



FOCUS ON SOCIALISM

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ASSET BACKED COMMERCIAL PAPER (ABCP) MORAL BANKRUPTCY AND A POSSIBLE RECESSION

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Focus On Socialism

FOS is the political journal of Canadians For Peace and Socialism (CPS). In it we address current national and international issues. We strive to bring a Marxist-Leninist viewpoint to the struggle of Canadians for peace, progress and socialism.

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ASSET BACKED COMMERCIAL PAPER (ABCP) MORAL BANKRUPTCY AND A POSSIBLE RECESSION!

BY: DON CURRIE, CHAIR CPS, NOVEMBER 25, 2007

The ABCP (Asset Backed Commercial Paper) melt down has resulted in hundreds of thousands of US citizens losing their homes, thousands of office workers losing their jobs and high rollers squandering the pension funds of millions more. The amount of money that has disappeared into the ABCP black hole has been estimated to be \$400 to \$500 billion US according to economic columnists Boyd Erman and Barrie McKenna (Globe and Mail Report on Business Thursday November 22, 2007). The US Federal Reserve, the governor of the Bank of Canada and European banking regulators are warning that the fallout from the collapse of ABCP is not over and may yet trigger a recession in the USA and Canada.

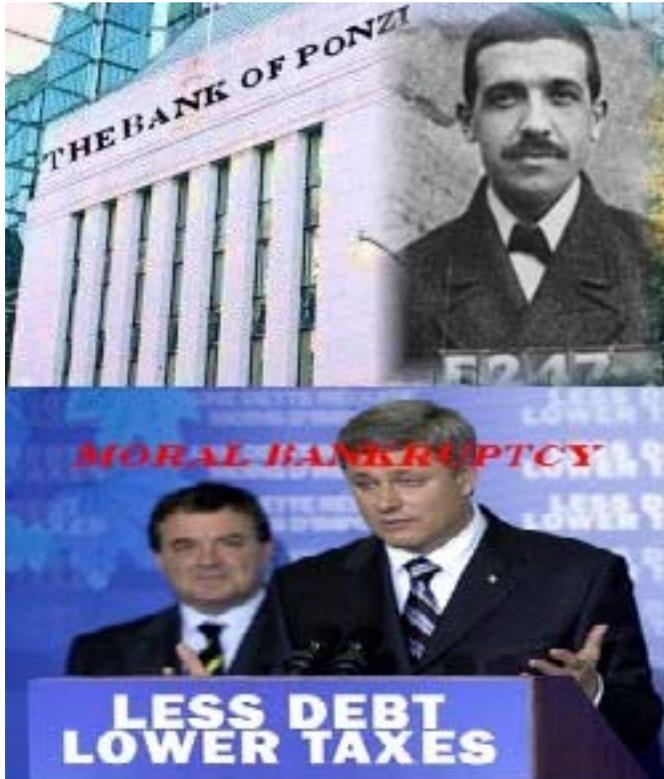
The fiasco is the consequence of the failure of the Bush Administration and the Harper Conservatives to oversee the activities of banks, speculators and pension fund managers operating as a “law unto itself”. A revealing analysis of their quasi-legal schemes is published in a three page expose in November 17th issue of the Globe and Mail. The item should be read in full



in every Trade Union and NFU local, every NDP and Communist Party Club, in every kitchen and coffee shop in the nation to get a rare insight into how the geniuses of finance capital consciously fleece workers and farmers of their hard earned savings and incomes.

THE “ABCP PONZI SCHEME”

The ABCP scheme that threatens to trigger a recession is driven by raw greed. It was inspired by the fact that hundreds of millions of US and Canadian workers must borrow to live because wages and farm income is insufficient to maintain a minimum standard of living. The high rollers pondered how to cook up a scheme to transfer into their pockets a slice of the lucrative income from personal debt that accounts for 30-50% of bank profits?



According to Rick Wolff, Professor of Economics at the University of Massachusetts, in 1974 Federal Reserve data show that US mortgage plus other consumer debt totaled \$627 billion. By 1994, the total debt had risen to \$4,206 billion, and by 2004, it reached \$9,709 billion. For the second quarter of 2005, the Fed announced that the nation's debt service ratio (debt payments as a percentage of after-tax income) was **13.6%**, the highest since the Fed began recording this statistic in 1980.

THE SITUATION IN CANADA

CBC Marketplace January 2006 produced a series on personal debt in Canada turning up the following facts. The CBC series revealed that as never before, Canada is a nation in debt. In 2003, for the first time ever, the average Canadian household owed more than its annual take-home pay. Canadians in 2006 carried 74 million credit cards – three for every



Canadian over the age of 18. Students are graduating with accumulated debt of \$25,000 or more. Consumer debt levels are rising much faster than incomes and have been for years. Savings rates are at record lows. Personal bankruptcies were at record highs.

In 1984, Canadians owed about \$187 billion in personal debt. In 2006 Canadians owed more than \$801 billion. The interest paid on consumer debt amounted to \$22 billion and \$34 billion on mortgage debt for a total \$56 billion. (Source – Statistics Canada).

