

Alberta Buck - Financial System Malfeasance (v2.0)

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Canada's financial sector earns roughly 30% of all after-tax corporate profits while contributing approximately 7% of GDP.¹ Nearly a third of all corporate profits flow to an industry that produces seven cents of every dollar of economic output.

Where do those profits come from?

Not from lending. Banks don't lend money. They create it – at zero cost – from assets their customers provide. Then they charge interest on it. This has been empirically demonstrated by Werner (2014) and confirmed by the Bank of England. The same mechanism applies to government bonds: banks create money against sovereign collateral, and taxpayers pay the interest. Canada's federal debt service alone exceeds \$54 billion per year.

Jackson and Kotlikoff (2020) proved that banking crises are caused by *malfeasance* – misrepresented risks – not liquidity shortfalls. But they missed the most pervasive malfeasance of all: the misrepresentation of money *issuance* as money "lending." This paper names it, quantifies it, and proposes an alternative – one that Alberta can build within its existing constitutional authority. (PDF, Text) (Version 1)

¹Sharpe, Andrew, Jean-François Arsenault, and Daniel Ershov. "What Explains the Rising Profit Share in Canada?" Centre for the Study of Living Standards, 2020. Finance and insurance drove 33% of Canada's total increase in corporate profit share from 1997-2017, four-fifths from rising profit margins rather than rising output share. The sector contributes approximately 7% of GDP while capturing roughly 30% of after-tax corporate profits.

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1 Where Does All Your Money Go?

In 2023, an average Alberta family with a \$505,000 mortgage at 5.5% paid roughly \$24,000 to their bank. Over 25 years, they'll pay approximately \$275,000 in interest.

Most people assume this is the cost of borrowing someone else's money. It isn't.

The bank didn't lend anyone's money. It created new money – typed it into existence as a ledger entry – against the value of assets the family provided. The marginal cost of creating that money was zero. The family provided the house, the income stream, and the insurance. The bank provided a keystroke.

This isn't a conspiracy theory. It is the documented, empirically verified mechanics of commercial banking, published in peer-reviewed journals² and confirmed by the Bank of England itself.³

And it explains something that otherwise makes no sense: how an industry that produces 7% of GDP captures 30% of all corporate profits.¹

This paper explains the mechanism, why regulation can't fix it, and what Alberta can build instead.

2 What Actually Happens When You Get a Mortgage

When an Alberta family walks into a bank seeking a mortgage, here is what they believe happens: the bank has money; the bank lends them that money; they repay it with interest over 25 years; the interest compensates the bank for the loss of use of its funds during that period.

Here is what actually happens, as documented empirically by Werner (2014)² and confirmed by the Bank of England (2014)³:

The family presents the bank with *two* valuable assets.

Asset 1 is the house. Worth, say, \$505,000. It is real. You can live in it. It sits on land that Alberta's government surveyed and titled. It was built with the labour of Alberta tradespeople using Alberta materials.

Asset 2 is a contract: the family's signed promise to pay the bank roughly \$24,000 per year for 25 years – approximately \$600,000 total. This payment stream, discounted to present value at market rates, is worth approximately \$380,000. This contract is also a real asset. It is a legal claim on the family's future income, enforceable in Alberta courts.

The bank then takes Asset 2 (the loan contract) and records it as a new Asset on its balance sheet. Against the value of Asset 2, it creates a new Liability: a "customer deposit" of \$380,000. This deposit is the "money" the family receives. It did not exist anywhere in the economy until the moment the bank typed it into existence.

The bank secures Asset 2 with a lien against Asset 1. If the family fails to maintain their stream of payments, the bank seizes the house.

At any time, the bank can package up Asset 2 and sell it on secondary markets – as a mortgage-backed security, a collateralized loan obligation, or a covered bond – receiving its present value in existing money and removing both the asset and the liability from its books.

Werner's key insight is *what doesn't happen*. No vault is opened. No existing depositor's balance decreases. No reserves are transferred. No money moves from anywhere to anywhere. The bank simply reclassifies its liability from "accounts payable" (what it owes the borrower under the loan contract) to "customer deposit" (what the borrower can spend). This reclassification is possible

²Werner, Richard A. (2014). "How do banks create money, and why can other firms not do the same?" International Review of Financial Analysis, vol. 36, pp. 71-77.

³McLeay, Michael, Amar Radia, and Ryland Thomas. (2014). "Money in the Modern Economy" Bank of England Quarterly Bulletin.

only because banks are exempt from Client Money Rules that prohibit every other type of firm from doing the same thing.

