

## **Submission to Federal Senate Enquiry into the Effects of the GFC upon Banking & Finance in Australia.**

I wish to thank the committee for receiving public submissions to this enquiry.

None of the ideas I submit here are my own, but are a collection of my readings and observations.

In this submission I am attempting to present some fundamental errors in our current economic and financial dealings, to demonstrate their impact and to offer a few course directions on the way to resolution. I believe these errors, and their correlated effects offer a very clear picture of why the GFC was bound to happen, and why without a fundamental rectification of our 'orthodox' financial system, it will continue to escalate.

The GFC is an international phenomenon because the rules that govern finance are almost identical the world over.

On its current course, the international financial system will eventually embroil every country of the world into the demise of the GFC.

I hope to demonstrate that Australia may be well insulated from the effects of the GFC firstly by adopting a clearer understanding of the current situation, and secondly by implementing a more realistic approach to financing our markets.

I'm confident that if we can put into effect the elements collected together in this proposal, we will be in a uniquely different position from those countries affected the most by the crisis. You never know, we may even inspire the rest of the world to follow.

The issues addressed in this proposal fall into the following categories:

- 1) Money; its nature, its source and its misuse.
- 2) The incompatible drives for full employment on the one hand, and efficiency and automation on the other.
- 3) Expansionism; its hold over common sense
- 4) Prioritization; the cascade of cause and effect

### **Background**

The history of money and the development of its misuse have been covered quite well in Submission #1 by Mr Lawrence Lyons.

The powers invested in the banking system which could be used for the benefit of the public (but seldom are), has also been covered in the story of the Commonwealth Bank of Australia as presented in Submission #7 by Mr Ken Grundy.

Also Submission #24 by Peter Davis and Submission #25 by Bernie Bourke are of particular relevance.

I ask that you read this submission in conjunction with the aforementioned papers.

## **MONEY**

The nature of money is very much misunderstood, even amongst the most surprising quarters!

It irritates me whenever I hear a politician say "Where will the money come from?", or when they discuss "the cost of credit".

I hope the reasons for this will become clear in this submission.

To make a few straight statements about money ...

Money is not a commodity.

It has no inherent value; in fact it has no value at all apart from its relationship to the goods and services which it represents.

Money is not a naturally occurring phenomenon.

It is not a finite, limited resource.

Money is a measure of the relative value of goods and services.

It is the token of stored value - a claim for timely supply.

It is the consumer's voting ticket.

It is THE facilitator of ALL trade (other than barter).

And perhaps most relevant to the current discussion - Money is man-made.

The GFC is clear evidence that there is something wrong with our financial system, and I contend that since it was made by man, it is also modifiable.

This may seem drastic and discomfoting, but the alternative is worse!

We are losing control over our country's future - this is too important to be squeamish about.

## **POWER**

Before we decide upon what might be appropriate and effective actions to rectify the issue, perhaps we should first ask "Do we have the power to do anything?"

Certainly in Australia we do!

The ability to make modifications to our systems of finance and to regulate the value and quantity of our currency is written into our Constitution (Section 51). However, we have handed this task over to the banking sector, and have effectively abandoned our privilege and responsibility to have a say in such matters.

This is conclusively evident when we hear that most of our key leaders, including the last four Prime Ministers, have on more than one occasion, shrugged their shoulders at interest rate hikes, and even mortgage foreclosures - offering apologies, but declaring that there is nothing that can be done.

These spokesmen are either unaware of their constitutional rights, or they are unwilling to do anything about it.

Perhaps the subject is taboo, and any mention of it would jeopardize their position?

I hope this Senate Committee is above reproach in this regard.

Nevertheless, the power to make any changes we deem necessary for the welfare of our country, is written into our laws - guaranteed in our Constitution!

## **PRIORITIES**

It's no secret that the total quantity of money in any country is managed by the action of the central bank and is itself limited by the authority of the international financial system.

