

**BANKING, CURRENCY, CREDIT
& INFLATION**

by
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AN EXAMINATION OF THE BASIC CAUSES
OF INFLATION
WHICH ARE SHOWN TO BE INTER-RELATED
WITH THE CONDITIONS OF LAND TENURE
AND
THE ISSUE OF UNSECURED CREDIT

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This examination was inspired by Norman Lockyer, past president of the Country Party of Western Australia, and by Knud Tholstrup of Denmark, a past member of Parliament and prominent businessman. It represents the writers interpretation of conditions that would apply in a free economy consistent with political science, as expounded in the writings of Henry George and does not necessarily represent the views of all Georgists.

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FOREWORD

Guidelines for this enquiry are based on basic human rights which are stated as follows:-

- * Every person, by right of birth, has the right of equal access to land which is the store-house of all natural resources and the field of all human endeavour.

Without access to land man will die. With restricted access to land man will live a frustrated unnatural existence.

- * Every person is entitled to the product of his or her labour.
- * The utility of land is measured by its rental value which peaks at the centres of population and recedes to outer regions - to marginal areas where there is no rental value.
- * The rental value of land, exclusive of man-made improvements, arises from the presence and activity of all people as a community, and the necessary services of government which support closely settled and regional communities.
- * The rental value of land does not arise from the efforts of individual land holders.

- * It follows that those who occupy land with the greatest natural and locational advantages should compensate the rest of the community according to the market value of the privilege of exclusive occupation enjoyed. All people would then have equal opportunity to work and benefit from the fruits of their labour.
- * Governments should collect the rental value of land for public revenue on behalf of the community. Subject to the collection of rent as its natural revenue, which is sufficient for the necessary functions of government, all taxation which is a violation of human rights may be abolished.
- * Taxation, since it is a denial of human rights, is theft and is responsible directly and indirectly for criminalising, corrupting and degrading society and for all kinds of social disorder when superimposed upon the basic denial of the common rights of all people to use land under conditions of equality.

When governments fail to collect their natural revenue it will be misappropriated as unearned increment by land owners. Moreover land rent, capitalised as land price, will be accepted in addition to real wealth as security for borrowing, which is the subject of this enquiry.

When restricted to rent, as its natural revenue, which is the market assessment of the value of public services, the necessary functions of the State in a free economy would cost only about one third of the expenditure by socialist, monopolist, government.

BANKING, CURRENCY, CREDIT

&

INFLATION

INTRODUCTION

THE PROBLEM

In attempting an examination of this subject the writer has undertaken the most difficult assignment imaginable; not because the subject is essentially difficult, but because of government intervention and the introduction of legal forces which conflict with natural law, human rights, and free market determination of values.

THE ORIGIN OF BANKING

In the latter part of the last century, the business of banking was in the hands of private enterprise which collapsed under the pressure of land booms and consequent depressions in the United States which ultimately affected the banking system throughout the world.

GOVERNMENT INTERVENTION

American banks have remained largely under private control and history is beginning to repeat itself. The Australian Government intervened to save depositors funds from the chain reaction of banking failures. In this undertaking a large measure of success was achieved but at enormous cost.

Because decisions were made by the bureaucracy which did not suffer from the wrong decisions made and there was no incentive for correction, we now have a monetary system under which inflation appears to be incurable and is generally accepted as being inevitable.

Under the present economic system, it has been desirable for governments to encourage inflation in order to counteract the economic effects of their own policies and hide the faults of bad political and economic decisions. The result is that inflation destroys the savings of people and therefore increases the magnitude of the downturn which follows.

THE DISMAL SCIENCE

Economics, which should deal with the distributed returns to rent, wages and interest, arising from the three factors of production, land, labour and capital, respectively, has been described as "the dismal science", because empirical tuition has been corrupted to serve the interests of vested monopolies. The subject, currently described as macro economics, survives in our universities only because of the academic degrees awarded, - not because of the use it serves to industry and commerce.

ECONOMICS AND BANKING

Nevertheless, within the classical school, based on scientific theory and logical analysis, there is a wealth of information available from private studies on economic science. There is, however, no such authentic information on the subject of banking, currency and credit available to the student who must go back, by tortuous effort, to a study of first principles.

(Maynard Keynes dealt; in the main, with planned inflation by the manipulation of currency and credit as a means of alleviating the effects of economic depression.)

The business of banking etc. cannot be said to be an essential feature of economics, but should be regarded, rather, as a labour saving institution in the field of industry and commerce, if correctly and honestly applied, to improve upon the cumbersome method of barter trading.

