

Submission to interim report of the Financial Services Inquiry

It is appreciated that a vast amount of work has gone into preparing the interim report.

One of the terms of reference for the Inquiry is to 'promote astable financial system.' Though the TOR does not specifically state that our financial system should be fair and equitable, fairness and equity should be considered an integral facet of a long-term stable financial system.

It appears that so far the Inquiry has not addressed a critical aspect of our financial system, that is, the creation of new money. The total money stock continually expands due to the creation of new money (whether created in Australia or offshore). Apparently, apart from the 3% or so of our new money supply created as banknotes and coins, practically all new money is created out of thin air at the stroke of computer keys by private banks, and lent as credit (i.e debt). This needs to be paid back as principal and interest, creating a necessity for an ever-expanding money supply (i.e, ever-expanding debt) to provide the liquidity for this system to keep functioning. This is effectively a Ponzi scheme, and ultimately unstable and unsustainable. Like any Ponzi scheme, it can work as long as the music keeps playing, but when the music stops, i.e, people greatly reduce or stop borrowing for any of a plethora of reasons, the whole house of cards will likely collapse with calamitous consequences. The well-documented increasing gap between the haves and have-nots in our society must also be at least partly due to this flawed system

Economist Jeremy Lawson (ex RBA and OECD) has recently stated 'A significant deterioration in Australia's fiscal position over the past decade has left us very vulnerable to the next big global shock (Fin Review, 25-8-2014)

This aspect of creation of nearly all money as debt should be directly addressed by the Inquiry.

The solution is simple, as outlined in recommendation, below.

Government deficit

The interim report states that by the end of the 2014/15 year, outstanding Commonwealth Government Securities held by offshore entities will be about \$250 billion (70% of \$360 billion), meaning approximately \$25,000,000 per day of Australian taxpayers money is flowing into the pockets of overseas entities. This is an utterly and completely unnecessary haemorrhaging of taxpayers money which could be staying at home to increase Australia's resilience and prosperity. The Inquiry panel should not be sanguine about this extraordinary outflow of taxpayers money.

Again the solution is simple.

Recommendation: the solution to ever-expanding (Ponzi-scheme) debt and Government deficits

Structural Government deficits are an important source of liquidity for our financial system. Such deficits are normal throughout much of the world. Trying to bring a budget back to balance or surplus can create a serious credit crunch and inhibit 'growth'. However, there is absolutely no need for our Government to borrow money, at enormous cost, to fund ongoing deficits. The solution is for the Government to itself create, debt-free the money it needs to balance its books. Clearly, there would need to be some transparent system to ensure flexible, sustainable and constrained money-creation. How this could be done should be a matter of study and recommendation by the Inquiry. In all other aspects the banking system could remain more or less as is, depending on recommendations of the Inquiry. People and businesses could still borrow, and repay with interest, money for their various needs. The benefit is that part of the money supply would be created debt-free, enabling a stable, prosperous and sustainable financial system beneficial to the whole of society . A vast improvement on the current system which is inherently unstable and skewed to the benefit of a (largely foreign) financial elite

Public Bank

Well-run public banks bring great benefits to societies. Some of the world's most dynamic economies have large public banking sectors, eg, South Korea, Taiwan, China. The Inquiry should examine the feasibility and potential benefits of recommending the creation of a public bank (or banks) in Australia. The Commonwealth Bank when in public hands had a very beneficial history for the Australian economy. The State Bank of Victoria in its various iterations operated successfully for the benefit of Victorians for nearly 150 years, before it was brought down by gross mismanagement in its merchant bank subsidiary. It should be recommended by the Inquiry that any public bank that is created should not engage in merchant banking activities!

Credit Wherever in the Inquiry's report the word 'credit' would be used, it should be replaced by the word 'debt'.