So the RBA (influenced supranationally), as even our own statesmen admit, is the author, and dare I say, the dictator of our national monetary policy.

At this point I would like to draw your attention to the three main aims of the RBA as declared in their Charter:

- (a) the stability of the currency of Australia;
- (b) the maintenance of full employment in Australia; and
- (c) the economic prosperity and welfare of the people of Australia.'

Albert Einstein once said "Perfection of means and confusion of ends seems to characterize our age." These aims of the RBA indicate to me that this confusion is prevalent even amongst our most trusted leading experts!

Regarding point a), any currency which is issued as debt and is subjected to the charging of interest, is designed to devalue.

The closest one can get to any resemblance of 'stability' of this currency, is to maintain a reasonable control over the rate at which the currency devaluates. This is in fact, what the RBA does when it adjusts interest rates. It is impossible to stop inflation by adjusting interest rates, just as it is impossible to quench a fire with kerosene! All that can be done is to regulate the rate of combustion / inflation.

Regarding point b), Full employment is not an end; it is a means to distribute to every citizen the purchasing power with which to acquire the resources to sustain a respectable lifestyle. It is ONLY essential if employment is the ONLY way to acquire the resources required of life.

As our economic arrangements are at present - completely reliant upon the purchasing power which is generated through labour - then it can be sympathized that employment is currently so very important. However, it is still merely a means to an end, and not the end in itself!

With today's technology, we can and do produce a thousand fold of what we did prior to the industrial revolution, yet, because labour is our only means to distribute purchasing power, we still see full employment as an essential goal of our economy! 200 years ago in an environment of scarcity, this may have been appropriate, but now our major issue is one of equitable and ethical distribution.

Working as we do, under the premise that all money injected into society is debt based and accrues interest, then any appearance of sustainability is a false picture.

The agent which provides money to the country does not also provide the interest portion, and therefore actively creates an ongoing and accelerating shortage of the means to liquidate costs.

Our responses include the following:

- 1) to attempt to export more than we import, a "favorable balance of trade" thereby bringing extra funds into the country (at the expense of another country)
- 2) to attempt to improve efficiency by automation and technology (which, ironically, puts more people out of work)
- 3) to over-produce (environmentally damaging)
- 4) to borrow more (plunging us further and further into debt)

These strategies are reactionary, and are necessary ONLY because the means and the ends of society have been confused by the notion that money takes precedence over goods and services, or put another way, the shadow is more important than the substance!

This is evident when you consider that for any given project there may be enough materials, skills, labour etc., but if there is no money NOTHING will get done. This, I hope you agree is ridiculous!

So we have a direct relationship between the actions of the financial system and our ability as consumers to get what we want – and often – what we need, and Industry (and therefore our livelihood) has become subservient to the policies of finance.

One of the most dramatic examples of the folly of this situation is the Great Depression of the 1930's. If it were not for the action of the banks contracting the available credit – by about half over a very short period of time - then this crisis would not have happened.

Consider the times ... In that day there was no shortage of people who wanted to work; there was no shortage of jobs that needed to be done; and there was no shortage of natural resources either.

The entire situation which we now acknowledge as the most difficult economic period of modern history existed ONLY because there was one shortage – a shortage of money; which is attributable ONLY to the actions of the central bank.

Steve Keen, the Head of Economics at Western Sydney University recently said in his address to the ABC Boyer Lecture on the GFC that orthodox economic models see only the two elements of Supply and Demand, but they typically ignore that there is a third significant element - that of money - the medium by which the transaction is implemented.

One of the main reasons why this is so significant, is because all money comes into existence as debt.

When a bank issues money into circulation it is issued as a debt, irrespective of its intended use. This is why we see that the richest countries in the world are the most in debt. This seems at first glance a paradox, but is in fact exactly what can be expected. "Money makes the world go round" and debt money ensures it goes round in an ever escalating spiral!