The entire operation costs the bank nothing. The marginal cost of creating \$380,000 is zero.

Yet the family will pay \$220,000 in interest over 25 years, and will lose their home if they cannot maintain payments on money that was created from *their own* creditworthiness and *their own* collateral.

2.1 Why This Is Malfeasance

Look at what actually happened.

The bank did not lend the family money. It created new money from the family's own assets and income, then charged them for the privilege. Nobody at the bank intended this as exploitation – the loan officer followed standard procedures, the compliance department verified the paperwork, and everyone involved genuinely believed a service was being provided. But the family provided *everything* of value in the transaction: the house, the income stream, the insurance payments (protecting the *bank's* asset at the *family's* expense). The bank provided an accounting entry made possible by a regulatory exemption.⁴

If any other entity – a pension fund, a stock broker, a corporation – tried this, it would be illegal. The Client Money Rules require that when a non-bank makes a loan, it must draw down existing funds. Banks can do it *only* because they are specifically exempt from these rules. They are the only entities in the economy permitted to reclassify their accounts payable as customer deposits without actually depositing anything.

This privilege is not ancient. It is not natural. It is a regulatory artifact, maintained by institutional inertia and the genuine difficulty of imagining alternatives – until now.

The interest charged on this costless creation is pure seigniorage – a wealth transfer from the productive economy to the money-creation monopoly. In Alberta, the scale is approximately \$23 billion per year.⁵

2.2 The Government's Version of the Same Trick

The same mechanism operates at the sovereign level.

When a government issues bonds, it is borrowing against fully collateralized debt – backed by its taxing authority. Banks purchase these bonds, often creating new money to do so through the same zero-cost issuance documented by Werner. The government then pays interest on this created money, funded by taxpayers.

Canada's federal debt service exceeds \$54 billion per year.⁶ That is money flowing from every Canadian taxpayer to bondholders, in exchange for money that the banking system created at zero marginal cost against the government's own creditworthiness.

If collateralized money creation doesn't require an intermediary charging interest – and this paper's thesis is that it doesn't – then the ever-expanding national debt represents, in significant part,

⁴The exemption from Client Money Rules is documented in detail by Werner (2014). UK regulations (FCA, 2013) explicitly state: "The client money rules do not apply to a CRD credit institution in relation to deposits within the meaning of the CRD held by that institution." This exemption permits banks – and only banks – to reclassify their liabilities as customer deposits without segregating client funds. Canadian regulations achieve the same result through the *Bank Act* framework.

⁵\$23 billion annual interest extraction ÷ 365 days = \$63 million per day.

⁶Canada Annual Financial Report, Fiscal Year 2024-2025. Public debt charges exceeded \$54 billion. This represents the interest cost of servicing federal government bonds – debt instruments backed by the government's taxing authority.

cumulative seigniorage: the cost of routing money creation through banks when no intermediary was structurally necessary.

The Alberta Buck doesn't directly address sovereign debt – that's a federal matter. But it proves the principle at the household level: wealth-backed money creation without intermediary interest is possible. The implications extend far beyond Alberta.

2.3 Follow the Money

Now the 30%/7% ratio makes sense.

Canada's financial sector captures roughly 30% of all after-tax corporate profits while contributing approximately 7% of GDP.¹ Between 1997 and 2017, the finance and insurance sector drove 33% of Canada's entire increase in corporate profit share – four-fifths of that from a rising profit *margin*, not a rising share of economic output.¹

In the United States, the trajectory is even starker: the financial sector's share of domestic corporate profits rose from 10% in 1947 to over 40% by 2007.⁷

These profits are not compensation for productive activity. They are seigniorage on costless money creation, collected from families via mortgage interest, from businesses via commercial lending, and from every taxpayer via government bond interest. The money was created from the borrowers' own collateral, at zero cost, and interest was charged as if real capital had been deployed.

No other industry in the economy operates this way. No other industry could.

3 What Kotlikoff Proved – and What He Missed

Jackson and Kotlikoff (2020)⁸ proved formally what historians have documented for three centuries: banking crises are *malfeasance* events, not liquidity events. Banks fail because risks are misrepresented, not because depositors panic irrationally. The panic is *rational*.

Their calibrated simulations are stark: 22% of total economic output is permanently lost to malfeasance on average. This is not a model of rare crises. It is a model of a *permanently* underperforming economy, operating well below its potential at all times because households can never be sure where their money is really going.

