1 June 2012

Senate Standing Committees on Economics
Parliament House
Canberra ACT 2600

Committee Secretary,

Please find attached my submission to the

***Inquiry into the post-GFC banking sector.***

Yours sincerely,

Alan Griffiths

**30th May 2012**

# Submission

## *Senate Inquiry into the Banking sector post GFC*

**This submission will focus on four inter-related aspects:**
**1. The Sovereign Credit power inherent in the RBA.**
**2. The possible collapse of the Global Banking system via Derivative speculation, usury & global debt that exceeds global capacity for repayment.**
**3. The need for increased Government & private Banking support of the current NILS scheme.**
**4. The urgency to implement alternative economic solutions to a rapidly failing system.**

**CONTENTS**



**Preface :**

Modern civilised people may well consider as barbaric or evil the past practices of human sacrifice and slavery which at one time existed as state policy in many parts of the ancient world.Slavery was a commercial foundation of the “democratic” Athenian and Greek City states and the later Roman Empire.

Today civilised people are unwittingly sacrificing their own children and future generations to a type of slavery in the form of financial bondage.

These prefatory remarks are not the result of fantasy but simple observations.

This submission will attempt to identify a few of the strategic flaws in the current global banking finance system and offer some constructive suggestions to address the problem that faces us all and which if unchallenged threatens our immediate and long term security if not our very existence.

There is nothing new nor original in what I present, since the subject matter has been correctly identified and the solutions proposed over decades, and even centuries, to the cyclic disasters that are the automatic and predictable outcome of the concentration of wealth in the hands of an elite few, based upon the predatory use of debt creation and driven by the compounding tool of interest to create a debt incapable of repayment.

It is with these sober thoughts in mind that I submit to the honourable committee members my submission for their consideration and hopefully constructive action.

## Introduction:

The increasing social dislocation, political instability, unemployment and financial insecurity prevalent today are in part the recent and short term legacy of what has been euphemistically referred to as the Global Financial Crisis (GFC) which is merely the final outgrowth and predictable culmination of policies of bank deregulation, globalisation and other flawed policies instituted in the 1970's and 80's and continued relentlessly until today.

Of course GFC sounds less threatening than "The Great Depression" which was at least an honest description of a previous GFC (1929-1935) but however much an acronym may soften a reality, the reality still remains.

To suggest that this enquiry is examining issues "post" GFC is an indication that many authorities are in denial of the reality of events unfolding daily on a global scale.

The citizens in the countries of Iceland, Ireland, Portugal, Spain, Italy and Greece as well as the UK, USA and Australia not to mention Africa and Asia may be forgiven if they mistakenly believe that the GFC is still in motion and unfolding to their increasing detriment.

The following statement comes from a well respected UK financial commentator, Peter Warburton and was published just prior to 2000

**"The credit and capital markets have grown too rapidly, with too little transparency and accountability. Prepare for an explosion that will rock the western financial system to its foundation."**

## Danger to Democratic and Open Society

James Robertson – "Transforming Economic Life: A Millenial Change" states:

"People are increasingly experiencing the workings of the money, banking and finance system as unreal, incomprehensible, unaccountable, irresponsible, exploitative and out of control.

Why should they lose their houses and their jobs as a result of financial decisions taken in distant parts of the world?

Why should the national and international money and finance system involve the systematic transfer of wealth from poor people to rich people and from poor countries to rich countries?

Why should someone in Singapore be able to gamble on the Tokyo Stock Exchange and bring about the collapse of a bank in London?

Why do young people trading in derivatives in the City of London get annual bonuses larger than the whole annual budgets of the local primary school?

Do we have to have a money and financial system that works like this?

Even the financier George Sores has said (“Capital Crimes”, Atlantic Monthly, January, 1997) that “the untrammelled intensification of laissez-faire capitalism and the extension of market values into all areas of life is endangering our open and democratic society.”

## The Pervasive Role of Interest

How the present interest-based system works to favour the rich and kill the poor is succinctly explained by James Robertson in the following words:

“The pervasive role of interest in the economic system results in the systematic transfer of money from those who have less to those have more. Again, this transfer of resources from poor to rich has been made shockingly clear by the Third World debt crisis. But it applies universally. It is partly because the cost of interest payments now forms a substantial element in the cost of all goods and services, and the necessary goods and services looms much larger in the finances of the rich.

When we look at the money system that way and when we begin to think about how it should be redesigned to carry out its functions fairly and efficiently as part of an enabling and conserving economy, ***the argument for an interest-free inflation-free money system for the twenty-first century seems to be very strong.***”

## Transfer of revenue from poor to rich

“The transfer of revenue from poor people to rich people, from poor places to rich places, and from poor countries to rich countries by the money and finance system is systematic....One cause of the transfer of wealth from poor to rich is the way interest payments and receipts work through the economy.” (end of quote from Robertson)

## Money Creation and Modern Banks

This phenomenon is aggravated to a horrible extent by the well known characteristic of the modern banks normally termed as “money creation”. Even the introductory books of economics usually explain often with complacence, how the banks create money. This apparently miraculous function of the banks is sometimes taken to be one of the factors that boost production and bring prosperity. But the illusion underlying this concept, is seldom unveiled by the champions of modern banking.

This history of ‘money creation’ refers back to the famous story of the goldsmiths of medieval England. Whilst it’s a fascinating story within itself I will not dwell upon this matter as it will no doubt have been covered in other submissions.

## Current Position

**(excerpt from correspondence titled "Australian Economy at the Cross Roads" from David Keane sent to every Senator in Australia in July 2007)**

Nine possible steps to a sustainable economy.