If a product exists, and the only money available to "move" it, is debt money - which also has to be paid back once it is used - then we effectively pay twice for the product. Add to this that for every dollar issued, more is expected to be repaid (interest), then we can begin to understand that, irrespective of how efficient a company might be, it is impossible - in aggregate - for the producers in Australia to pay back the sum of loans, for the banks that issued the money did not issue the interest portion! Therefore there is not enough money in circulation for everyone to pay.

Of course it may be possible for some companies to pay back what they owe, but only at the expense of some other entity.

An honest Balance Sheet of Australia would reveal that Australia is insolvent!

The same is true for International Trade. Not every country can have a favourable balance of trade!.

If, in a given year, a country **does** have a favourable balance of trade, then it is only at the expense of some other country - an economic war!

A similar contemporary issue is that of the Australian manufacturing industry and its competitiveness in the global market:

If it can be understood - that every Australian job loss and its related creation of a job overseas - represents a small battle in a global economic war, then despite the orthodox economist's declaration of global justice in this matter, it is nevertheless, a usurpation of one country over another.

The technical definition of war is "any action taken to impose your will upon an enemy or to prevent him from imposing his will upon you." (C.H.Douglas, 1932)

An internationally focussed economic strategy may seem more subtle and humane than a military confrontation, but when such a strategy creates wellbeing (such as a job) for one person or nation at the expense of the wellbeing of another, it is still a war. Only the method is different.

Each Australian business which closes its doors or goes off-shore, represents a solid progressive step upon the path of Australia losing its independence and its sustainability, becoming more and more dependent on outside forces beyond its control, subjecting it to the impact of the GFC.

"Sustainability" is the new catch-phrase of such UN initiatives as Agenda 21.

However, no sustainability is truly achievable within a system which requires constant expansion to keep it rolling!

There is another fundamental reason for this "forced" expansion.

In any given production cycle, the amount of purchasing power distributed by industry (via wages, salaries, dividends and profit) is not enough to purchase the goods for sale within that same period.

This is because prices include, but are always greater than the purchasing power distributed in the process.

The final price of any item, even ignoring any profit, must contain not only the wages of the work employed at every process of the production, but must also include material, capital depreciation, advertising, storage, administration etc., yet it is only that portion of the price which is distributed in wages, salaries and dividends that is translated into purchasing power for the consumer to buy the product.

Therefore, in aggregate, the consumer can never liquidate all production!

So we over-produce, we raise efficiency, we try to export more than we import, and we borrow more money - all to compensate for a chronic lack of purchasing power generated by the errors in our accountancy methods.

There is currently such a rigid relationship between labour and purchasing power, that even our welfare schemes are taken from taxes collected from labour!

One of the recent tactics to help keep this ball rolling was the Spending Stimulus Package.

If I remember correctly, the government supplied \$900 to every family.

Where did this money come from? Either it was borrowed, or it came as a rebate from the taxes we already paid.

If it was borrowed, it will have to be paid back including interest. In either case, it's benefit will be almost completely nullified by the fact that it's source is not new - it is akin to robbing Peter to pay Paul!

Why do we need to stimulate spending? Surely we should not encourage waste? Spend for what reason?, To keep the expansion going? This is as ridiculous as digging over every third row of corn to keep the price up! (ref: Roosevelt)

Einstein was right!

I draw your attention to a book by Thomas Robertson entitled "Human Ecology"

ROBERTSON, Thomas ; "Human Ecology", (1948, Christian Book Club of America)

He writes about what he calls the great mechanisms of society.

The word Mechanism is here used in its purest form to describe a system with an objective.

All machines, and all systems have an objective – a desired result, and those who use and drive that mechanism – whether or not they understand the intent, contribute to the objective which is inherent in that system.

Robertson goes on to contend that Man's relations today, are no longer natural - direct and personal, but are conditioned by the hierarchy and inter-relationships of these mechanisms.

They are [abridged] (in order of dominance) ...

