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Submission No. 2

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Committee Secretary
House of Representatives Standing Committee on
Economics, Finance and Public Administration
Parliament House
CANBERRA ACT

'Inquiry into the International Financial Market Effects on Government Policy'

Dear Sir/Madam,

I am writing to provide a submission to your committee with regards to your 'Inquiry into the International Financial Market Effects on Government Policy' with specific reference to all issues.

My main concern is regarding 'Legal Tax Mining' and it's relationship with the financial imbalances contained within National Financial systems and the further acceleration/exploitation of these internal financial imbalances when they are consolidated in the Global Financial System.

I will not go into the various complexities of the maths of finance as today the calculation of even total simple interest has become, in actuality, an undeterminable task with the impost of ever changing fees and charges.

Instead, with a few simple models and high level logic, I will provide you with a narrative on the nature of consolidated financial system bias with regards to politically designed national financial structures and their derived implications.

Please find attached :-

- (a) Narrative on aspects of the problem at hand 2 pages
- (b) Implications for the Present and Future 1 page
- (c) Global Market Submission to Senate GST Inquiry 1 page
- (d) Leveraged, Depreciated Leasing Model (MAI) 3 pages
- (e) Mathematical Proof - Unregulated Global Leverage 1 page

I hope the information contained in this submission will be of use to your committee's inquiry.

Yours sincerely,

Laurence N. Kennedy B.Sc.(Comp.)

A narrative on aspects of the problem at hand

The easiest way to understand financial system bias is by looking at simple examples of the same patterns found in nature and noting the differences. It would be difficult to argue against the fact that these natural systems are indeterminable in much the same way that the global financial system is indeterminable. Recent events in India and America display the potential for destruction derived from the consolidation of a multitude of elements, insignificant in their own right.

We can speculate that the global Weather/Water system is more volatile and with more variance, than the relative safety of say the water contained in a back yard swimming pool. If we reduce the pool to a cup of tea, we have a remarkably accurate model of any financial system in isolation. Just like human beings and their societies, the contents of the teacup stay much the same while the size and shape of the cup can vary markedly.

A Tornado in a Tea cup

Stirring a cup of tea with a long handled spoon creates a vortex within the confines of the cup. Stirring around the sides of the cup creates eddies while stirring in the center will create a vortex. When you stop stirring the vortex gradually disappears and the surface flattens. At all times the volume and center of gravity remain the same unless the stirring process introduces heat. This heat can change the density of the liquid, evaporate the liquid or even cause the contents of the cup to boil over.

Try stirring a large round mug, the vortex will be broad and difficult to overflow. Next use a tall thin round mug, you will note a more intense vortex. The most surprising result of all comes from using a tall hexagonal cup shape, the vortex will pulse and recreate itself again numerous times, after the driving force has been removed, as a direct result of the shape of the container.

A Vortex in a soft drink bottle

Place the contents of your Teacup into a soft drink bottle and half fill it. The quickest way to get the mixture out of the bottle is to turn it upside down while giving it a spin. The spin creates a vortex which allows the internal air pressure to equalise as the contents are expelled.

A Siphon with a Vortex in a bucket

Fill up a bucket with water and obtain a length of garden hose. Start the siphon by filling the hose with some water and placing one end into the top of the bucket with the other end lower. The siphon will slow down and stop unless you top up the liquid and keep the level in the bucket constant. If the water level is kept constant, the siphon will operate in perpetuity. If the inlet from the hose is close to the surface of the water a vortex will develop at the point on the surface closest to the hose. When the hose partially breaches the

surface a sucking noise will be heard exposing the hidden natural forces at play.

Why a Vortex?

It:-

- (a) is the natural consolidation of a multitude of minor elements in a flow.
- (b) holds many common attributes with the Global Financial System
- (c) is indeterminable in the extreme
- (d) is destructive in the extreme and especially at the bottom of the vortex
- (e) provides examples of unusual flows
- (f) is a balanced system by nature
- (g) lends itself to empirical analysis in isolation
- (h) has a constant pattern from the micro to the extreme
- (i) increases productivity when used in conjunction with a siphon
- (j) shows that heated elements will increase the area occupied and decrease their density while the Global Financial System increases/decreases the density of it's elements in direct proportion to their perceived value.