1. Admit gross deficiencies in recent government policies (on both sides of parliament)

2. Restore an efficient public sector, especially active in infrastructure investment.

3. Place full control of the money supply under an Australian Government Banking Authority.

4. Cease the practice of government borrowing at high interest rates and instead ensure that governments are issued interest free loans.

5. Arrange for the money presently advanced as bank loans to be created exclusively by the Australian Government Banking Authority.

6. Devise a strategy for reversing the growth in foreign debt and foreign equity

7. Develop a policy for a national people's bank, responsible to the government of the day.

8. Promote openness and transparency of economic information particularly in relation to the operation of the large domestic banks ( see addendum re derivatives)

9 Promote a tax reform debate involving participation of civil society and state governments (see following ERA policy statement).

**DEJA VU**

*The following is an extract of the first two pages of the forty page document tabled in 1935. Its analysis and conclusions are as valid and relevant today as they were 77 years ago. I strongly urge the current Committee to obtain and study carefully its recommendations.*

**Parliament of Tasmania 1935 Monetary System: Report of Select Committee**

"On the evidence placed before it the committee finds that the people are being prevented from possessing, consuming and or utilising and enjoying the increase of wealth and or the actual or potential increase of production over the last thirty years: that the cause of this is shortage of purchasing power in the hands of the community as a whole and that this can be effectively remedied only by-

1. Restoration by the sovereign community of effective control of money of all its forms:-
2. The establishment by the Commonwealth Parliament of machinery which will secure regular equation between the community's production and the community's purchasing power.

The inquiries of the Committee have shown that since the basic wage was first fixed in 1907, the benefits of the great advance in scientific and mechanical aids to production have not been passed on to the general community, but instead have been appropriated by a small section of society , while the great bulk of the people have actually suffered a lowering of their living standards.
At the same time the following facts, to which particular attention should be drawn, appear to be fully substantiated: -

1. There has been a great increase in actual production

2. This increased production has been affected with the use of a relatively small number of workers in industry, and the trendis towards greater production with fewer workers.

3. The workers dispensed with have been left absolutely without incomes, while the basic wage of those retainedin industry has a lower purchasing power than in 1907.

4. The smaller producers, manufacturers, distributors, and retailers have been and are being overwhelmed with debt and driven out of business.

5. The place of the interests mentioned in (4) is being taken by organisations of a monopolistic tendency, and;

6. These monopolistic organisations can be closely identified with the monopoly of finance as represented by the private banks and their subsidiaries.

This points to the fact that production has been and is secondary to finance, whereas finance should obviously be secondary to production, i.e. finance should be the servant, and not the master of industry." (end of extract)

**THE FANTASY OF FIGURES**

DERIVATIVES: SITUATION WORSE THAN GOVERNMENTS ADMITTING:

Derivative markets create nothing, but serve to enrich non-producers at the expense of the people who do create real goods and services. In the US early in the 1990s derivatives' trading was challenged as being an illegal form of gambling, but the practice was legitimised by the then Federal Reserve chairman Alan Greenspan.

From then on the derivative trades grew exponentially until they BECAME LARGER THAN THE ENTIRE GLOBAL ECONOMY.

In fact at the time of reporting, the Bank of International Settlements had disclosed the total derivatives trades exceeded one quadrillion dollars – that's 1,000 trillion dollars. At the time, the gross domestic product of all the countries of the world was about 60 trillion dollars.

Derivatives explained: Mr. Will Peden of Robe, South Australia
has put out a paper explaining the derivatives markets. In 2008 he wrote: "Derivative markets are where participants can bet on where they think a currency, exchange rate or any one of a number of markets will be at a future date.

Derivatives can be useful to hedge (or insure) where there is a risk to a bank. For example if an Australian bank borrows money from the U.S., in $US to use the money in Australia, it can be prudent for the borrowing Australian bank to hedge (insure) against the currency risk when the money needs to be repaid. If the $A rises in value against the $US in between borrowing and repayment, then the borrowing bank will make a windfall profit on the deal because it will not have to pay as many Australian dollars to repay the principle.

Conversely, if the Australian Dollar falls in between borrowing and repayment, the borrowing bank will suffer an exchange rate loss on the deal. To remove this risk, of both a profit and loss, the bank can hedge its position in the derivatives market. The problem is that banks around the world haven't just been hedging (insuring) in this market. They have been gambling.

The scale of the problem:

Australian Banks have a combined exposure of $13,785 Billion (or $13.785 Trillion) to derivatives and other "off balance sheet business" as at 30 June 2008. These are the most recent figures publicly available. Readers can verify these figures by getting a copy of the *Reserve Bank Bulletin*, September 2008, and look at Table B4, and it is the last figure on the page. The source is credited to APRA or the Australian Prudential Regulatory Authority.

This is their exposure, not their turnover. It is unfortunate that the banks' combined exposure has been increasing, even in the past year.

To get this figure into perspective the total shareholder equity of the banks at the same date was a mere $129 Billion (or $0.129 Trillion). The total shareholder equity in our banks is less than 1% of the banks' combined 'off balance sheet' exposure.

In Australia the banks may claim that they are hedging however the size of their derivative positions dwarfs their total assets ($2T table B2) so this argument doesn't hold water.

'Counter party failure':

If there is counter party failure (this is where the bank, hedge fund, etc., at the other end of the deal goes broke) of even 1% of these positions, then the whole equity of our banks is gone. The reason that governments around the world are preventing banks failing is that if one bank folds, the counter party failure will ensure the domino effect around the world causing most banks to fail. The ironic thing is that it is the banks with severe exposure that are being saved. i.e. the ones that have gambled the most.