POST DEPRESSION ENQUIRY

The "Royal Commission into Central Bank Credit" - (1935-36) is a short document which recognizes some desirable limits to government control as being necessary, but assumes that officials entrusted with power will act in the public interest. We have since learned that governments are unwilling to balance their budgets and seldom act in the public interest when currency and credit manipulation can provide an easy way of avoiding unpopular decisions which are not difficult to misrepresent.

A PRIME MINISTER HAS RESERVATIONS

Mr J.B. Chifley produced a most interesting addendum, entitled "Dissent, Reservation and Adenda", which exposed that banks had continued to make healthy profits during depressions and wars, which must have been due to an element of undesirable monopoly. Mr Chifley nevertheless held that government control was necessary.

Politicians were reasonably honest, in those days and Mr Chifley could not have been expected to foresee the result of steadily increasing taxation and socialist interference with private enterprise and with basic human freedoms.

Apparently, without any knowledge of how land booms and depressions can be prevented by the collection of the socially generated rental value of land for public revenue and the abolition of taxation, it is difficult to see how the Royal Commission's report or Mr Chifley's addendum could have been otherwise.

LAND REFORM ESSENTIAL TO MONETARY REFORM

Land reform and banking practice, divorced from monopoly, as will be seen as the enquiry proceeds, are essentially co-related. It is interesting also to note that the major stock and merchandising companies which also are land agents, continue to make greater than average profits, whilst the farming community which supports their existence, is battling for survival.

THE ORIGIN OF MONEY

Before the present Banking, Currency and Credit structure is examined, consideration should be given to the original introduction of the monetary system, introduced to save labour otherwise involved in making exchanges by barter.

Gold was the first important medium used because it has a stable value, may be minted into small coins, can be measured conveniently by weight, is generally acceptable and is not subject to destruction by the elements of nature. Because of the foregoing qualities, gold is more suitable to serve as a measure of value than any other metal or substance.

Silver and copper also were used for the same reasons for smaller transactions and divisions of such.

A farmer who had surplus sheep to exchange for, let us say, wheat, exchanged his sheep for coins which in turn were traded for wheat. He was saved the labour of finding a buyer who had surplus wheat and needed sheep.

A further advantage was that coins could be used over and over again and the supply had only to be increased to provide for an increase in the number of exchanges, the rate of circulation and provision for some coins being withheld from use. This was not a problem because satisfactions came from the ultimate exchanges into consumable or capital goods.

Even in earlier times, unscrupulous opportunists were on the alert to find means of living at the expense of others. Henry the Eighth is said to have clipped the edges of coins and rumbled them, forcing subjects to accept the devalued coins and keeping the clippings and gold dust.

To overcome this problem coins were produced with milled edges and embossed faces to make mutilation the more easily detected.

Governments were not originally involved with the introduction of currency of intrinsic value. It is not known to the writer, precisely how the first money was introduced into circulation. It could have been by an enterprising goldsmith who exchanged his coins for needed supplies or a merchant could have engaged the services of the craftsman. One thing is certain, stock or products of some kind first had to be produced to exchange for coins; there is no suggestion of credit being involved.

Money was used by earlier civilisations. There is reference to its use, two thousand years ago, in the Bible. The pattern of the introduction of coins into circulation is not known precisely but it must have been similar to the British experience or introduced by despotic rulers. There is no need of research which would be difficult. All previous civilisations have perished because of injustice.

BANK NOTES SUPPLEMENT COINAGE

In the early stages of the industrial revolution in England, increasing the need for exchanges, it became evident that the handling of gold coins for large transactions was inconvenient and risky, notwithstanding that this method of trading with coinage was a big advance on the barter system.

This problem initiated specialised dealing in currency and the beginning of the banking system. The banks stored the gold coins or bullion and issued notes in exchange upon which were inscribed promises to repay gold, in exchange, on demand. These bank notes were in effect receipts acknowledging that the bearer had produced wealth or rendered services, the title to which, had been entrusted to the banks and was redeemable upon return of the bank notes less the cost of the service provided by the financial institution.

BANKS BECOME AGENTS OF LENDERS & BORROWERS

It was natural under such conditions that banking business should extend to acting as an intermediary between those who had surplus assets which they could not conveniently put to use and others who had plans to use wealth as capital to increase the production of wealth which they were prepared to repay in due course, plus a premium in return for the service. (Interest, the rate of which was fixed by the market.)

In other words banks became agents between borrowers and lenders to the advantage of both and became known as trading banks. There is no suggestion of unsecured credit being introduced at this stage. The wealth loaned, in effect, remains the property of the lender or agent, plus some additional security to provide for the deterioration of wealth, due to the destructive forces of nature, until repaid. The borrower will ensure that funds are used to increase the effectiveness of labour to a greater extent than all the costs of borrowing so that there is a net return to him.

