

**THE PURPOSE OF THE FOLLOWING IS TO  
ENCOURAGE CANADIANS TO UNDERSTAND AND  
DISCUSS POSSIBLE CHANGES TO OUR MONETARY  
AND TAXATION POLICIES THAT MIGHT BE  
BENEFICIAL BY ELIMINATING OBVIOUS INEQUITIES  
AND SIMPLIFYING DIFFICULT ADMINISTRATION**

**Conceptual Framework for an Alternative Monetary  
System**

This document outlines the core concepts of an alternative monetary system as proposed, focusing on a revised understanding of money and mediums of exchange, a restructuring of the financial system, a novel approach to government funding, and the introduction of a "return on equity" basic income. The analysis is framed with a primary consideration for the Canadian economic context, drawing upon historical discussions of monetary reform in Canada and the USA. The document does not undertake review of any changes in legislation that might be required to implement these proposals in whole or in part. It is assumed that the policies would be presented to Canadians in the election policy platform of candidates for Members of Parliament.

## 1. Revised Understanding of Money and Mediums of Exchange:

The conventional economic definition of money encompasses three functions: a medium of exchange, a unit of account, and a store of value. This proposal distinguishes between:

- **Money:**
- Money is defined here as the dollar-denominated price of real assets exchanged in the private sector, representing transactional data rather than subjective value. Money, in this sense, is the numerical representation of the price of assets exchanged. The concept of "value" is subjective and irrelevant as a useful or accurate attribute when referring to the data of economic transactions. All value is ultimately determined by individual perception.
- **Mediums of Exchange:** Identified as the circulation of private sector debt, and government-created currency (coin, paper, and digital), in the economy. These are the instruments used to facilitate transactions. A key aspect of this concept of debt is that every transaction for the exchange of ownership of assets first creates a debt of the purchaser to the vendor, even for a split second. Money for the price of the asset is established and debt for payment due

reflects a “minus money”, ( a liability on a balance sheet) which is eliminated only when extinguished by the exchange of currency. Loan transactions also create debt. The creation of the asset, (terms of credit or account receivable), is priced in dollars of money, and both sides are debtors for the amount, albeit payable in different time frames.

This distinction is crucial as it posits that the creation of monetary value occurs through real economic activity in the private sector marketplace, where currency and debt are tools to enable this exchange. Debt, while facilitating transactions, is inherently interest-bearing (sometimes included as a factor of pricing) and can lead to systemic risks when its volume becomes excessive. Currency, created by the government, is proposed as a non-interest-bearing medium, at least to the extent that it is "in circulation" but not actively “in use” (i.e., when held in demand deposits or as physical cash).

## **2. Restructuring the Financial System:**

The proposal envisions a fundamental restructuring of the banking system, moving towards a model where:

- **Banks as Trustees:** Commercial banks would primarily act as trustees in respect of deposits,

holding the full value of demand deposits in actual currency. This trustee role could be a source of income for banks through account transactions and accounting fees. The extent to which industrial, commercial and real estate credit should be allowed together with the trustee function must be guided by regulation. The disadvantages recognized with current regulations may be overcome with the security of requiring trustee deposit accounts. There should be adequate security for loans of currency by the Bank of Canada to commercial banks, and a fair charge for the use of that currency. The revenue source of profit for the banks from credit granting and other facets of their business would continue. Their revenue would continue to be the revenues from charging borrowers for the cost of money to the bank, the risk, the overhead and the profit.

- **Central Bank as Primary Currency Provider:**

Currency must be created by the Treasury and provided to the Central bank, the Bank of Canada, to be provided for circulation in the private sector. The central bank (Bank of Canada) would oversee the currency held in trust by private banks. The currency deposited by individuals originates from payments received from various sources of the depositor and is not a transfer or loan from the central bank to private banks for customer deposits. This aims to ensure

banks have the necessary liquidity and security for depositors without creating a bank debt-based medium of exchange. It is held that there is no such thing as "debt-based money" or "bank money"; where only debt exists. Money is created by the creation of assets or the increased price thereof. Bank regulation in Canada has shifted over time, leading to the consolidation of financial institutions through their acquisition by banks and large corporate financial organizations. This has eliminated or hindered access to localized lending and personalized financial services, especially impacting small businesses and individuals.