Bet the wrong way:

A 'significant bet' that goes the wrong way, that results in a loss of 1% of the total exposure, will have the same result.

Public awareness and the markets:

People who know about these issues. Some senior bank people and government people certainly know about this exposure as do well-informed market traders. More and more trading people have been finding out and when they understand the problem they have been dumping shares, especially bank shares. With the exception of two articles in *The Australian* earlier this year, the public don't appear to be aware of this risk to their investments. The main articles in *The Australian* were: "Bomb ticking for off-balance banks" by Adele Ferguson, Monday, 18/2/08, on page 36. "Gambles in the balance" by Adele Ferguson, *Week End Australian,* 8-9/3/08, page 26 of the Inquirer section. Other articles have included updates since then.

Public awareness is very low:

Most financial commentators have no idea of the problem. Similarly, most members of the public have no idea of the issues.

It is unfortunate that many financial advisers and commentators who don't understand the situation are advising members of the public to buy shares, especially bank shares. Some commentators are claiming that the markets are in panic and are not acting rationally.

Many commentators are also advising the public to buy shares because they say the markets can't go much lower. Some commentators also refer to yields on shares based on previous earnings, whereas astute investors realise that future earnings are going to be very different.

The market is rational:

Once readers understand the above they will see that the financial markets are reacting in a rational way. The banks aren't lending to each other because they don't know what 'unrealised losses' (losses that haven't been declared) lie within other banks and they also don't want to get further exposure to banks that may fail if a counter party fails.

Exposure of individual banks: The public do not know which Australian banks belong to which parts of the $13.7T of exposure.

The ASX should immediately suspend all bank share trading until the public knows what the exposure is of each bank and what losses lie hidden in these enormous positions. If the ASX doesn't suspend trading in bank shares then this price sensitive information will only be known to insiders. The public needs to know this information.

How did the banks get to this position?

Essentially their mindset is that the government won't allow the big banks to fail so the banks keep punting recklessly. If the banks bet and win, they get to keep the profits, and if they lose then the governments of the world will step in and rescue them. This is what is happening now.

How did the government let this happen?

Government regulators have been asleep at the wheel and used totally inadequate risk modelling.

Government action required: A lot of money will be wasted and opportunities lost unless the bank exposure to derivatives is quarantined.

The government must: Force the banks to disclose their full exposure to the public: The markets get more spooked by not knowing than knowing. The public need to know the extent of the problem. There is nothing in the disclosure rules that says if the news is really bad then the public shouldn't be told.

Also, small investors are getting burnt by buying when larger investors know what the problems are and are selling to the smaller investors..."

FINANCIAL WORLD – A HOUSE OF DEBT CARDS by Wallace Klinck: But it is more than the derivatives gambling. What most people have not, or cannot, grasp is that the system, based on debt, must eventually collapse.

Wallace Klinck explains: The system, being increasingly non-self-liquidating causes the financial world to resort to a proliferating series of evermore tenuous artifices in an attempt to make an unworkable system function. When the debt load becomes stretched to the limit of any hope of debts being serviced, confidence breaks and the whole thing comes down like a deck of cards, <u>making nonsense of all previous denials</u> that the financial system is unsound. Then the government, if wholesale ruination is to be avoided, is more or less 'compelled' to intervene with injection of more of the same debt poison which caused the collapse in the first place.

They just borrow more money from the banking system and carry on by further inflation of the money supply with its concomitant upward pressure on the price-level, the inherent deficiency of purchasing-power being offset further into the future by transforming the debt of the private sector <u>into permanent state debt.</u>

Of course we are all expected to work harder and longer to meet the burden of inflating prices and increased taxation resulting from interest charges on bloating state debt. Of course, attempts by the state to reverse this situation by endeavouring to run on balanced budgets and to pay down state debt just constricts the economy, while leaving the community of lesser governments and individuals to shoulder the burden of the false debts that are increasing exponentially.

We now witness the futility and tragedy of this unrealistic policy in the recent so-called credit "meltdown" and the inevitable contraction of the economy which must come from the deflation. But it serves those who confiscate the wealth of others and those who would enhance the power of the state by proposing increasing state intervention in the lives of the people--serving also the policy of forcing nations increasingly into mergers leading to an eventual global government.

JPMorgan, the largest bank in the US, recently revealed it had lost the money($2-3 billion,no one seems to know the figure) through arcane financial products known as synthetic debt securities in the form of Derivates Trade rekindling fears about excessive risk taking on Wall Street.

The loss has reignited a backlash against risky trading by deposit-taking institutions, which enjoy implicit support from the taxpayer.

A former chief risk officer at ANZ, who is now a consultant, Mark Lawrence, said there would be further international debate about regulations and supervisory policies to ensure that commercial banks were not taking excessive risks in their trading activity.

"Specifically, how dependant are banks' revenue streams on risk taking in their trading activities?"

Australian banks tend to make less from betting on financial markets than banks overseas. A recent report from Morgan Stanley and consultants Oliver Wyman said about 10 per cent of their profits comes from trading activity. Does this include off book derivative trades? Fig below in article in this article reaffirms the figure involved as $ 16 TRILLION!

A spokesman for the Treasurer, Wayne Swan, also highlighted the relatively conservative approach of Australian banks.

"Australia's banks are some of the strongest in the world and among only a handful to be rated in the AA band or above because our world-class supervisors and the banks' sound lending standards ensured they did not engage in the risky behaviour seen overseas," the spokesman said.