ACCOUNTING LARGELY SUPERCEDES CURRENCY

In time the use of bank notes was largely superceded by accounting methods, with debits and credits representing the respective equities of borrowers and lenders. At the present time it is estimated that only about 2 per cent of exchanges involve the use of money or bank notes.

Banks require central premises and staff and must support the time lag between transactions. Also there is a need to provide for an abnormal demand for the repayment of lenders accounts which must be financed until there is a corresponding reduction of borrowing.

Share holders funds are subscribed for such purposes and the return should be about the same as other forms of investment.

All the dealings are in real wealth or services exchangeable for wealth and transaction are fully secured without the introduction of unsecured credit.

WHAT HAS GONE WRONG IN BANKING BUSINESS

What then has gone wrong? What is the cause of inflation, unsecured debt and interest rates higher than the net average earnings of capital in competitive industry? Why do our young people of marriagable age face a future in which they must pledge half a lifetime of savings just to establish a home and raise a family, in an age in which the production-of-wealth, aided by spectacular advances in technology, has become easier than ever known before? Why are many young people worse off than their grandparents.

ABNORMAL LAND PRICE INCREASES

The answer is to be found in land prices which, in recent years, on average, have increased approximately six fold compared with wages, mainly in overgrown congested cities, studded with concrete monstrocities, which exist to a large extent, in support of a vicious, disincentive taxation system, while basic wealth producing, rural industries are on the verge of insolvency.

GOVERNMENT POLICIES AFFECT BANKING PRACTICE

The foregoing generalities, however, must be examined in greater detail to pin-point specific causes, which is the object of this examination of the banking and credit structure.

We have already noted that currency (bank notes and coinage) plays a significant role in the exchange of wealth. Government policies are entirely responsible, both directly and indirectly for the obvious maldistribution of wealth. The extent to which banking practice and the credit structure is involved will be examined separately in that order.

DIRECT GOVERNMENT RESPONSIBILITY

DISINCENTIVE TAXATION

Governments impose fines and prison sentences on those who indulge in illegal anti-social behaviour with the object of discouraging such behaviour. Heavy taxes are imposed on the production and sale of cigarettes and alcohol with the object of restricting the use of substances said to be injurious to the human body and to society.

Governments also impose about 70 different taxes and charges on every conceivable form of human endeavour in producing, exchanging, consuming or saving wealth and rendering service. Such imposts confiscate more than one third of the gross domestic product, cause crime, vandalism, mental frustrations and derangement, which lead afflicted people to murder, suicide, rape, violence, and the use of addictive drugs, which offer temporary escape from reality.

Tax penalties imposed on productive effort have exactly the same disincentive effect as fines intended to discourage the use of harmful substances and anti-social behaviour. The disincentive effect is enormous, worsening unemployment and poverty, the relief of which increases the tax burden and decreases the incentive to work.

GOVERNMENT INTERFERENCE IN EMPLOYMENT

The employment of Aborigines is legally forbidden unless they are paid more than they, in general, can earn. In consequence 75% are unemployed and must live on tax provided charity.

Many inexperienced young people similarly, are excluded from the workforce unless they are paid higher than the market value of their earning capacity. Unemployment of this group is about 20 per cent.

In both cases the enforced misallocation of funds by employers to excessive wages, would have been better allocated to educating the future workforce.

DEFICIT PUBLIC FINANCE

Under such conditions governments cannot consistently balance their budgets which include an enormous amount of wasteful expenditure. This is difficult to avoid; those who are legally excluded from the workforce cannot be left to starve.

Governments must resort to borrowing which competes with the essential needs of industry and therefore forces up the cost of borrowing capital.

Government imposed taxes add to production costs which are passed on to buyers as price increases.

GOVERNMENTS BUY BACK THEIR OWN TAXES

Governments are by far the largest purchasers of goods and services, as we have observed (about one third of total production) and therefore, are obliged to buy back their own taxes. This further increases the impossibility of balancing budgets and puts additional pressure on the loan market.

UNSECURED PUBLIC DEBT

There are two essential features in Public borrowing which are of the utmost significance. - The debt is unsecured and the borrowed funds, generally, are not used to support productive effort which is necessary to earn the interest charged.

What security can governments offer, - roads, gas, electric, water and sewerage services, postal establishments, courts of law, prison structures, defence forces, parliament houses, universities and schools? These, in effect, are paid for by taxation (at an excessive cost). The shortfall in revenue represents expenditure on the welfare state etc., the need of which, is a direct result of the fiscal structure. Yet banks and money lenders are anxious and willing to lend their capital to governments. Why?

