

# Submission to the Financial System Inquiry

## The Case for the Reform of the Financial System

The Financial System Inquiry has congratulated Australia for a good performance compared with most other countries, and is considering many reforms to improve the working of the system. This contribution looks at the larger unsolved problems, and the unsustainable positions the system may be dragging us into.

### **Unemployment**

- has been increasing in Australia. Businesses have been putting off staff, main offices have been closing branch offices some have declared they will leave Australia in a year or two. While the rate (rising to over 6%) is lower than many in Europe and America. It must be remembered that all unemployment rates do not reveal the true rate which is always higher.

Rates for young people (15 - 21) are much worse. That we fail to employ young people causes trouble with their development and cause bad consequences.

High unemployment encourages employers to keep wages down so there is less money circulating in the community, particularly the young, so they spend less and the employer is forced to make more cuts because his production is not being sold.

The system is clearly failing, it does not provide sufficient money to employ the whole population and dare not do so because of possible increased bankruptcies.

### **Industry**

- needs raw materials and power. Both are dug out of the ground, and as we all know mines inevitably run out. While some parts of our industry are developing sustainable systems such as solar roofs, the majority insist on the use of coal and oil.

**Coal** is said to be the cheapest method of producing large quantities of power, but at the cost of serious pollution both to land, buildings and people down wind of the plant, quantities of CO<sub>2</sub> in the atmosphere, and mercury poisoning of the oceans sufficient for warnings to be issued to expectant mothers. But Australia has large quantities so industry continues to develop coal in order to increase exports. Industry will have to learn that the health of the environment and the people, rates above the value of their profits.

**Oil** also produces CO<sub>2</sub> but the real concern is that it will run out. Ordinary oil is will be 50% down by 2025 and the consequent increase in price will make it un-affordable for most of us. It is claimed that shale oil has saved the day. It is being produced in America in quantities which will obviate the need for America to import oil but there are future problems. Current production come from mines which are easy to drill, future production will require drilling to a much deeper depth increasing the cost. Processing is also costly so by 2025 this oil may also be un-affordable.

Australian oil runs out quicker than other countries so we are dependent on O/S supplies. We also have shale deposits but little water to process it.

It follows that the future lies with the production of electric cars and Solar generating plant. It is a disgrace that Australian manufacturers have only made expensive dual engine cars when they should have designed and built all electric vehicles to suit

Australian conditions, designed improved batteries and charging equipment.

It should be noted that Tesla and Panasonic in the USA have agreed to combine and build two huge factories in different States to build a very large number of the latest batteries and Tesla cars, more than sufficient to supply the USA.

Was the petrol head attitude of Australian manufacturers due to undue pressure from Oil companies?

### **Banks**

- are responsible for creating the money that turn the wheels of industry. They do this by making loans to businesses and industries on which they charge interest which is charged to their customers and eventually paid by all of us.

Ordinary citizens use this system at least once in their lives when they need a loan to purchase a house. They find that the total they pay is up to three times or more than the original cost of the house at a time in their lives when they need more money for all the other costs of bringing up a family.

When the bank creates a loan they place a credit on their clients account. This is new money and as it is paid back so the loan is cancelled. This means more and bigger loans are required to expand the economy as is needed by the expanding population.

Most businesses run on a bank over draft and the interest charged gets paid by the consumer. As most of the economy, agriculture, food, transport, clothing, accommodation, plus the increasing amount that has been privatized has to charge all costs, including interest charges to their customers so the final consumer finds that their pay does not rise sufficiently to cover the rising interest charges. Eventually this leads to a crash as has been experienced throughout history, showing that the system does not work, leads to loss, and has always done so.

When banks make a loan they have to decide if the proposed business will be able to pay back the principle and interest. Some bankers may consider other issues such as the ethics of the situation, the production of CO<sub>2</sub> or whether there will be sufficient raw materials left for future generations - but in their final analysis they come back to the profit question. Thus the banks are making decisions that determine the development and sustainability of the nation, questions which should be decided democratically in Parliament.

### **Alternative Financial Systems**

If you google the above heading you will find many alternative systems. Most of them depend on the Government taking back the power to create money which it can do by creating a credit on appropriate accounts. This is the same as printing money - which we are told means inflation. While there has been serious inflation in the past, and also there is always mild inflation under the present system, still inflation can be eliminated by making sure that the amount of credit created is never more than the amount required to insure full employment. Since a larger proportion of the population will be employed, their production will benefit the community.

As this money is created by the Government there are no loans to pay off, no interest to be charged, taxes can be reduced or new projects commenced - provided the amount required to ensure full employment is not exceeded.

### **Successful Systems**

1) The Channel Island, **Guernsey**, in 1816 was broke, they decided to print a few thousand pounds and rebuilt some roads, a school, repaired the sea defences, They kept doing this for 100 years without inflation, negligible unemployment, an improved standard of living. They continued to pay low taxes which paid for the bank loans. This was achieved even though their exports were only Tulips and tomatoes.