ADDENDUM: Let the Australian Public see the action required to verify these assurances: Not withstanding these assurances the simple fact that Australian banks achieve 10% of their profits from speculative trading activity is still a potential high risk activity.

**Principles of Economic Reform:** (See Economic Reform Australia ERA, and COMER websites for additional reference.) As an early member of these NGO's I am in agreement with the following statements and sentiments expressed.

Objectives:

(i) Challenge unregulated "free" market systems and their reliance on ever-increasing material growth, competition, consumption, waste and indebtedness;

(ii) Expose the economic illusions which pervade institutional practices generating poverty and inequality, environmental destruction, and loss of economic sovereignty;

(iii) Challenge the use of money just to make money without also making a useful social contribution, and develop alternatives to the debt-based financial system dominated by high interest rates, excessive profits and speculation;

(iv) Review international trade and propose mechanisms to reclaim economic sovereignty from the over-riding influence of international money markets and financial institutions;

(v) Research and develop mechanisms which eliminate foreign debt, reverse foreign ownership of Australian enterprises, enhance self-sufficiency and rehabilitate the environment;

(vi) Support economic solutions to achieve sustainable populations which accurately identify the complex issues involved;

(vii) Develop concepts of ownership based on usage and the rights and obligations of owners as custodians of the natural environment and contributors to a just social order;

(viii) Demand that economic and financial systems enhance human, civil, cultural and political rights and responsibilities, ensure economic equality for women, and protect children from exploitation and slavery;

(ix) Research viable systems of governance which assist the full participation of all citizens in the democratic process, *and which devolve power to local communities;*

Rationale and Background to ERA's Objectives:

ERA considers the present debt-based financial system, where almost 95% of all money enters the system as interest-bearing loans advanced by commercial banks, as a major structural impediment to a socially and ecologically sustainable economy. ERA was established in 1993 as a non-party advocate of a range of alternatives to those features which characterise an economic system driven by debt. ERA's proposals aim to reclaim economic sovereignty by reducing reliance on foreign debt and ownership; eliminating current account deficits, budget deficits and public debt; maintaining low interest and inflation; and discouraging speculation.

ERA places financial reform within a framework of social justice and equity, ecological sustainability, public accountability and control, and economic regulation. It highlights interest-bearing debt as a pivotal force driving the need for levels of economic growth and consumption which destroy our natural resources, pollute the environment, and exacerbate poverty and inequality.

ERA insists ***that governments have the responsibility to use their central banks to generate substantially interest-free loans for essential public infrastructure as has been the case in the past until full financial deregulation in 1984***. These will also generate employment. It is also the responsibility of governments to ensure a fair distribution of income throughout the society through such arrangements as job sharing and a Guaranteed Adequate Income (Citizens' Income).

ERA is affiliated to the international Committee on Monetary and Economic Reform (COMER) whose policies it supports. ERA has assisted in the formation of the Debt Crisis Network which is calling for the writing off of Third World debt, national self-financing using central bank credit, and grants in place of interest-bearing loans. ERA has taken a central role in convening annual TOES (The Other Economic Summit) in Australia to challenge the economic growth and the deregulation policies of the G-7 Summit.

**ERA's Short-Term Proposal Details**

***1. The Economic Sovereignty Loan Plan***

The Economic Sovereignty Loan Plan requires that governments, instead of borrowing at market interest rates from the private sector, especially banks and foreign lenders, are issued interest-free or very low interest loans by the Reserve Bank (or State Banks). These would be for capital infrastructure projects and to retire existing debt. Interest on public debt of over $200 billion now costs Australian taxpayers more than $20 billion annually. Retiring public debt would gradually eliminate the annual interest bill and improve budget deficits. It would also improve current account deficits ***because almost half the public sector debt is overseas funded*** ERA proposes that Reserve and State Bank credit representing 1% of GDP be made available to the various levels of government in the first year for employment intensive capital works.

All projects would be required to meet stringent criteria of social and environmental benefit, and strict accountability. The effects would be closely monitored but are not expected to be inflationary until full employment is approached. At this point increased tax revenues might overtake any need for further government credit. At the same time the Reserve bank would be required, if necessary, to raise reserve requirements on the private banks to limit the overall growth of the money supply to a non-inflationary rate. This might be achieved by reimposing fractional reserve requirements comparable to those used prior to 1988, or by other means such as raising the prime asset requirement. Eventually all credit would be interest-free and issued by governments through banks. In the meantime the amount of interest-free credit issued by government as Sovereignty Loans should increase by 1 percent of GDP a year.

***What is being proposed is that the Reserve Bank and State authorities should transfer the government securities (debt) held by the private banks to their own accounts at the rate of***

***around $5 billion debt a year, and lend it interest-free or at very low interest for approved capital projects.***

The term capital is used to refer to spending which will have the effect of broadening the tax-base over the longer period, and therefore must be treated as an investment which depreciates over its useful lifetime. ***To balance the public debt incurred there must be an inventory of capital assets as in the private sector eg roads, sewage, and energy plant, roads, public transport, schools, public housing etc.***

### *2. Financial Asset Taxes (FAT)*

High interest rates and unstable exchange rates provide ideal opportunities to use money to make money without the intervention of productive effort. As a result, funds invested in banks, superannuation and insurance are increasingly being channelled into non-productive speculative financial transactions currently exceeding by 20-30 times the value of transactions producing goods and services. *These speculative international transactions now govern national economic policies, yet are taxed at negligible, concessional rates. Financial transactions involved in the production of actual goods and services are estimated as less than 3% of all financial transactions in Australia to-day.* Financial deregulation has exacerbated speculation, and Australia's dollar has become so volatile that it is one of the most traded currencies in the world. Currency volatility is a world-wide problem and in 1994 the Bretton Woods Commission, established to mark the 50th anniversary of the World Bank and the IMF, called for an extensive reshaping of the global monetary system to include a more managed system of exchange rates.