IMMORAL INFLATIONARY SECURITY

The reason is obvious - governments do offer a form of security which is not available to private borrowers. They guarantee, in effect, to confiscate, by taxation the wealth produced by future generations.

The young people saddled with debt and the servicing of such, since they were not consulted have every moral right to repudiate. But so entrenched is the public debt system and so indoctrinated are the people by the media and the education system that no one is ever likely to consider such an extreme, unprecedented, course of action - Repudiation! is a dirty word, not in a gentlemans vocabulary. There are better ways of dealing with the problem.

The reader must be beginning to see what has happened. Superimposed on secured private borrowing and lending of capital is a huge fund of purchasing power available to government, in respect of which, there is no real wealth backing. That is, increased purchasing power competing for real wealth which has not been commensurately increased.

This is the essence of inflation call it what you like - Credit without security, deficit public finance, - does it matter - a cesspool differently described would smell the same.

Governments even force private banks to lodge certain of their securities with the Central Bank presumably in return for money or concessions of one kind or another. There appears to be an understanding that the Central Bank will guarantee the solvency and healthy profits of the large Private banks.

It remains to be seen whether the competition of foreign banks, now graciously allowed to operate in this country, will have a steadying effect on interest rates.

This does appear likely but the basic cause of inflation will remain unchanged.

It does appear even more likely that additional funds will be provided for land speculation.

It is not the purpose of this examination to comment on the changing ramifications of a socialist controlled Commonwealth banking system and dealings with private banks which would be beyond the understanding of the majority of educated and intelligent readers, even if full information on the subject was available, which it is not - not even to highly placed executives in the banking profession.

The object is to disclose the cause of inflationary pressures and the relationship with unsecured credit facilities.

UNSECURED PRIVATE CREDIT

The reader may have noticed a recent change in banking policy which appears to be a contradiction of established conservative practice. Unsecured Loans are being offered to all and sundry. Through Bankcard facilities and similar schemes. Little people are encouraged to live on credit beyond their means. This practice of "spend now - earn and pay later", will have the same inflationary effect as deficit, unsecured public finance.

CHANGED BANKING POLICIES

It has been reported that Bankcard indebtedness in Australia amounts to two billion dollars. Unless additional bank share-holders funds have been subscribed to the same amount, inflationary pressures have been generated and interest rates increased. This policy has not been extended to competitive industry or to the farming community - quite the reverse. Loan facilities have been tightened and the amount of security required has been increased. To some extent this would counteract the effect of unsecured Bankcard credit, but the conditions are discriminatory and unfair between bank customers.

In the West Australian (31/3/88) it is reported that one of Australia's largest banks has reduced the rate of interest to property investors (land speculators). Apart from being discriminatory, this is inflationary, because purchasing power will be created on the security of land which has no cost of production, no labour ingredient, and therefore is not wealth.

Indications are that banks prefer the financing of multi-millionaire take-over bids, bulling and bearing of the stock market and speculating in real estate, none of which purposes support the employment of labour in the production of wealth.

THE EVOLUTION OF BANKING

The basic function of banking business is to reduce the labour involved in exchanging wealth. The legitimate developments in banking practice to improve on bartered exchanges are retraced:

- * Barter.
- * Use of money of intrinsic value.
- * Substitution of bank notes for money. These were in the nature of receipts entitling the holder to demand money of real value or bullion in exchange.
- * The substitution of accounting for the use of bank notes and money to a major extent.

In all such methods of trading, real wealth is involved.

CORRUPTING DEVELOPMENTS

- * Bank notes no longer entitle the holder to receive money of intrinsic value in exchange.
- * Account credits are exchangeable for bank notes, but these, in turn, are not exchangeable for money of real value.

- * All forms of currency and bank credit, secured or otherwise, are exchangeable, outside the banking system, for real wealth (goods and services).
- * Unsecured credit used to purchase real wealth or a capitalised monopoly is inflationary.

Legalised monopolies, which entitle the holder to demand wealth, without returning goods or services in exchange may also be purchased with currency and credit.

This is not the fault of the banking system but is a responsibility of government as will be later demonstrated.

SOMEONE PAYS FOR UNSECURED CREDIT

The availability of unsecured loans introduces an entirely different dimension, increasing the amount of credit without a corresponding increase in wealth, which sound banking practice, in the past, has always required.

There is little or no cost involved in making a credit entry, therefore, the interest yield is clear profit less accounting expenses only. There is no such thing as a free lunch however; the new credit or currency issued is paid for by the devaluation (inflation) of existing credits and currency.

LOSSES ON BANKCARD CREDIT RECOUPED

It is generally believed that a large part of Bankcard credit will never be repaid and will have to be written off.