The geniuses of finance viewed consumer debt not as a liability but as a business opportunity to be exploited for profit. How to do it? The answer was to be found in the banks that held most consumer debt. How was it possible to get the banks to release some of that consumer debt into the market where it could be resold at a profit?

The US banks obliged. Overflowing with capital and unwilling to spend it on expanding the real economy the banks flooded the USA with cheap mortgage money and hooked additional millions of workers desperate for decent housing into big mortgage payments. The surge in house buying initially inflated house prices and homeowners borrowed against the rising equity in their property and used it to purchase cars, holidays and appliances. There was a surge in consumer spending.

The banks then merged this burgeoning mortgage debt with car loans and credit card debt and sold it at a nifty profit to speculators who in turn bundled it into packages of ABCP at attractive interest as an inducement to greed driven companies, pension fund managers and private investors seeking a place to park short term real money on the expectation of getting quick high interest returns.

The speculators in turn took the real money and acting like banks and lent it to companies either unable or unwilling to seek banks loans. The income from those loans was used to pay back the short term investors in ABCP. The difference in the interest rates, coming and going was the ABCP companies profit and it was fabulous. Every time a deal was done a broker made money as the ABCP was sold and the real money received and lent to an eager borrower. The whole scheme depended on new homeowners and credit card owners making payments on debt. So long as they did the money continued to roll in and out of this “Ponzi scheme”.



WORKERS PAY THE PRICE

Then it all fell apart. Heavily indebted workers lost jobs or suffered a fall in purchasing power due to rising costs of living (in the USA 40 million citizens have no medical coverage) and were unable to pay their mortgages, car loans and credit card debt and the value of ABCP fell through the floor. The Ponzi held a lot of paper purporting to represent a cash flow that had stopped.

The scheme ground to a sudden halt as investors stopped buying ABCP, and speculators had no real money to lend borrowers. Everyone returned their ABCP paper and wanted their real money back. US and European banks and investment houses were required under government rules to underwrite ABCP and some ponyed up when it tanked. Not in Canada.

CANADIAN BANKS RENEGED

In Canada the banks reneged on regulations using a loop hole in the rules and refused to underwrite the losses. As the Globe and Mail article reveals the big losers were companies heavily exposed to ABCP the biggest loser being Caisse de depot et placement du Quebec reputed to be the largest pension fund manager in Canada with \$237 billion in assets. Caisse it is rumored held \$14 billion in ABCP. In a desperate attempt to prevent a complete collapse pumped some money into the market and cried for help.

Quebec Government politicians panicked at the thought of the collapse of Caisse and the political backlash of thousands of investors losing pension savings. It is likely that Premier Charest lobbied Prime Minister Harper to send Finance Minister James Flaherty to the banks calling upon them to cover the losses. The banks told the government to take a hike claiming they were obliged to come forward only if the crisis threatened a general collapse of the ABCP market. All they would agree to was to participate in a scheme to freeze trading in ABCP to permit some sort of deal to be struck. Purdy Crawford a corporate lawyer and big investor insider has been appointed to attempt to come up with a scheme to retrieve \$33 billion for ABCP investors cast into limbo. The freeze ends in another few weeks and all bets are off as to what will happen. News reports indicate that ABCP has now engulfed the commercial real estate sector. It is not over. Next week Caisse CEO Henri-Paul Rousseau has been ordered to appear before the Quebec National Assembly's public finance committee to account for Caisse exposure to ABCP that is falling in value as each day goes by.



WHAT CANADIANS FOR PEACE AND SOCIALISM SAID FOUR YEARS AGO

Four years ago we attempted to warn workers and the progressive movement that workers pension funds were in grave danger. Under the heading “Capitalist Investors Want Your Pension Fund – The Government is Planning to Give It To Them” we said:

“Since 1990 Canadian institutional and private pensions funds have increased from a total of \$175 billion to over \$500 billion. Add to this figure \$52 billion in Canada Pension Plan assets and pension funds constitute a very large pool of potential investment capital and big business wants it all.”

“Capitalists do not consider pension funds as workers money. “Your” pension fund is “mine” says corporate Canada. Capitalists unable to get risk capital from the big banks want restrictions lifted on pension fund managers to allow a pension fund unlimited ownership in a publicly traded company’s voting stock. Currently an individual pension fund cannot own more than 30%. About 29% of the total of non-CPP pension assets are already invested in companies listed on the Toronto Stock Exchange. These funds include \$50 billion invested in US equities and \$150 billion in Canadian equities.”

“There are grave risks putting larger amounts of workers pensions at the disposal of capitalist borrowers. The Ontario Teachers Fund had a 1.2% stake in Nortel and lost \$1.9 billion when technology stocks collapsed. The Alberta Local Authorities Pension Plan pulled out of Bre-Ex just before its notorious demise. On October 10th the Globe and Mail reported that Canadian Pension Plan portfolios stood to lose 10 to 15% of their value because of the collapse of equity markets. In the United States, the collapse of Enron wiped out the pension savings of Enron employees and there were no laws to prevent it.”