However, a financial assets tax of between 0.1 and 0.5 percent would be more effective in raising revenue and discouraging speculative financial transactions because of the narrow margins of profit on which they operate. One estimate was that for every .2% tax, Australia could collect $14/15 billion of additional revenue. The Australian Government has already supported such a tax on foreign exchange transactions at the 1994 Social Summit in Copenhagen.

### *3. Impex System of Foreign Exchange*

The Impex (Import/export) system of Foreign Exchange management would establish a free market in foreign exchange which would automatically balance its current account of overseas financial transactions.

*It would do so by ensuring that no money was spent overseas which had not already been earned overseas without overseas borrowings, or sale of Australian assets. No overseas money could be directly exchanged for Australian dollars, and all overseas currency would be bought and auctioned on an Impex market which would establish the going Impex rate. Under this system exporters and other earners of foreign exchange would own the foreign exchange they earned, and be able to sell it on the Impex market when rates were favourable.*

The Impex rate would reflect the ratio of overseas earnings to overseas payments. While Australia's balance of payments showed a current account deficit, the Impex rate would be high, effectively increasing the cost of imports and encouraging Australian manufacturers to establish import replacement industries. A high Impex rate would, in effect, put an additional cost on all interest, services, and foreign profits out of Australia. All overseas transactions would go through the Impex Facility (a branch of the Reserve Bank) where, as now happens, the $A dollar value of each transaction would be calculated at the current rate of exchange for the currency involved. So that the system could be phased in gradually, the government would continue some overseas borrowing to feed into the Impex market to hold down the initial Impex rate.

**The advantages of the Impex system include:**

- an exact balance of payments;
- no changes would be required to existing tariffs, duties and exchange rates;
- when importers have to pay more for exchange to buy overseas products they will seek out Australian suppliers, and encourage the establishment of import replacement industries providing local employment;
- as Australia's manufacturing base expands, tax evasion through off-shore production will decrease, as will other malpractices such as transfer pricing;
- existing overseas debt can be gradually paid off by setting the Impex rate somewhat higher than the natural market rate;
- Impex will automatically apply the exact incentives for exporters and disincentives for importers needed to ensure a constant balance of payments.

### *4. Foreign Ownership and FIRB Reform*

The Impex system will need to be supported by a reformed Foreign Investment Review Board (FIRB) to reverse the disastrous situation where foreign ownership/control of Australian enterprises has now reached 49%. FIRB's approval criteria must be based on not only the estimated expenditure in Australia but more importantly, the estimated number of Australians who will be employed initially and in the following five years. FIRB's role and funding should be expanded to include information and education to local enterprises to undertake projects for which Australia would otherwise be dependent on foreign investment and imports. As well FIRB should ensure:

- ***transfer of ownership to Australian owners and investors at the end of 10-15 years;***
- ***detailed monitoring and regulation of foreign capital;***
- ***investment of foreign capital in import replacement industries;***
- ***and enterprises consistent with national environmental and social priorities;***
- ***approval of foreign involvement in new ventures only where foreign capital, technology and relevant expertise are not available in Australia;***
- ***strict monitoring of export and import prices to reduce transfer pricing arrangements;***
- ***prohibition of foreign investment used to acquire land for residential or commercial purposes.***

- ***ERA's Long-Term Vision:***

  Economics deals with the organisation of the material welfare of humankind. It is the science of the production, distribution and consumption of goods and services. To achieve a socially *just and environmentally sustainable society, economic systems need to be regulated and publicly accountable*. They need also to be based on human needs and motivations, and the physical limits of the environmental field with which human populations are now finely balanced. But deregulation on an international scale, far from contributing to human welfare, rewards the rich and powerful at the expense of the poor. It also treats the environment as a resource to be indefinitely plundered, and favours speculative activity over the production of real goods and services. ***Most of those now involved in economic reform believe the social, environmental and financial systems are now under such stress, that increasing instability will trigger a collapse of the existing order (written 2005)***

Therefore, ERA's vision is of an economic system which ensures a modest and dignified living for all humankind without overconsumption and stress to our home planet Earth, on which our survival depends. The economy must support a social system which helps all individuals fulfil their potential, and contribute to the society throughout their lives in satisfying and beneficial ways. The permanent loss of jobs from the mechanisation of labour and new computer technology has radically transformed the availability of paid work. This period of major transition is a creative opportunity to reorganise and redefine work as "socially beneficial participation" to ensure that work does not become the special privilege of a social elite. ***Money must assume its primary role in facilitating the production, distribution and consumption of goods and services instead of being diverted into quick profits and speculative activities***. The short-term proposals outlined foreshadow a very different economic system, and will enable the whole system to be redesigned. However, the luxury of a gradualist approach could give way to rapid and more far-reaching reforms if the system collapses.

In an increasingly unstable economic environment some of the more radical visions put forward by ERA members are achievable. For instance, it is possible to envisage a society where all debt and interest are eliminated and taxation ceases to be a way of collecting revenue. A citizens' income, not wages and salaries, would become the primary way of distributing money so that the nexus between production and income is broken and the cost of labour need no longer be included in price.