The banks losses, however, will be recouped from an upward trend in spurious (false) interest charged on secured loans, and from a larger total of credit extended, because of the infusion of unsecured credit, debased in value, because there is no corresponding increase in real wealth.

SPURIOUS INTEREST EXAMINED

Interest is the net earnings of capital. The returns from unsecured credit, in respect of which no wealth has been invested, can only be described as spurious interest, which, to be blunt and uncomplementary, is really a form of embezzlement.

If the banks issued forged bank notes or counterfeit coins the effect would be the same as granting unsecured credit.

Governments are responsible for debasing the value of coinage, but because there is general acceptance and so little coinage is used, the effect is negligible.

Governments also are responsible for repudiation of the obligation to exchange bank notes for coins or bullion of intrinsic value on demand. If there is general acceptance and provided banks have ample share holders funds in reserve, there is little harm done under stable trading conditions. Accounting is used for more than 95% of transactions and it is in this field that inflationary pressures are generated.

It seems inconsistent, however, to permit the issue of unsecured credit while forging and counterfeiting which have the same effect are illegal.

Interest paid on the Public Debt is spurious, because the debt is not secured by real wealth, but by the intention of confiscating the wealth created by future generations and therefore contributes to inflation.

Unlike private borrowings, for productive enterprise funds raised by governments will not be used to aid production, but will be dissipated on welfare services and in wasteful expenditure generally.

Because the rising generation of borrowers will be no better able to pay than their parents, loans are continually refloated and unpaid debts may be traced to the first world war, in which the real wealth was destroyed, while the debt and spurious interest payable thereon, remains.

The effect therefore must be to intensify inflationary pressures. Interest rates, on average, under present conditions include both real and spurious interest which are difficult to distinguish.

Note: Real Interest throughout the world has remained reasonably constant at about 5 per cent for centuries.

In general, stock market returns are lower than interest rates because of the greater involvement of real capital. On the money (credit) market returns are higher because unsecured credit is issued to a greater extent. (Where some form of legalised monopoly is involved bonus share issues are made periodically.)

INITIAL STIMULUS OF INFLATION

It is freely admitted that inflation has an initial stimulating effect on the economy by creating a demand for goods and services, but in time this is reversed by the reduced value of existing currency and the greater volume of credit accounted for. Moreover the rate of inflation must continue to increase to have a stimulating effect - this soon leads to disaster. It is like taking drugs - the initial stimulus is followed by an opposite reaction - depression. The dosage must continually be increased until the victim dies as a result.

INDIRECT GOVERNMENT RESPONSIBILITY

THE DISTRIBUTION OF WEALTH

We have seen that interest is the earnings of real capital and in common with all forms of wealth, there must be a labour ingredient.

The natural distribution of wealth is to land labour and capital as rent wages and interest.

LAND RENT IS COMMON PROPERTY

Land is the birthright of a nations people and rent is the property of the living generation. It arises because of the industry and the presence of the community collectively and not because of the efforts of individual land holders.

There are enormous advantages in holding land in the centres of population compared with outer regions on the fringe of development.

CENTRAL LAND RENTALS

Land in the centre of a city, such as Perth, Western Australia, with one million inhabitants, as at 1988, would rent for more than \$2,000,000 per acre, per annum. In Melbourne, with three times the population, in excess of \$6,000,000 and in Sydney, the largest city in Australia, with four times as many people, the most valuable acre would have a market determined rental value of more than \$8,000,000 exclusive of improvements.

The rates quoted represent an increase of 100% in the past 3 years.

Although the rental value of remote regions is very little the farmers and others who work in outer areas create rental values in the cities.

GOVERNMENT SERVICES ESSENTIAL TO LAND OCCUPATION

The services of government, which enable people to live and work in closely settled areas, contribute to rental values, as do the natural advantages of more fertile land; wealthy people will pay a rental premium for the exclusive occupation of land with river and ocean views. - none of which advantages are created by individual owners.

Improvements to land or products created from land are the result of individual labour. This is real wealth, which may be used as capital.

The product of labour is the rightful property of the producers - Sorry to disagree with Karl Marx.

All forms of wealth and capital, other than gems and the precious metals, deteriorate because of the destructive forces of nature and therefore, require continual maintenance, which should be encouraged.

To fine a person by taxation for producing or maintaining wealth is both stupid and anti-social.

The greater the production, which must be extracted from land, the greater will be the demand for land causing rent (natural public revenue) to rise.

Taxation therefore impoverishes the producer and deprives the nation of revenue.

The effective defence of the nation depends on a high rate of production and on buoyant public revenue.

The present taxation system which discourages the incentive to produce wealth and deprives the nation of revenue, amounts to national sabotage as treason - If one is prepared to face the truth.