- **Fiscal Policy-Driven Credit Allocation:** The allocation of credit to various sectors of the economy would be guided by economic policy objectives, with the central bank potentially facilitating lending directly to provincial governments, public banks, economic development funds, and housing entities, alongside traditional banks, based on maximum security and alignment with national priorities.
- **Reduced Reliance on Private Sector Debt:** The system aims to reverse the current high debt-to-currency ratio of the total medium of exchange, fostering a financial environment less prone to instability caused by excessive private debt.

### **3. Novel Approach to Government Funding:**

Every payment for goods and services by the federal government is payment to the private sector and adds to the currency in circulation. The assets acquired by the government from the private sector provide equity to the government, and thereby equally to citizens. The currency added to circulation remains as digital, coin or paper assets of people or entities in the private sector until put to use to pay debt. "Currency in circulation (digital, coin, or paper) remains with private-sector holders until used to pay debt. The currency then remains in circulation until repaid to the government to eliminate the debt of people or entities to the government.

The sale of government treasury bonds, or creation of other government debt, removes currency from circulation and increases the circulation of debt in the economy. Since the government is able to create currency, the debt and the payment of interest on government debt is an unnecessary transfer of money from taxpayers to investors.

The growth of population and the economy necessitates increasing volumes of a medium of exchange in circulation

in the private sector. That necessary increase may, or may not, be met by the introduction of currency in circulation through government purchases from, or loans to, the private sector. Currency is removed from circulation by any payments to the government by the private sector. The primary one is the repayment to the government for services provided to the private sector for people and entities in the private sector. Government regulation to require that debt be a medium of exchange for the exchange of assets, but not for recirculation, would increase currency requirements. The replacement of debt in the economy with currency not only provides a more stable economy and society, but reduces unproductive costs.

Government pays out currency to the private sector equally on behalf of citizens, as directed by legislation. It is proposed that the funding for government expenditures be through the creation of new currency. This expenditure acquires goods, services, and other assets, quantified in dollars of money, thereby creating government equity equally for all citizens. Some of these assets become infrastructure, remaining on the government balance sheet over time. The balance of government activity creates services to be provided to the private sector at cost. Thus currency is to be repaid to the government by the private sector people or entities in relation to their utilization of

these services. The proposal advocates for a shift away from complex and potentially disincentivizing taxes on production, like income tax and point-of-sales taxes, towards a system based on the flow and accumulation of money:

- **Recovery of Government Costs:** Government expenditures on goods and services are paid as income to people and entities in the private sector, increasing their equity. Those expenditures create and provide services to the private sector. The costs of these services would be recovered from the private sector based on their utilization on behalf of individuals. Government services enhance individuals' capacity to generate money and protect their persons and wealth.
- **Progressive Recovery for the "Use of Money".** Money quantifies (in dollars) the price of goods, services, and assets acquired in the marketplace of an economy. At that point, the term "money" first comes into use, and remains in use as long as the assets remain. Those assets acquired by a person create equity, expressed in dollars on their balance sheet. Those goods and services, expressed in dollars are either used for personal consumption, eliminating the dollars of money, or retained as equity. The taxation of the individual, for recovery of

the cost of government services, should first be based on consumption, the elimination of dollars of money. As with the present income tax, this would be by increasing rates on increasing brackets of money eliminated for consumption, The second base for taxation would be a rate based on money still in use, equity. Since the money received includes the money received for wages earned for services created by a person, an equal amount of money should be exempted up to the average total wages, to an average or mean of all workers.

- Annual Fee on Wealth (Money Saved): An annual fee would be levied on accumulated wealth, defined as "money in use" less "debt in use" or net equity on a balance sheet. This fee would account for the government costs for the protection of person and wealth provided by government services.
- Elimination of current taxation. With the institution of taxation based on the rational data of money received and used either for consumption or for saved assets, certain current tax bases should be eliminated, principally income tax and HST/GST tax.