FINANCE  
INDUSTRY  
GOVERNMENT  
EDUCATION  
PHILOSOPHY (The meaning of life)

At the top of the hierarchy of these mechanisms, is the mechanism of finance.

It is not hard to see where the overarching dominance of finance has brought us. In this age of abundance, scarcity is no longer the problem, but the equitable distribution of that abundance is, and it is entirely held in the iron grip of an out-dated financial system.

The Global Financial Crisis seems so far removed (in our thinking) from the Global Financial System.

Shouldn't it be obvious that a system in crisis requires reform? Is it not obvious that the mechanism is not meeting its objective? Either that or its objective is not what we were led to believe?

What we see today in the GFC is an active demonstration that the current system is out of step with reality – and plummeting on to the ruin of our social order.

Robertson has collected many references from early works to show that this is not a new phenomenon, that the fall of Rome and of other great civilizations, were in their last days, choked – not initially by the barbarians, but by internal strife, by crippling taxes and usury.

In relation to this dominance of finance and industry, Robert Kennedy – the brother who was assassinated before he even made it to the Whitehouse, once said

Gross National Product measures neither the health of our children, the quality of their education, nor the joy of their play. It measures neither the beauty of our poetry, nor the strength of our marriages. It is indifferent to the decency of our factories and the safety of our streets alike. It measures neither our wisdom nor our learning, neither our wit nor our courage, neither our compassion nor our devotion to our country. It measures everything in short, except that which makes life worth living, and it can tell us everything about our country except those things that make us proud to be part of it.

One result of allowing finance to dominate all other decisions in our social life can be seen in the fact that though it is nigh "impossible in peace time to get the paltriest sum for the most necessary reform or purpose, unlimited money becomes mysteriously available for war. A phenomenon which has been repeated twice within one generation." (source of quote unsure)

All industry, commerce and consumption are completely reliant on a system of finance which issues less money than that which must be repaid. It is obviously unsustainable. Its very objective seems to be to plunge us into further debt.

There are stories in history which reveal the destructive power of the dominance of money.

Rome I have already mentioned briefly, but more recently we have further examples such as The Americas in the time of Benjamin Franklin and the crushing laws introduced to prevent British colonies from producing their own money.

Of course this provoked the War and culminated with the Declaration of Independence which, if you read it, quite obviously reveals that this was not a war with England but rather with the Bank of England and its restrictive policies.

R. McNair Wilson, in his book "Napoleon's Love Story" 1933 summarises Napoleon's situation thus:

Napoleon was the last great champion of the common people against the growing power of finance, as even a superficial study of his Continental System will show. The hostile forces that ringed him round and finally brought him to ruin were financed by usury; and, Wellington among them, were fighting usury's battle.

It cannot be too strongly insisted that finance and not territorial aggrandizement is the key to Napoleon's reign. Had the French Emperor consented to abandon his financial system in favour of the system of London – that is, in favour of loans by the money market, he could have had peace at any time.

## THE MECHANISM of INDUSTRY

In the simplest of terms, Industry's primary purpose is to produce goods for consumption (in order that we all may live in reasonable comfort).

However, even the RBA recognizes that it is also the only method of distributing purchasing power, and therefore another objective has taken over from that primary purpose.

Because of the dominance of money, and because of the errors in that financial system, the pure objective of industry has been overtaken by the need to keep the system going – expand – do whatever it takes to keep producing, to keep paying wages, to drive the cost down, to export, export, export ...

So, if we go to war, if people starve, if we can't afford to fix the leak in the roof, if the farmer is removed from his land, if the family is evicted from their home because they are behind on their payments, if a manufacturer cannot compete with cheap imports, it is all predominantly because the Financial System has complete dominance over all other mechanisms of society!

On one side of the border over-production has meant that food is being dumped, and on the other side of the border children starve to death. This Poverty amidst Plenty is shameful, and meanwhile, we content ourselves that we spend 0.6% of our GDP on Overseas Aid!