“When the Soviet people allowed their socialist system to be undermined the first thing millions of workers lost were their pensions. Workers in Argentina have seen their pensions disappear in the recent collapse of their economy. The recent “restructuring” at Algoma Steel involved pension concessions by the unions to keep the company afloat.”



“The Bush Administration has ordered a review of US legislation to allow for the privatization of social security, the US form of publicly funded pensions. Pressure will mount on the Canadian government to harmonize its pension protection legislation with the US. During the last federal election campaign Ken Epp then finance critic of the Canadian Alliance called for the scrapping of OAS and the CPP and replacing it with privately funded retirement funds.”

“So far the federal authorities have resisted calls from the right to privatize CPP. However the federal government has permitted 23% of the fund, about \$12 billion to be risked on the stock market. In fiscal 2001 the fund lost \$852 million. In the first six months of fiscal 2002 it has lost \$1.4 billion. The fund is used to bank-roll risky start up ventures banks wont touch and to bail out failed companies. The most recent scheme by the CPP Investment Board is to “entrust” \$500 million to three US asset management firms to fund risky ventures in the US and around the world. The potential for abuse is enormous.”

“Pensions are deferred wages. Workers agree to have a portion of their wages set aside and conservatively invested to ensure they have a retirement fund when they can no longer sell their labour power. Both their contribution and the so-called “employer contribution” come from the same source, surplus value derived from unpaid labour time. Canadian workers did not object to surpluses from the CPP loaned at low interest to Canadian municipalities to fund debentures to build public services. There was an aspect of the common good involved in such a scheme. It is theft of workers money to use the CPP to bail out failed capitalists. The \$12 billion on the stock market must be returned to where it belongs, to fund the retirement of Canadian workers now and in the future.”

THE CANADIAN LABOUR CONGRESS TAKES UP THE FIGHT FOR WORKERS PENSIONS

The 3rd Annual Pension Conference of the Canadian Labour Congress, October 2007 issued a working paper entitled “Move Forward Together or Fend for Yourself.” The Paper outlined a five “key demands” for labour action to expand the Canadian Pension Plan and provide every Canadian with a decent pension. The CLC paper revealed that only 38.5% of Canadians have work place pensions and one third have no retirement savings at all. Most vulnerable are working women, aboriginal families,



recent immigrants and workers with disabilities. The CLC hit out at employer groups that concoct schemes to evade their pension responsibilities to employees while private pension funds reap historically high profits. The CLC paper shows that the value of pension funds approaches \$800 billion delivering a return to pension fund investors of 9%. Benefits Canada reported that the value of all Canadian pensions eclipsed the \$1 trillion mark. Current federal budget spending on public pension plans is 6.5%. The CLC paper asserts there is no lack of money to provide decent pensions to all, there is a lack of political will to protect workers.

The CLC is demanding legislation to protect workers from employer bankruptcy and loss of pension funds citing the Enron debacle that wiped out \$300 billion from the assets of global pensions funds and along with that the pension savings of thousands of Enron employees. The CLC action plan demands:

1. Workers should get the pension they earned
 - Put workers interests first in corporate bankruptcy
 - Firm limits on pension administration fees.
2. All workers deserve decent pension coverage
 - Expand CPP benefits
 - Encourage unionization and large defined benefit (DB) the day...
3. Respect for today's (and tomorrows) retirees
 - Increase public pensions so no retiree lives in poverty
 - Address retiree concerns in pension plan governance
 - Public elder care, affordable prescription drugs
4. Our pension money should work for us, not against us
 - Encourage responsible investment for pension plans
 - Ramp-up union pension education programs for labour activists
5. A national "good jobs" strategy, so dignified retirement is possible
 - Implement a national strategy for family-supporting jobs



The paper, “Move Forward Together, or Fend for Yourself? The Future of Canadian Pensions: 3rd CLC Pension Conference Discussion Paper”, wound up with an elaboration of its five point program. The entire paper can be read at [Canadian Labour Congress](#) web site

The Canadian Labour Congress campaign for pensions for all deserves to be popularized and supported. The New Democratic Party MP’s, and the progressive left need to get into this struggle in a major way. It affects every Canadian and their future well being.

The struggle for decent public pensions for all working people is a major front of the struggle of the organized and unorganized workers. To win this battle a Government that puts labour at the top of its legislative agenda is imperative. It is another issue that is linked to the urgency of the need to throw out the Harper Conservatives.

The Harper Government represents finance capital and it will come down at every opportunity on the side of corporations and private pension plan providers and their profits relegating workers and farmers to producing the wealth without reaping the benefits.

Decent Guaranteed Pensions for All! The Wealth of the Working People Belongs to the Working People! Defeat the Harper Conservatives!

Don Currie, Chair,
Canadians for Peace and Socialism

Move Forward Together, or Fend for Yourself?

The Future of Canadian Pensions

**3rd CLC Pension Conference
Discussion Paper
October 2007**



Canadian Labour Congress

Congrès du travail du Canada



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The Problem - Imperialist War & Capitalism!
The Solution - Peace & Socialism!**

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