The differences

The main differences between the 'Vortex' market model and the real market is that nothing new is ever created in the natural/balanced 'Vortex' model. This is accurately reflected by the limited variation in the DOW Jones index in the period from 1930 to the start of the 1970's. To actually create something new in a physical experiment you would need to split atoms or alternatively discover the philosophers stone. Irrational exuberance is an apt designation. The math for the basic method used to exploit anomalies (system bias) within national financial systems within a Global financial system is contained in the attached Gödelian disproof of 'Unregulated Global Leverage'. This proof shows that the 'philosophers stone' is generated by discrepancies within internal national political taxation laws and does not follow all natural mathematical and physical laws. This is exclusively within the political domain.

One Solution for 'legal Tax mining' Vs 'illegal tax mining'

The process of consolidating multiples of taxation benefits in the global system has the direct effect of multiplying initial investments. Once this siphon cycle has been initiated, it becomes in effect 'the goose that lays the golden egg' to the detriment of the 'host' nation. This outcome can be prevented easily through legislation, which expressly excludes 'Legal Taxation mining' as illegal when the Tax Office can prove that 'Taxation mining' is a direct result of dubious commercial transactions.

System Bias, Taxation mining and Cycles within Cycles

If you examine the attached Senate Submission on the MAI, you will notice two models. I classify this series of models as the 'Leveraged, Depreciated and User Paid Leasing' System (LDLS). This is the classic 'Siphon in a bucket

with a vortex' mechanism displayed when complex financial systems have unregulated cycles within cycles to obscure the true nature of their profits. The Vortex is powered by, and can also be measured by, the amount of leveraged leasing applied within the system in isolation. The Siphon is self explanatory.

System Bias, Legal taxation mining and Cycles within Cycles cont.

On the 11th May 1999 the Australian Banks revealed profits of 6.7 Billion dollars sourced mainly from 'User Paid' fee and charge profit of 10 Billion dollars. The attached page titled 'The figures just don't add up' reveals further concerns about what the user is actually paying for.

At this point, I must stress that this MAI submission has not been revealed by myself to the Australian press at any time. This submission has only been submitted to the SENATE 'MAI', 'operation of the ATO' and 'GST' Inquiries and the Australian Taxation Office.

Implications for the Present and Future

Examination of the DOW Jones Index from the 1970's to the present reveals an almost exponential increase compared with the prior 40 years. The difference in gradient is directly related to the rate of leverage allowed within national financial systems. In other words 'a Siphon in a bucket with a Vortex'. At the moment, the siphons have been primed, the level in the bucket is getting lower and the sucking noise is getting louder. The failure of the MAI to lock in extremely lucrative taxation mining operations for at least 20 years has put a real spanner in the Global financial system as it presently operates in the Asian quarter. The uncontrolled Global capital flows can be shown to be caused by rigid regulation (hexagonal cup), on one side, rebounding from no regulation (round cup), the other side, after the driving force has been removed (the spoon). The natural return pulse is skewed and shows how LTCB could be swamped while mining global financial bias contained in massive financial flows.

Unless the level in the national bucket is topped up the siphons will stop.

History reveals that there is really only one answer to this type of problem

(a) Force the people to make up the difference in the level of the bucket and

(b) Then have a Civil War to oust those responsible for selling the poor into perpetual slavery building other nations financial pyramids.

The other answer has never really been tried in Australia, as it would require responsibility, transparency, honesty and integrity in the political process. In conclusion, I hope that you will collectively take the correct path and face up to the realities of Global Financial System bias. Remove 'Legal Taxation mining' siphons from the public purse and you may yet provide all Australian citizens with an equally solid foothold for the new millennia. You will find that you are doing yourselves and the whole world a huge favour.

The Gödelian disproof of 'Unregulated Global Leverage'

It takes 9 simple steps to prove that 'Unregulated Global Leverage' is equivalent to a series of 'hyperreal endpoints' for an 'improper integral' which is also a paradox when 'balanced'.

Consider a simple, balanced, Global system G, with internal systems G^* , G^{**} etc, based on the following rules:- B\$ = Business Benefits gained, L\$ = Leasing Benefits gained, D\$ = Depreciation Benefits gained, U\$ = 'User Paid' amounts gained etc. and A_x is the Axiom for the amount of leverage applied/yielded through each integer x greater than zero.

At the lower end of the internal system limits of G^* the key rule is

(1) B\$ = L\$ OR D\$ OR U\$ *****National Financial System*****

Therefore because L\$ = D\$ = U\$ we can say that L, D and U become redundant and

(2) B\$ = A_x for all x greater than zero.