***Governments or community groups could be responsible for the creation of interest-free credit, and local banks would issue the money as a non-profit public service.***

A highly successful example of such a mirco economic system is The NILS Programme. (see following information under NILS)

We have reached the turning point, and ecological economists warn that the world's vanishing natural capital is now the limiting factor in human economic activity. While population pressures are the major threat for poorer economies, far more destructive is the overconsumption by the world's affluent. It is imperative to move from resource intensive economic activities to economies based on services which raise our quality of life and awareness without destroying the environment. The problem is that our economies currently serve the short-term interests of those with money to spare to the detriment of our long-term social and environmental well being of the planet.

We are now dangerously dependent on a steady flow of manufactured goods and it is essential to step off the treadmill of material consumption and production, or at least slow it down, so that future generations have a fair chance of personal happiness and survival. At the heart of the matter is our attitude to the land which must move from the concepts of personal ownership to the obligation to be responsible custodians of what is not ours to own.

While the economic prognosis looks grim, we have within our grasp all the mechanisms to organise a socially, environmentally and financially sustainable society.

Modern computers allow us access to all information needed to generate sustainable economic practices, and telecommunications have the potential for interested citizens around the world to vote on any issue. Accountability by elected or appointed representatives and private enterprise to the public can be complete and instantaneous, and outmoded systems of political parties moulded by personal addiction to power, vested interests and sensationalist media can give way to direct voting on all matters by the entire citizenry. Such voting rights and responsibilities would require a fundamentally different education system where a holistic understanding of human needs and psychological process and the complex interactions between living and non-living social and economic systems formed the overarching framework of all other disciplines.

Education would be a whole-of-life experience and take place as naturally as possible when individuals were ready to engage in different levels of learning, self-expression and artistic endeavour, with unlimited access to the educational resources of the whole society. Research would be the natural outcome of the human search for greater understanding, and would be part of the contribution of those with particular skills and expertise.

At the same time, a balance must be struck between the essential tasks required to achieve a smoothly running society and individual preferences and choices. Community audits, especially at local level, would establish the services and priorities essential to different communities, the human resources and skills available, and the training and research needed to implement these services. Full social participation will require an acknowledgement of huge diversity of human skills and interests, and the utilisation and strengthening of this diversity for the common good.

**SOS - SAVE OUR SOVEREIGNTY :**
Two important feature articles by **B.A. Santamaria** appeared in The Weekend Australian on 30/12/95 and 6/1/96, entitled “Who Rules Australia Anyway?” and “Saving our Sovereignty”. In these articles the author examines the economic direction in which the Australian government has been heading and the tactics employed to address the balance of trade, payments and unemployment problems.

That is**,** financial deregulation, globalisation, free trade, and sales of public assets. Santamaria believes that **these trends portend a major crisis,** (note date of article cited Dec 1995) and goes on to suggest some solutions. His analysis of the overall problem reiterates what many observers and critics of government economic policy have been discussing for years, however the really interesting part of his articles - the proposed solutions - deserve to be commented upon and discussed further.

The uncritical supporters of economic rationalism (ER) will of course assert that nothing needs to be done, since the problems will inevitably self-correct via the supposed beneficial intermediation of “the invisible hand”. We have all been waiting patiently during the past decade for the self-correcting process to take place, and one wonders what time frame the ER advocates really have in mind. While it is true that over the decade a section of society has done very well under the prevailing economic regime, the fact is that a very large section of the community has, at the same time, experienced progressive impoverishment. Santamaria states “.... ***a rapid increase in the division between the economic classes - slower perhaps than in the US, where during the past decade the top 1 per cent of society has increased its control of the nation’s assets from 29 to 40 per cent - but still going in the same direction. The difference between the salaries of executives and directors’ fees, on the one hand, and average wages on the other has become a scandal and is breeding deep resentment that will inevitably take political shape.”***

To remedy the situation in Australia, Santamaria lists the following measures as a minimum:
(a) a reduction in capital flows in and out of Australia for purely speculative purposes, to be effected by a strong system of foreign exchange controls and transaction taxes;
(b) a restoration of the balance of trade, achieved by adopting both a general primage duty of 20 % and a revenue tax, thus substantially adding customs revenue to the federal budget;
(c) an attack on the present level of foreign debt, using both direct taxation and tax incentives;
(d) development of a capacity to borrow at home rather than from abroad, through the accumulation of adequate domestic savings (eg, via an intelligently administered universal, compulsory superannuation); (e) creation of a specialised banking sector to meet the requirements of public works, with gradual extension (within carefully defined limits) into the field of rural credit.

These proposals collectively fly in the face of economic orthodoxy, and it can be expected that they will be fiercely opposed by a range of vested interests. At present, the main political parties in this country are still firmly wedded to a rationalist agenda. The only obvious possibility for change appears to be the development of a new political party or bloc prepared to go to the electorate with a radically different economic program. It should be mentioned that the last of Santamaria’s proposals is clearly related to the Economic Sovereignty Loan Scheme, which currently enjoys considerable support in the USA. It appears that a version of it was recommended 60 years ago to the League of Nations by Louis Tardy, director-general of the French National Bank.

**Also, a royal commission on the banking system in Australia reported in 1937 that**

***“....Because of this power, the Commonwealth Bank [now the Reserve Bank] is able to increase the cash of the trading banks in the ways we have pointed out above. Because of this power, too, the Common-wealth Bank can increase the cash reserves of the trading banks; for example, it can buy securities or other property, it can lend to the governments or to others in a variety of ways, and it can even make money available to governments or to others free of charge [emphasis added].”***

***Practical examples of such alternative financing procedures are not difficult to find. It is well known that such loans were made by the Commonwealth Bank between 1913 and 1917 for the construction of the Australian intercontinental railway.***

Other recommended changes include the federal government buying back the private shares of the Commonwealth Bank so that specialised banks within the Commonwealth Banking Group, with non-profit purposes, can be created to assist the task of reconstructing the national economy.