**4. "Return on Equity" Basic Income:** This equity-based system enables a novel approach to income distribution. In our Capitalist society, it is an incongruity that the wealth and equity of the government does not recover a fair

return on the dollar cost of its assets. A minority of citizens utilize the services of the government to enhance their return from their labours and pay taxes on those direct costs, but nothing on the government's equity. This policy proposal would provide relief from the inequities of the present policies.

Building on the idea of government assets representing citizen equity, the proposal introduces a basic payment to Canadians as a "return on equity", being their, with other citizens, proportionate share of refund on their governments' equity

- **Equal Payment:** All citizens, taxpayers, would receive an equal periodic payment, representing their share in the collective wealth of and services provided by the government.
- **Quantification Based on Living Standards:** The amount of the basic income would be determined by the difference in cost between a mean and a minimum standard of living in Canada.
- **Funding as Part of Government Expenditure:** The cost of the basic income would be included in the total government expenditure. As such, the cost would be recovered from the private sector through the taxation mechanisms outlined above.

## 5. Re-envisioning Corporate Taxation for Economic Development and Productivity:

The current system of corporate taxation, which treats corporations as separate entities and taxes their profits, can create several economic distortions and inefficiencies. This proposal suggests a shift to a withholding tax on distributions to investors as a more efficient and equitable approach.

- **Current System Inefficiencies:**

- **Increased Costs of Production:** Corporate income tax is factored into the cost of goods and services, raising prices for consumers and reducing competitiveness.
- **Disincentive to Investment:** Taxes on profits can reduce the ability and incentive for corporations to invest and expand, hindering economic growth.
- **Tax Avoidance Strategies:** Complex tax laws lead to costly tax avoidance strategies, diverting resources from productive activities.
- **Double Taxation:** Dividends are taxed twice, once at the corporate level and again at the individual level.
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- **Proposed Alternative: Withholding from Distributions:**
  - **Withholding the payment of personal tax at the Source of Revenue:** Withholding of money as credit on personal tax liability would be when returns are paid to shareholders and fixed income investors.
  - **Elimination of Double Taxation:** Taxation would only be levied once, at the personal level, and would not be levied on inflation.
  - **Reduced Costs of Production:** Removing corporate income tax would lower the cost of goods and services, boosting competitiveness and productivity.
  - **Simplified Tax System:** A simpler tax system would reduce compliance costs and tax avoidance.
  - **Incentive for Reinvestment:** Corporations would be incentivized to reinvest profits, fostering growth and innovation.
  - **Attraction of Investment:** A more efficient tax system would attract investment in productive enterprises.
- **Economic Development Benefits:**
  - **Enhanced Productivity:** Removing tax costs from production would significantly enhance productivity, a key factor for economic growth.

- **Increased Competitiveness:** Lower production costs would make Canadian businesses more competitive in global and home markets.
- **Job Creation:** Increased investment and economic activity would lead to job creation.
- **Attraction of Capital:** A more efficient tax system would attract capital investment.
- By shifting the tax burden from corporations to investors, this proposal aims to create a more efficient, equitable, and growth-oriented economic environment.
  
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## **THE FOLLOWING COMMENTARIES MAY AID AND ENHANCE UNDERSTANDING OF THE CONCEPTS**

### **ABOUT THIS WEB SITE**

Canada, and other countries, are in difficult times. Our economy has suffered from half a century of failed financial policies. The prospects for our youth and workers are shrinking. Inequality is growing. It looks like AI will make it worse for them. Economic policies must, and will, change. Canada can lead the world with policies that serve everyone, not just the financial section of society.

Our politicians are a good cross section of all Canadians, but they need help to understand our economy. With your participation in helping encourage Canadian politicians and voters to understand their options, this could be the start.

**Please email your questions, comments or support to [eddtwohig902@gmail.com](mailto:eddtwohig902@gmail.com) and be advised of Zoom meetings**

### **Government Expenditure**

Government expenditure transfers currency to the private sector in exchange for goods and services. Those goods and services, quantified by money termed in dollars, become assets on the balance sheet of the government on behalf of all citizens equally. Some are used to create capital assets of the government and others to create services for the private sector, for which the private sector must repay the government.