Kotlikoff then showed that conventional remedies fail. Deposit insurance *sustains bad banking* by eliminating the one market signal (bank runs) that constrains the worst behaviour. Private monitoring collapses under free-riding – once one person investigates, everyone benefits, so nobody pays to investigate. His solution – government-mandated real-time disclosure of all bank assets – would help enormously (67% welfare improvement), but is structurally unachievable.⁸

But Kotlikoff missed the biggest malfeasance of all. His model treats banks as intermediaries that might be dishonest. The deeper problem is that the core operation – what banks call "lending" – is not intermediation at all. It is costless money creation, charged as if real capital were deployed. This is not 22% of output lost to individual bad actors. It is the *interest spread on costless money creation*, collected by all banks, all the time, as a normal feature of the system's architecture.

Individual bankers aren't corrupt. But the architecture produces outcomes that, if any other industry operated this way, we would recognize immediately as extractive.

⁷Greenwood, Robin and David Scharfstein. "The Growth of Finance." *Journal of Economic Perspectives*, 27(2), 2013, pp. 209-230. US financial sector share of domestic profits rose from 10% in 1947 to over 40% pre-crisis, while its GDP share rose from 2.5% to 7.5%.

⁸Jackson, Timothy and Laurence J. Kotlikoff, "Banks As Potentially Crooked Secret Keepers" Department of Economics, Boston University, May 28, 2020.

Your brother-in-law who manages a bank branch isn't doing anything wrong. He processes mortgages exactly as trained, follows every regulation, and genuinely believes he's lending the bank's money. The system works precisely because the people inside it don't need to understand how it works.

4 Why Regulation Can't Fix It

Kotlikoff is right that transparency would help. But consider what real-time verification of all bank assets would require: every mortgage, auto loan, business loan, derivative, and off-balance-sheet vehicle, for every bank, continuously. The regulated entity is *more complex* than the regulator can ever be. A system cannot be fully inspected by a subsystem less complex than itself.

And there is a deeper problem. Even perfect transparency of the existing system would not fix it, because the fundamental issue is *legal*. If you showed everyone exactly how mortgage creation works – the zero-cost issuance, the interest on costless creation – nothing would change, because none of it violates any existing law.

Every reform since 2008 – Basel III, Dodd-Frank, stress tests, living wills – amounts to building a bigger monitor for a bigger system. The system always wins that race, because it is funded by the wealth it extracts.

The answer is not better monitoring. The answer is simpler systems that don't require monitoring.

5 Inverting the Monitor

Consider two approaches to preventing counterfeiting.

Approach A: hire expert inspectors to spot-check currency. When they find fakes, prosecute.

Approach B: design the currency so that *everyone* can verify it *every time it changes hands* – watermarks, holograms, special paper. Millions of verifications per day, by ordinary people.

Modern currency uses Approach B. Our financial system uses Approach A for everything. The Alberta Buck implements Approach B for money creation.

5.1 Decimation: Many Small Verifiers vs. One Big Auditor

Instead of one government agency auditing *all* assets held by a single bank, have *many* independent attestors each verify *one* asset with full skin in the game.

Specialised insurers attest to specific asset types, putting their own capital at risk. Multiple attestors sign each valuation and invest against their predictions. Accurate attestors earn premiums; inaccurate ones suffer losses. Everything is public – total BUCKs outstanding, backing values, insurance status – all visible, all the time, on the blockchain.

This defeats Kotlikoff's free-riding problem: you don't verify because you're altruistically producing public information. You verify because you're an insurer pricing risk you're underwriting. The information is public. The *incentive* to produce it is private.

It also defeats contagion: each position is independently verifiable. A fraud in one position tells you nothing about unrelated positions, because there is *no opaque institution* linking them. Bad actors increase returns to honest participants rather than depressing them.

Every component exists in production systems today. The full technical specification is in the Alberta Buck Architecture and Legal Foundation documents.^{9, 10}

6 The Alternative

The family that currently presents two valuable assets to a bank and receives costless money in return, under the Alberta Buck system presents *one* asset (the house) to a competitive market of attestors and insurers, and creates money directly.

No bank sits between the family and the monetary system. No intermediary charges interest on costless creation.

Annual cost: insurance premiums of roughly 0.5%, or ~\$2,500/year. Compare to ~\$21,000/year in mortgage interest during the early years at 5.5%. Over 25 years: \$62,500 in insurance vs. \$275,000 in interest – an 80% reduction in the cost of converting illiquid wealth to liquid spending power.