Because wealth and capital deteriorate, a capital gains tax would yield minus revenue. Land, which is not capital does appreciate in value because of social pressures.

"Economic Rent" (the rental value of land exclusive of improvements), therefore, is a social asset and the natural revenue of government.

PRIVATE MONOPOLY OF A PUBLIC ASSET

If governments fail to collect their natural revenue on behalf of the people, land will become the object of monopoly and speculation, and public revenue must depend on taxes, borrowing and inflation.

When not taken for public revenue, - rent - the measure of the advantage of each particular land holding, will be capitalised as land price, which will increase when some valuable land is withheld from use by speculators, creating an artificial scarcity, which will cause unemployment and depress the earnings of labour and capital.

BANK CREDIT SECURED BY LAND PRICE

Banks will exchange depositors funds, not only for building homes and factories etc. but also to pay for land price.

Land is a gift from nature or the Creator, as one may care to express it - there is no labour content and therefore land is neither wealth nor capital. It is the latent utility from which wealth and capital are acquired.

The owners of valuable land who receive mortgage interest during an extended sale period therefore receive an entitlement to purchase real wealth in exchange for land value security which has no labour content, no cost of production and therefore is not wealth.

This is another - if not the major cause of inflation. Like Bankcard credit there is an entitlement to purchase existing goods and services without any production having been created in exchange.

The original basis of trade assisted by money and accounting was for each party to exchange their products to their mutual benefit. Unlike Bankcard credit, banks take no risk in exchanging credits for mortgaged land titles (improvements not included).

The only risk taken is that at some future time we may have honest governments which will collect economic rent, on behalf of the people who elected them, for public revenue. In which event banks will be in the same relation with those who borrow against land price as security, as they are with Bankcard holders.

Banks should keep this fact in mind and not howl for compensation should the people at some future time, demand that governments collect natural public revenue and abolish taxation, debt and inflation.

Banks have taken a calculated risk (a very profitable one while it lasts, but which is injurious to the community) and should accept the consequences.

POWERS OF THE CENTRAL BANK

The Central Bank has powers to issue "credit" with or without interest or repayment, and to issue or demand securities, to or from, whom or which, it chooses.

It is not suggested that this power is deliberately abused, but under present conditions the matter is so complex that it is most difficult to decide upon a right course of action, moreover there is over-riding political intervention.

The present banking system could be described as a joint-venture by private enterprise and government with the latter exercising over-riding control.

Private banks appear to be treated generously as published profit figures indicate, otherwise the Commonwealth Trading Bank and State banks, could not compete.

According to Mr Keating (West Australian - 21/4/88) the Commonwealth bank is seeking \$1600,000,000 (from tax payers) during the next 3 years, probably to finance additional loans secured by booming land prices.

Under present conditions, in which credit is issued on community generated land values, without any security in the form of labour created wealth, it is preferable that there be a measure of government control, even when subjected to political pressures. However it is evident that the conditions of operation are most unsatisfactory and subject to abuse to the detriment of wealth producers generally because there cannot be any effective control of inflationary pressures.

FREE ENTERPRISE BANKING

At this stage it is desirable to state how a truly free-enterprise banking system could operate for the benefit of all concerned, with special privileges to none, without the generation of inflationary pressures and spurious interest.

Contrary to general assumptions and modern practice, banking and the issue of currency and credit would not be a proper function of government in a free society. The reason being that such functions are not a necessary monopoly and there is no reason for the restriction of competition.

For example National Defence is a necessary monopoly. There could not be competitive defence forces, possibly at variance with each other. For the same reason the administration of justice is a necessary monopoly. There could not be competitive judicial authorities handing out conflicting decisions. Reticulated services passing through roads and highways are a necessary monopoly. It would be impossible to imagine competitive sewerage, water, gas, electricity or telephone services, each with their own supply mains, passing through streets. The same argument applies to rail services etc.

The principle functions of financial institutions are to save labour in making exchanges of wealth and to act as agents between lenders and borrowers, producers and consumers, and those using capital aids for the more efficient production and exchange of wealth.

BANKING NOT A NECESSARY MONOPOLY

It has been demonstrated that the business of banking would not be a necessary monopoly in a free society. Banking therefore, is a proper field of endeavour for private enterprise, provided there are no legally enforced monopolies or interference in the free market.

Banks would lend or invest depositors funds as wisely and efficiently as possible in order to earn the best rate of interest for their customers, and at the same time be competitive in attracting borrowers to deal with the particular bank concerned.

By adopting the best accounting practice to record debits and credits in their customers accounts and with other competitive banks, the need to use bank notes and coinage is reduced to a minimum. Thus saving labour, inconvenience and risk to their customers.