In the case of all regulated systems of this nature, $A = 1$ for all applied x .

When the internal system G^* is consolidated into the global system G we find that things have changed dramatically and key rule (1) now becomes:-

3) B\$ = L\$ AND D\$ AND U\$ *****IMPORTANT*****

Thus B\$ = A_x = 3 per x and A becomes unregulated and equal to the sum of the number of elements x (not the sum of the elements) applied to the internal system G^* , therefore

(4) A = the consolidated leverage applied across each internal system G^* in G.

The B of G^* , the 'Gross Yield' on 'Unregulated Leverage', now has the following form from (2)

(5) $B = Ax + c$ for all $x > 0$ and all A in x, where $c = 0$, in G^{**} $A = x$, in G^{***} $A = x$ squared etc.

As the slope of any straight line is determined by m in the equation $y = mx + c$,
(6) the slope of the global system G line = $A = (4)$ the consolidated leverage of G^* in G.

In Elementary Calculus, 1976, H.J. Keisler states on p.384 'it is tempting to argue that the positive area to the right of the origin and the negative area to the left exactly cancel each other out so that the improper integral is zero.

But this leads to a paradox ... leave it undefined'

(7) Equation (5), reveals the area right of the origin in an 'Improper Integral' paradox.

(8) The elements in A_x are half a series of 'hyperreal endpoints' for an 'improper integral'.

(9) if the integral of A_x is half a paradox, then the integral of a 'balanced' A_x is a full paradox.

Note, equation (2) has a proper integral with a value of 0.

The Gödelian proof can be applied as a test for the integrity of mathematical systems. Systems related to pure math systems must be able to be integrated or differentiated (without creating a paradox) to prove their membership status.

Therefore the global financial model is seemingly correct because the calculus applied to 'real' numbers works in a similar way when applied to 'hyperreal' numbers. Unfortunately Gödel's Proof does not apply to 'hyperreal' number systems because they are not exactly 'natural' or 'counting' numbers as such, but more like the results of a basic geometric process.

More Importantly, the financial benefits that can be released by exploiting 'Legal Taxation Mining' can only exist because the rules for all internal systems G^* , G^{**} etc are not derived from 'pure' maths or physics, but from the consolidation of unbalanced 'politically' derived systems, where rules (1) and (3) can both apply. ($1 = 1+1+1+\dots$ is considered a valid rule for any sub set G^* , G^{**} etc in the consolidated global set G)

This is the original paradox and any solution is entirely in the domain of our legislators.

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NB: The following page has not reproduced clearly in PDF format. Anyone wishing to examine the text in detail can obtain a copy of the page from the Secretariat.

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EXAMPLE 10 Find $\int_{-\infty}^{\infty} x \, dx$. We see that

$$\int_{-\infty}^0 x \, dx = \lim_{a \rightarrow -\infty} \int_a^0 x \, dx = \lim_{a \rightarrow -\infty} \left[\frac{1}{2}x^2 \right]_a^0 = -\infty,$$

and $\int_0^{\infty} x \, dx = \infty.$

Thus $\int_{-\infty}^{\infty} x \, dx$ diverges and has the form $\infty - \infty$. We do not assign it any value or either of the symbols ∞ or $-\infty$. The region under the curve $f(x) = x$ is shown in Figure 6.7.10.

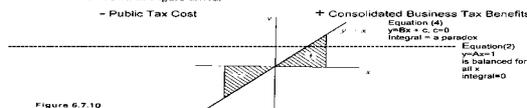


Figure 6.7.10

It is tempting to argue that the positive area to the right of the origin and the negative area to the left exactly cancel each other out so that the improper integral is zero. But this leads to a paradox.

Wrong: $\int_{-\infty}^{\infty} x \, dx = 0$. Let $v = x + 2$, $dv = dx$. Then

$$\int_{-\infty}^{\infty} (x + 2) \, dx = \int_{-\infty}^{\infty} v \, dv = 0.$$

6.7 IMPROPER INTEGRALS

Subtracting $\int_{-\infty}^{\infty} (x + 2) - x \, dx = 0 - 0 = 0$, $\int_{-\infty}^{\infty} 2 \, dx = 0.$

But $\int_{-\infty}^{\infty} 2 \, dx = \infty.$

So we do not give the integral $\int_{-\infty}^{\infty} x \, dx$ the value 0, and instead leave it undefined.