2) The **United States of America's** first President Abraham Lincoln needed to pay soldiers but the banks would only make loans for 24 to 36% so the printing of \$ 450 million greenback dollars was authorised making the formation of the USA practicable. Some claim that inflation resulted, however it was the wartime conditions and the British distributing counterfeit notes that made inflation inevitable not the green backs.

3) In **Australia** Sir Dennison Miller, Governor of the Commonwealth Bank 1911 - 1923, never borrowed money and charged very low interest but he financed the Snowy River Hydro Scheme, the transcontinental railway, loaned money to local government for roads, railways, harbors, power plants and financed the WW1 for an amount of \$700 million at less than 1% interest, so Australia came through this war with little debt compared with other countries.

### **Future Proposals**

**The American Monetary Act** by Stephen Zarlenga is a comprehensive Act suitable for a large modern industrial country with many States, It has been introduced to the Washington Congress by Mr Kucinich in 2011 but is unlikely to proceed without a change in political thinking.

**Positive Money** has combined with New Economic Foundation and the University of Southampton to present a submission to the UK Independent Commission on Banking.

**The Manning Plan** for permanent debt reduction in the national recovery by Lowell Manning from New Zealand should be examined carefully as it has different features which may be more acceptable.

**A Simple System** could be introduced by any Government that is in control of its own currency, by using its present system of creating infrastructure. At each stage of the new infrastructure (hospital, roads, schools etc.) the countries reserve bank would provide the credit to pay contractors, balancing its books with the value of the asset. This may not need any legislation but legislation would be desirable to prevent privatization of the asset, limit the powers of private banks and match the total credits to the available workforce.

These methods will provide full employment, greater public demand for private services. Banks would become more like credit unions, The need for charities would be reduced, and the need for gambling would be reduced. As more people become employed we would become more confident that our relatives would make out and a more peaceable attitude would take over the nation enabling more practicable assistance to others. Our Parliament would work better as members realised their efforts were more achievable.

### **Global Warming**

The industrialisation that has taken place in the last 200 years has increased the CO<sub>2</sub> in the atmosphere to 400 ppm. This level will in the course of several hundred years increase the temperature, the storms and the level of the oceans by amounts that will result in much destruction.

A majority of the industrial world deny this but the reason why they deny it is they know the present system cannot supply the money to provide infrastructure and employment now - so is incapable of building sufficient infrastructure to provide the sustainable energy systems required.

There is no doubt about the science, confirmed by world wide organisations and our own CSIRO. The targets for reduction of CO<sub>2</sub> are inadequate - It takes a thousand years for CO<sub>2</sub> to fall out of the atmosphere because we cut down more trees than we grow. It is essential for every industry to prepare plans to convert to sustainable operation now but this can only be done if the money system

is reformed first.

### World Population Problems

World population has increased with industrialisation. The increased power makes more food available so the population grows and with it the waste products. Mankind has become a plague on the earth - we are reducing the species by poisoning the earth and the oceans. We are using up the earth's resources without regard to future generations.

The remedy is to make available family planning methods to all peoples with education and support from the media. This method has worked in industrialised countries where population rates have fallen. Again Industry and finance must learn that there are things more important than the need for growth.

### Proposals for Government Action

- 1) Request the Treasury officials to examine the above proposals and suggest a practical scheme for Australia.
- 2) Start an international publicity campaign for the adoption of 100% reserve banking and arrange trade agreements with countries that adopt 100% reserve banking.
- 3) Pass a law that every person or corporation who cuts down a tree shall grow and water two new ones in the same locality.
- 4) Reinstate funding to the CSIRO.
- 5) Instruct all businesses to prepare plans to make their industries sustainable *ie.* make all their operations without burning fossil fuels.
- 6) The Bank of England has produced a report "Money creation in the modern economy" making it clear that many text books are factually incorrect. It is understood that many schools and Colleges of economics still use these books. Will the Government ensure that the "B of E report" be distributed to all Economic Schools and included in the Curriculum ?

Richard M Clifford

12 8 2014

Ah Love! could thou and I with Fate conspire  
To grasp this sorry Scheme of Things entire,  
Would not we shatter it to bits---and then  
Re-mould it nearer to the Heart's Desire!

Rubaiyat of Omar Khayyam  
Edward FitzGerald's Translation

### References

Google these key words;

*The History of the Money Changers*, Andrew Carrington Hitchcock

*The Guernsey Experiment*, Olive and Jan Grubiak

*The American Monetary Act*, Stephen Zarlenga

*The Manning Plan*, [www.integrateddevelopment.org/manningplan20120913.htm](http://www.integrateddevelopment.org/manningplan20120913.htm)

*Reform of the Financial System*, [www.users.on.net/rmc/moneyreform.pdf](http://www.users.on.net/rmc/moneyreform.pdf)