*The purposes mentioned include the provision of interest-free finance for public infrastructure and other approved purposes, under strict discipline from the Reserve Bank, and offset by matching restraint on the growth of commercial bank credit.*

It is interesting that independent Australian economic commentators have come to similar conclusions about what is wrong and about the main thrust of measures required to affect a cure. A positive feature of their conclusions is that no extra powers are needed under the present constitution in order to implement the necessary changes - the above proposals have all been put into practice with great success previously, and with adequate will it can be done again.

However there are newly emerging aspects to economic development, not the least of which are the environmental implications, which need to be seriously examined The ecological economists will of course expect any changes to be accommodated within the guidelines imposed by the ecological carrying capacity of the country, and within an overall framework which is enlightened and in harmony with the processes of the natural world. The concept of investing in natural capital must be given high priority. These requirements do not conflict with the above proposals.

*Any serious study of the sources of economic growth, which after all is fundamental to the concerns of the environmentalists, should examine as a priority the growth imperative that is built into the manner in which the financial system currently operates in almost every country. The post-Keynesian economists and the members of COMER and ERA all know that, within the prevailing debt-money system, debt and interest on debt always grow faster than does both the real economy and the overall money supply.*

*The reason for this state of affairs has been summed up by Prof John Hotson in the dictum*

*"all money is debt but not all debt is money"*

*Inflationary booms and debt-repudiation recessions are inevitable under such a system.*

*Equally important is the fact that such a system is incompatible with sustainable development, since growth must continue at all times if economic collapse is to be averted.*

*Fundamental restructuring of present monetary policies and practices, as allowed under the constitution, is therefore essential.*

# NILS

**National Australia Bank and No Interest Loans Schemes (NILS®)**

## An update of proposals – NSW

### Background

*On 26 April 2006, the CEO of the National Australia Bank (Australia), Ahmed Fahour, announced a $30m commitment to microfinance over three years.*

*Microfinance is the provision of small, safe and low cost financial services to those in the community who may be excluded from the financial services normally available from mainstream providers such as banks. People may be excluded from mainstream financial services either because the service is simply not offered by a bank (eg a small loan which due to application costs is unprofitable), or the individual is not eligible due to their personal credit circumstances.*

*At NAB, microfinance sits with the bank's corporate social responsibility programs. The $30m commitment was on the back of four years involvement with the Good Shepherd Youth & Family Service in various microcredit schemes.*

*The $30m commitment entails:*

- *$18m in loans to support microenterprises. A feasibility study on microenterprise loans has been completed for NAB by the Boston Consulting Group. NAB is in discussions with state governments on establishing pilot locations for this loans program.*
- ***$10m in loans for no interest loans programs across Australia.***
- *$2m to grow an existing low interest loans program (StepUP) that NAB operates with the Good Shepherd Youth & Family Service at locations in NSW, Vic, SA and WA.*

*More information on StepUP and microenterprise development loans are available from NAB. The remainder of this paper examines the funding for No Interest Loans Schemes (NILS).*

*Full information on NILS and their benefit can be found in the funding proposal submitted by the NILS Network for NSW to the NSW Government in March 2006.*

*What has NAB committed to NILS*

***NAB has committed to distributing up to $10m for the provision of loans (loan capital) to NILS providers across Australia over three years.***

*This money will take the form of loan capital granted to NILS providers to be lent by NILS and repaid by loan recipients back to NILS. The funding will continue to be recycled as loans at the discretion of the NILS.* ***NAB will not be seeking the funds back.*** *The aim is to ensure that lack of loan capital is not a limiting factor to the operation and growth of NILS throughout Australia.*

*NILS however require both loan capital and operating expenditure. The operating expenditure is typically used to fund local community workers to run NILS, or to assist with central administration and growth of NILS.*

*To make the most use of the NAB capital, NILS need to have a sound and sustainable operating base, that is access to recurrent operating expenditure.*

*In Victoria, NAB has partnered with the Good Shepherd Youth & Family Service and the Victoria Government to recapitalise existing NILS (up to $1.8m) and to provide foundation capital for new NILS ($1.5m). This will see existing NILS and new NILS capitalised to an average of $50,000 each. The Victoria Government has committed $4.7m over four years to grow NILS in the State from the existing 41 schemes to 70. The aim is to achieve state-wide coverage of NILS.*

*The Victorian funding was an outcome of a proposal to the Vic Government by Good Shepherd and NAB. A governance group has been established to oversee the use of this funding and includes NAB, the Department of Victorian Communities, Good Shepherd plus an independent person.*

*Discussions have commenced with NILS coordinating bodies in Tasmania, WA and SA as to how they would like to use the NAB capital funding that is on offer. The Queensland NILS coordinating body is being restructured and will be approached in 2007. The schemes in Tasmania, WA and SA operate on centralised model (where lending comes from a central source with loans originated through outreach programs), while NSW and Vic operate on a decentralised model (loans are originated and made at the community level by generally autonomous NILS).*

*Fundamental to NAB's capital offer is to not alter the way NILS operate on a day to day basis. Decentralised schemes will essentially be issued a cheque book with an overdraft as a way of distributing the capital, while central schemes are likely to operate with a larger central overdraft facility (line of credit).*