Bullion would pass between banks when accounting imbalances made this necessary. As it used to be, before the gold standard was abandoned.

It is noted that governments even tax deposits and withdrawals which has the opposite effect of discouraging accounting and encouraging the use of bank notes and coins. This stupid, anti-social tax would not be economic on the present scale, without the use of computers. This is an example of the wasteful use of technology (one of many) by governments.

Share holders would invest in bank establishments and provide reserve funds as needed to cover fluctuations between lending and borrowing requirements; with interest rates adjusting to market forces stability would be maintained.

These reserves would function similarly to a flywheel on an engine, designed to cater for the acceleration or deceleration of demands for power. The small demand for coins would be satisfied by purchases at face value from gold, silver and copper smiths, probably by an arrangement between competitive banks or from a central minting source.

Banks would issue their own notes backed by bullion or coinage of intrinsic value which they would contract to deliver in exchange for notes on demand.

UNSECURED CREDIT & PRIVATISED BANKING

Banks would not issue unsecured credit because this would reduce their stability compared with competitors and loss of business would result.

The foregoing is only a description of banking practice which applied in the United Kingdom and in the United States during the eighteenth and nineteenth centuries.

WHY GOVERNMENT INTERVENTION AROSE

There were relatively few problems while the newly discovered continents of America and Australia had land available for the land hungry dispossessed populations of Europe, who were able to emigrate to satisfy their needs for land.

There was an enormous demand for land which attracted the operations of speculators, particularly in America and in the absence of governments collecting rent on behalf of the people, banks loaned excessively on booming land prices and were unable to satisfy depositors demand for repayment when the inevitable depression followed.

There is nothing wrong with the banking system. Government failure to collect it's natural revenue induced banks to lend on land price securities instead of on real wealth only.

THE BASIC CAUSE OF INFLATION

Until such time as governments do collect their revenue entitlements and abolish the iniquitous taxation structure, with all its disastrous side effects, including public debt, excessive interest rates, (spurious interest) and inflation, the hybrid socialist banking system must be endured.

The mal-distribution of wealth as described in the operation of the banking system is second only to the private misappropriation of the people's natural inheritance, - the socially generated rental value of land, as the basic cause of inflation.

REDUCED INFLATION AT THE EXPENSE OF THE PEOPLE

The question is sometimes posed - Why are economic conditions better in Japan and Korea, where there is no unemployment, than in Australia?

The answer is that the people work up to fourteen hours a day seven days a week when demanded, without overtime loadings, for a pittance, which does not even make them think of aspiring to home ownership and must submit to the most appalling living conditions or starve.

It could be said that poverty is endured in the countries instanced and unemployment is exported to America, England and Australia, the high wage - low output countries.

It is amazing that competitive industry still struggles on in Australia. The problem is that once in, and capital is committed, it is most difficult to get out, other than by insolvency.

AN ARBITRARY REMEDY FOR INFLATION

As a temporary measure, designed to prevent financial institutions from creating credit and so causing inflationary pressures, legal enactments could require:

- 1) Unsecured Bankcard credit should not be permitted unless there is a comparable increase in share holders funds.

In a free society, bank share holders should have every right to extend unsecured loan facilities, provided this is at their own expense and risk and does not involve debasement of the currency which would then be at the expense of the rest of the community.

In defense, bankers might claim that they were lending depositors funds. The question might then be asked - why make unsecured Bankcard loans in preference to requiring the normal security?

It seems obvious that new credits are created which are inflationary.

- 2) In the event of mortgage foreclosure, the unimproved land value proportion of the sale should be returned to the mortgagor. Banks would then make loans secured by real wealth only - not on land values.

Taking the example of a home building - the loan would be paid as the security is developed. The first payment would be made when earth works and foundations were complete, the second when the building was plate high, the third, when the roof was erected and the final payment made on completion of fixtures and fittings etc. The builder, from his own funds, with or without secured financial support, would finance the structure to each payment period. There would be no inflation - generating, unsecured credit involved.

Speculation in land would then be confined to those who did not need to borrow.

This would go a long way to preventing land booms, which extend to stock markets because land price is interchangeable for real wealth, and the inevitable depressions which follow.

It is always bad practice, however, to rely on legal force, rather than on the law of supply and demand, which will distribute wealth justly and accurately, if monopolies are eliminated.

Like all artificial attempts to correct a basic injustice by legalised prohibitions against exploitation, there are always further problems created. In this instance prospective home owners, instead of pledging their savings for half a lifetime to pay back the principal with compounding interest, might have to wait years to save enough to buy a home building site.

There is no real substitute for economic justice.