If we had our priorities right, and control over our own monetary policy, then we would be able to first look after *all* of our own citizen's needs, and then provide much more help to our struggling neighbours, not from a NEED to export, but from a true attitude of benevolence, and from a genuine surplus.

## The MECHANISM of GOVERNMENT

The governments of the world – including our own, are in the same predicament as Industry.

They are subservient to Finance, lock, stock & Barrel.

Decisions about welfare, health, environment, etc. are all considered in the light of what is called "financial resources"

What can be done versus what can't be done is dictated not by real wealth (in available goods and services), or even by needs, but by the revenue that the Government is able to acquire through taxes.

Take the Flood Levy for example.

The help is certainly required!, but the funds are extracted as an extra tax from the people *ONLY* because the banks wield total control over our government's access to its own wealth!

The treasury department may be able to convince the banks to inject money into the system, but always at a cost – not only of paying back to the bank the face value of what the bank never owned in the first place (through creating money out of nothing), but also with interest!



The collection of taxes serves 2 purposes:

- 1) to finance public & social services (the real business of government), and
- 2) to pay interest on national and local government debts

Now according to Robertson, in the years from 1931 to 1936 in England, the ratio between these 2 purposes was 65% on debts, and only 35% on genuine government administration.

With the compounding nature of debt – I wonder what the situation is like now?, and what is the ratio for Australia?

## The MECHANISMS of EDUCATION and PHILOSOPHY

Very briefly, the modern, distorted objective of our schools and universities is – to prepare the masses for incorporation into Industry. Why? – Because industry MUST keep rolling on! Here again, is the confusion between means and ends.

It is a sad, and telling truth, that the Philosophy department of any university receives very little funding. Why?, because it is not of any interest to economic or industrial concerns. It doesn't bring in any money!

These are the least dominant in Robertson's levels, yet the most important in terms of human achievement and satisfaction. Why get an education? Why go to work? Why strive for anything in life – if you have no reason, no philosophy or no purpose in life?

So, while we believe that the objective of government is to govern, to be the representation of our wishes, and to administer our requirements for the benefit of our country, what we see is the government subservient to finance, implementing the decrees of finance - by force, or sanction, or financial penalty

We see so many good works of society being overshadowed by other false incentives, by genuine people serving a system which they cannot change, but which they hope will win out in the end.

They will be disappointed and exhausted I'm afraid, unless we act.

## **ACTION**

What should we do?

The government should take back their constitutional right and responsibility to produce and regulate the country's money from the RBA.

It should issue its own, debt free money to finance new growth in the country's industries.

As C.H.Douglas demonstrated, there is enough real wealth in every country, to change the direction of the debt spiral.

Some will say "What?!? PRINT MONEY?"

The traditional response to that from the financiers - that this will cause inflation - is not true! It would only be true if the amount injected into society was greater than the shortfall between available goods and required consumption (as admitted in the excerpt of the A.B.A. in another submission).

This ratio could be quite easily calculated in a national balance sheet, prepared by a fraction of the staff currently employed at the ATO, and adjusted on a yearly or quarterly basis

New, debt free money HAS been issued very successfully before:

Benjamin Franklin did it successfully with colonial scrip (until the Bank of England stopped the practice and consequently created America's first depression).

Abraham Lincoln did it with the greenbacks, even our own Commonwealth Bank did it in the 1930's.

If no-one ever challenges the omnipotence of the banking system, then in a very real way, we will get exactly what we deserve - A GFC impacting on our own shores. In a nutshell, we will become embroiled in financial crisis only because we are not willing to do what it takes to progress beyond an out-dated system based upon scarcity, to a new system which acknowledges that the real issue now is the just distribution of the abundance of our resources.

I hope that the current context of a Senate Enquiry will overcome this and be bold enough to present a challenge.

Regards

Terence Holmes