*In Vic the recapitalisation process will commence with an expression of interest phase where NILS will estimate how many loans they can sustainably write (see an example spreadsheet at the end of this document that will be used by NILS in Vic to* *request capital). This process will commence in October 2006 with the capital released over 18 months from January 2007.*

***The NSW proposals***

*In March 2006 the NILS Network of NSW independently of the NAB proposals lodged a submission to the NSW government for funding of existing and future NILS in NSW. This included a request for capital of $500,000 ($10,000 in capital for each of 25 new schemes and $250,000 in capital to be spread across the existing 32 schemes).*

*The submission also sought $715,000 / year to support the network and grow new schemes. This comprised $375,000 for existing schemes per year ($11,700 per scheme); a convenor @ $46,000 / year; and funding for 25 new schemes @ $294,000 per year ($11,000 per scheme).*

*On hearing of the submission NAB immediately committed to meeting the capital requirement of the proposal. A closer review of the funding submission showed that if NAB were to capitalise the existing and proposed NSW NILS schemes to the level proposed in Victoria, $2.130m would be required. This would see new schemes capitalised to $50,000 each (at total of $1.25m) and existing schemes topped up to $50,000 (a total of $0.88m – assuming an average capital based across the existing 32 schemes of $22,500).*

*NAB is therefore committed to making available up to $2.130m in loan capital for the NSW NILS Network over three years. We expect that this will start with a recapitalisation program commencing some time in the next six months.*

*Like Victoria, this will be a one-off recapitalisation opportunity.*

*Unfortunately access to operating expenditure for NSW NILS is at a critical level – some schemes are unlikely to see out the year and there is no funding for the convenor role. This will severely constrain the ability of NILS in NSW to make the most of the available NAB capital. There is also very limited prospect of growth of new schemes. NAB estimates that it may only distribute around a quarter of the available capital without a renewed level of operational funding commitment to the NILS network in NSW.*

***<u>The benefit from NILS</u>***

*The submission from the NSW NILS Network outlines the social benefits from supplying no interest loans for essential household goods. NAB has also seen first hand the benefit of such schemes and has supported an annual national conference of NILS providers over the past four years to help share the collective experience from the 240 or so schemes from across Australia (the most recent conference was held in Sydney).*

*In a nutshell and in a practical sense, NILS provide a low cost and simple loans scheme that has the capacity for significant scale. The scale primarily comes from the way the loan capital can be re-lent on a fairly regular basis by a low cost and community based organisations.*

*Modelling completed by NAB and Good Shepherd for Victoria showed that through the recapitalisation of existing schemes alone, loans written could increase from approximately 400 per year to near 3000. The overall proposal in Victoria is expected to see the cumulative number of no interest loans written to reach 16,000 in year 4. Without funding this would have been 2300 loans. The direct impact is the delivery of a real solution to an essential household need to around 16,000 families.*

*Comparable modelling for NSW shows that with the NAB capital and the level of operational funding requested by the NSW NILS network, new loans written could increase from about 340 per year to near 2100 (assumes full allocation of available capital) with cumulative loans written reaching 11,000 loans by year 4, compared with approximately 2000 without new funding.*

***Summary***

*Over the next three years NAB will be making available $10m in loan capital to support NILS across Australia. This includes up to $2.130m for NSW schemes (new and existing), commencing with a recapitalisation of existing programs within the next six months.*

*NILS in NSW is suffering from a lack of recurrent operational funding that will affect the ability of the schemes to maximise the opportunity from the NAB capital. The capital program by NAB is a unique opportunity for the community to get access to funds that will ultimately be lent many times over through NILS.*

***Richard Peters, Head of Corporate Social Responsibility***
***25 September 2006***

## ADDITIONAL FACTS RE NILS (source NSW Department of Fair Trading)

In a Review of No Interest Loan Schemes (NILS) commissioned by the NSW Department of Fair Trading in 1999 the report found that the benefits associated with NILS are significant for both individuals, and for the community as a whole.

The principle community benefits relate to public health benefits arising from helping people to maintain a basic standard of living and ensuring their sense of inclusion in the community.

NILS schemes also reduce demand placed on welfare services.

### WHAT CAN BE DONE TO IDENTIFY MECHANISMS TO ESTABLISH AND REPLENISH NILS CAPITAL RESERVES?

While local organisations may be able to obtain start up funds from local benefactors, charities or bequests, the development of NILS across NSW would be assisted if a source of funds could be identified for which suitable organisations could make application in order to start a NILS scheme. Sources in NSW which might be considered include monies which arise from gambling such as the Casino Community Benefits Trust, Registered Clubs Association of NSW and lotteries.
Alternatively, a special fund could be established sponsored by major institutions, for example, **financial institutions**. Several potential sources need to be canvassed with a view to identifying all those which could be harnessed to the scheme.
**This area has been addressed in the preceding letter from *Richard Peters, Head of Corporate Social Responsibility NAB 25-09-06, showing by example how a Big Bank can play a positive community role. The other 3 big Banks should also follow this example. (End of Submission)***

*Whilst some information contained in this submission may be already out dated, the general ideas I have tried to cover are still essentially valid and should be considered as achievable and desirable.*

*I wish to thank the Committee for taking submissions and trust that they will attend to these matters with the integrity and due regard required, on behalf of the citizens of this beautiful country whose future security will be threatened if their fair demands and needs are not protected.*

*This is a critical time in our history and much can be achieved if Government can show innovative leadership for the "Common Weal" of our great Nation, even though it may require overcoming the sectarian greed of certain vested interests.*

*Yours sincerely*

*Alan Griffiths.*