6.1 Financial Institutions Should Lead This

This is not anti-bank. Forward-thinking institutions should *want* to participate.

A bank that currently earns revenue through money creation and interest can instead earn revenue through attestation services, insurance products, custody, and exchange liquidity – at lower risk, with a more sustainable model. Stablecoins already process more daily volume than Visa. DeFi protocols already manage billions in asset-backed tokens. The question is not *whether* wealth-backed money creation will happen, but whether Alberta's institutions will lead it or be displaced by it.

ATB Financial, operating outside federal banking jurisdiction since 1938, is the natural partner. Alberta's credit unions – under competitive pressure from "too big to fail" commercial banks – may find that participating in the Alberta Buck system finally gives them an advantage.

7 The Stakes

Every day of delay costs Alberta \$63 million in unnecessary interest payments.⁵

Over a 25-year mortgage, the cost per family: \$275,000 in interest on money created from their own wealth. The alternative: \$62,500 in insurance premiums.

If even half of Alberta's 580,000 mortgaged households transition, the province retains \$5.5 billion annually. Invested at 4% over 30 years, the compound benefit exceeds \$325 billion – more than four times Alberta's current annual budget.

These numbers are not speculative. They are the straightforward mathematics of compound interest working *for* Alberta instead of *against* it.

And they represent only the private-sector savings. Apply the same logic to provincial borrowing – Alberta's own bonds, backed by the province's taxing authority and resource wealth – and the potential savings multiply further.

Meanwhile, the industry collecting these interest payments earns 30% of all corporate profits in Canada while producing 7% of GDP. The question is not whether this system will change. The question is who builds what replaces it.

⁹Kundert, Perry. "The Alberta Buck - Architecture" Dominion Research & Development Corp.

¹⁰Kundert, Perry. "The Alberta Buck - Legal Foundation" Dominion Research & Development Corp.

8 The Call to Alberta

To the policy analysts at Alberta Treasury Board and Finance, and to the Minister:

The fundamental technology has changed. Blockchain, smart contracts, and parametric insurance now make it possible to do what regulation alone cannot: give citizens direct, transparent access to their own wealth's liquidity.

Alberta is uniquely positioned. You have \$1.6 trillion in attestable real estate, \$50 billion in agricultural assets, and centuries of proven reserves. You have constitutional authority over property, contracts, and insurance. You have ATB Financial, operating outside federal banking jurisdiction for 87 years. You have a population that understands resource management and self-reliance.

Nothing here requires revolution. The Alberta Buck operates within provincial jurisdiction – Section 92(13) of the Constitution Act, 1867. The transition is voluntary. It begins with a pilot, proves the concept, and expands as adoption demonstrates value.

Five actions requested:

1. **Fund a research program** to prototype wealth-backed money creation using existing blockchain infrastructure. The components are production-ready; integration and Alberta-specific adaptation are what's needed.
2. **Engage the insurance industry** to develop parametric insurance for BUCK-backed assets. This is a new market worth potentially billions in premium revenue for Alberta insurers.
3. **Initiate a pilot** with agricultural cooperatives or rural municipalities – the communities that feel the weight of debt-based financing most acutely.
4. **Invite financial institutions** – starting with ATB Financial – to design the transition. The banks that move first capture the attestation, insurance, and custody revenues that replace interest extraction.
5. **Adopt a policy stance** that treats wealth-backed money creation as an *enhancement* of financial stability – because a system built on verified, insured, publicly visible asset backing is inherently more stable than one built on opaque intermediation.

8.1 Stop Reforming the System. Reform the Money.

Kotlikoff proved that the banking system's dysfunction is structural. Werner proved that the core operation – costless money creation represented as "lending" – is the foundational operation of commercial banking, so ubiquitous that even bankers believe they are lending existing funds.

The answer is not better surveillance of a system too complex for surveillance to reach. The answer is a system that doesn't need surveillance because it is transparent by construction, verified by participants with skin in the game, and backed by real assets that anyone can inspect.

The Alberta Buck is that system. Every component is proven technology. The legal foundation is established. The constitutional authority exists. The economic benefits are quantifiable and enormous.

The only missing element is political will.

The generation that could build this future is watching. They understand compound interest. They understand what \$275,000 in mortgage interest means for family formation, for home ownership, for their ability to build a life in this province.

Don't give them another regulatory reform. Give them a monetary system worthy of the wealth they create.