade-offs. All would reduce inequality, increase stability, and ensure money creation serves public purposes, not private profits.¹¹⁵

Final Words:¹¹⁶ Canada is not constrained by insufficient resources or capital. The constraint is structural: concentration of decision-making power in hands of few individuals who profit from the status quo. Breaking this constraint requires knowledge, discourse, organization, and political pressure.

Reform faces determined opposition from those benefiting from the status quo. But momentum toward awareness is growing. More people recognize the system is failing them—houses unaffordable, wages stagnate, debt inescapable.

The Big Five have engineered extraordinary wealth concentration, justified it through market efficiency theories, defended it through lobbying. **The system is working exactly as designed. The only question is whether Canadians will demand something different.**¹¹⁷

Epilogue: Questions for Reflection

As you finish this book, consider these questions:

- 1. Money creation:** Now that you understand money is created by commercial banks as debt, does this change how you view your own mortgage or student loan?
- 2. Power:** Knowing that five individuals influence where trillions in capital flows, do you feel you have meaningful control over your financial life?
- 3. Inequality:** Understanding the mechanisms through which wealth concentrates upward, do you view inequality differently?
- 4. Alternatives:** If you had to design a different financial system, what principles would you prioritize? Democratic control? Efficiency? Stability? Equality?
- 5. Change:** What would need to happen for significant financial reform to occur in Canada? What role, if any, do you see for yourself in that process?

These questions have no single correct answer. But grappling with them is the first step toward understanding that alternatives are possible—that the current system is not inevitable, but chosen.

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Appendix: Key Terms and Definitions

Asset Inflation: Rising prices of assets (real estate, stocks, bonds) driven by increased credit and money creation, not necessarily by increases in productivity or utility.

Bank Capital: The equity (shareholder funds) that banks use to absorb losses. Higher capital ratios mean banks are safer but earn lower returns on equity.

Cantillon Effect: The process whereby early recipients of newly created money benefit from price stability while later recipients face inflation. Named after Richard Cantillon.

Deposit Money: Money that exists as digital ledger entries in bank accounts, created simultaneously with loans. Comprises approximately 97% of money supply in Canada.

Fractional Reserve Banking: A historical banking model where banks hold a small reserve (fraction) of deposits and lend out the remainder. Technically inaccurate for Canada.

Leverage: The ratio of debt to equity. High leverage means a small percentage decline in assets wipes out all equity. Banks are highly leveraged (10:1 to 20:1).

Money Multiplier: The amount by which money supply increases due to bank lending. In modern systems, this is unstable and poorly understood.

Monetary Base: Money directly issued by the central bank (physical currency plus reserves). Represents only 3-5% of total money supply.

Net Interest Margin: The difference between interest rates charged on loans and paid on deposits. A primary source of bank profit.

Regulatory Capital: The equity banks must maintain relative to risk-weighted assets. Determined by Basel III standards.

Risk-Weighted Assets: A method adjusting bank assets for risk, with safer assets having lower weights. Used to calculate capital requirements.

Systemic Risk: Risk that failure of one institution triggers failure of others, threatening the entire financial system.

Appendix: Shocking Facts About Canadian Banking

- **Money Creation:** Approximately 97% of money in the Canadian economy is created by commercial banks through lending, not by government or central bank.
- **CEO Compensation:** The average CEO of the Big Five earns approximately \$14 million annually—400 times the median Canadian household income.
- **Credit Concentration:** The Big Five banks control 90% of commercial credit. A business seeking a bank loan has almost no alternative if major banks decline.
- **Mortgage Dominance:** The Big Five originate approximately 90% of residential mortgages, giving them extraordinary control over housing affordability.
- **Deposit Concentration:** The Big Five hold over 80% of all deposits. Most Canadians have no practical alternative for everyday banking.
- **Interest Extraction:** Annual interest payments across the Canadian economy total approximately \$180 billion—a massive transfer from debtors to creditors.
- **Fee Extraction:** The Big Five extract approximately \$18-20 billion annually in fees from customers, often from those least able to afford them.
- **Systemic Risk:** The Big Five represent such concentrated systemic risk that government bailout in a crisis is guaranteed.
- **Executive Equity:** Bank executives hold large equity positions in their employers, creating incentives for short-term stock price appreciation.
- **Regulatory Capture:** Movement between banking and government positions is common, creating weak regulation and favorable policy.
- **Wealth Concentration:** The share of wealth held by Canada's top 1% has increased from 20% (1980s) to 25% (2020s).
- **Inequality Mechanism:** The banking system is a primary mechanism through which wealth concentrates upward through debt creation, interest extraction, fees, and asset inflation.

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