The services, including use of the capital assets of the government, are utilized to enable, together with the personal labour input of persons, the creation of goods and services within the private sector.

## **RECOVERY OF THE COST OF GOVERNMENT EXPENDITURES**

The utilization of government service is a cost in the creation and retention of goods, services and other assets in the private sector. Individuals acquire those assets (wealth) by transactions in the economic marketplace, quantified in terms of dollars. The marketplace transactions provide the only stable data base for taxation to recover the cost of government services. The total assets (wealth) acquired by an individual, quantified in Canadian dollars, less the amount retained at the end of a taxation period, quantifies money (wealth) consumed. A graduated escalating rate (similar to the current taxation of income) should apply. The use of dollars, representing the price of goods and services retained, would then be the base for a fixed rate of tax.

## **THE CREATION OF MONEY, NOT CURRENCY.**

Money is the quantification of the price of all goods and services produced in the economy of the nation. It quantifies the Gross Domestic Product of the nation and the wealth of each individual and entity. Every transaction, executed in the marketplace of the economy, establishes an agreed price for human labour and the increase in cost

paid for goods and services plus a “whatever the market will bear” inflationary profit.

Every transaction alters the balance sheet of both vendor and purchaser and usually entails the exchange of a medium of exchange, either debt issued by the private sector or currency issued by the Government. Wealth is the ownership of goods and services. Individuals can only obtain wealth by exchanging their personal efforts/services, or goods and services for a medium of exchange, being either debt or fiat currency. The price of wealth is the price to be paid, expressed in Canadian dollars, for goods and services in the marketplace of the Canadian economy. Individuals may then exchange the medium of exchange that they have acquired for other goods and services (wealth) in the Canadian economy. The wealth of goods and services may then be consumed or retained as some form of savings. Thus, over time, the Gross National Product of the nation and the consumption and net worth of the individual is determined and expressed in total as money created, in dollars,.

### **DEBT, THE OPPOSITE OF MONEY, AND NET WORTH**

The purchaser of goods and services initially creates a promise to pay equal to the price agreed upon. That entails a debt payable of the purchaser and an account

receivable asset for the vendor. The account receivable can be paid and the debt eliminated by the exchange of the other medium of exchange, fiat currency, a legal tender accepted by all Canadians. Or, the account receivable can be paid, by the agreement of the creditor to accept the debt of another individual or entity. The exchange of debt for fiat currency does not create or decrease the volume of medium of exchange in use.

All economic problems, such as, inequality of the circulation of economic growth, deprecussions, depressions, price inflation have resulted from the circulation of debt, instead of equity, in the economy. Canadian coin, paper and digital currency is not debt. It is simply the undertaking of all Canadians to accept it as an element of wealth exchangeable for payment for other goods and services.

**INCOME TAX . vs MONEY TAX (a sophisticated and intellectually compelling hybrid of two well-established, albeit contentious, tax models: a consumption tax and a wealth tax.**

In the House of Lords debate, income tax was referred to as the most insidious of taxes. So it has proven to be. It is also irrational. It is a tax based on production, on the creation of wealth, something favourable to the nation. It

is also irrational because the term “income” has multiple definitions and no single item of data. In over a century of application income tax has unsuccessfully required thousands of pages of regulation and continuous adjudication by the courts.

Money is the quantification of the price of all things of value exchanged by individuals and entities in the economy. Between individuals it precisely provides comparative quantification of the assets acquired, and then consumed or saved as wealth. The use of the term “money” to also define “medium of exchange” by economists is confusing. Both debt and coin, paper and digital currency issued by the government are quantified in dollars of money. Debt being the opposite of money and currency being another asset, quantified as is gold, potatoes or other assets in dollars of money. Thus, a balance sheet, or statement of net worth, indicates the use of “money” to define wealth consumed or retained. It is the only rational base for taxation, a graduated rate and bracket tax on money (assets/wealth) used for consumption and a fixed rate on money (assets/wealth) remained in use.