Land price, as security for loans, would disappear, subject to governments collecting their natural revenue and abolishing taxation and monopolies.

Young couples could then start a home occupying the land on a "pay as you earn" basis without recourse to borrowing on the home site and pledging their future earnings.

The business of banking, in all its aspects, could then be totally privatized with enormous benefits to borrowers, lenders and to the nation generally.

SUMMARY & CONCLUSION

In conclusion the cause of inflationary pressures are summarized, with the observation that when the legalities which control banking practice are wrongly based, then inflation is self perpetuating and beyond control, other than by arbitrary measures, which are a violation of human rights and a burden on productive enterprise.

- 1) When governments fail to collect "economic rent" as their natural revenue it is privately misappropriated as unearned increment which is capitalised as land price. Land, which has no production cost may be exchanged for real wealth. A credit is created in favour of the vendor which passes to the purchaser without any new wealth having been produced.
- 2) Alternatively land may be mortgaged which confers an entitlement to goods and services. This is, a new credit created without the production of new wealth.
- 3) Land prices have been increasing about six times faster than wages, prices and inflation, at the progress experienced in Australia of recent years. (wages prices and inflation increase at about the same rate)

Central city land prices have doubled in Perth during the past three years. Average Sydney house prices have increased by \$30,000 in the past nine months (West Australian 18/4/88). The increase is mostly in land.

Looking backward 70 years at suburban land prices, in Forrestfield, a suburb of Perth, about 8 miles from the city centre, land was selling for \$6 (£3) an acre. It is now priced at not less than \$60,000 an acre - an increase of 10,000 times.

During this period wages have increased about 50 times, that is land prices have increase 200 times faster than wages.

- 4) Land monopoly and speculation creates an artificial scarcity of land available for use. This causes land prices to rise, unsecured borrowing to increase and inflation to worsen.
 - 5) Bankcard unsecured credit confers an entitlement to wealth before any new wealth has been created. This is inflationary.
 - 6) Taxation in all its forms and including the inevitable side effects - poverty unemployment, crime, etc. etc. discourages production which lowers the total value of current production while purchasing power based on unsecured credit increases as land prices rise.
 - 7) About 20% of the workforce in socialist government is employed on non-productive and counter-productive projects, on waste, regimentation, welfare, tax collecting, etc. Such people receive purchasing power as wages and salaries without producing wealth or rendering service in exchange.
- The intention is that an equivalent amount of tax money is to be withdrawn from circulation, but this is at the expense of production. There is on average, insufficient public revenue to balance expenditure. This is accounted for by borrowing or deliberate inflation, causing spurious interest rates to rise as the demand for loan funds increase.
- 8) All capital in use, obviously is from past production. Governments however, transfer debts to posterity and the spurious interest payable thereon is based largely on capital that has been dissipated many years ago.

Real interest is earned only on capital in use.

- 9) Taxation levied on imports provokes corresponding retaliation by overseas customers which causes an adverse balance of trade. This, in turn, lowers the value of Australian currency in relation to world market prices, which is inflationary.
- 10) Industry is burdened with taxes, mis-appropriated rent and spurious interest, also loss of productivity caused by government interferences and regimentation.

Only "Economic Rent" should be paid to government. The overheads imposed on industry are increased by not less than 50% because of taxation and bureaucratic regimentation. The cost of production is increased whilst productivity is reduced, which causes inflationary pressures.

Advancing technology and rising population, which support specialisation, limits labour cost increases but also stimulates the demand for land causing rent and land prices to rise, perpetuating inflation.

- 11) Taxes cause price increases and governments as the largest purchaser of goods and services must buy back their own taxes, increasing the demand for money mostly in the form of accounting entries not balanced by real wealth, which is inflationary.

Rent-revenue collection, on behalf of its rightful owners, does not increase prices because rent is already an ingredient in the cost structure. Payment is simply diverted from individuals who have not earned it, to the government which has provided services in exchange.

Moreover governments also pay rent on properties occupied by the civil service but not State owned - instead of receiving rent as their natural revenue.

- 12) Effective defence depends upon rising productive capacity, a united loyal community, (patriotism) and the dispersal of vulnerable resources and vital installations.

Failure by governments to collect their natural revenue and the substituted disincentive tax structure is destructive of all such requirements. - To the contrary taxation breeds crime, corruption unemployment, poverty and an increasing gap between the fabulously rich and the abject poor which demoralizes the people to the point of mental derangement in extreme cases. (1988: Australia, per capita, has the highest rate of suicide in the English speaking world - and double that of the United States.)

Whoever or whatever denies common justice to the Nations people, retards production, destroys love of country and loyalty, depopulates rural areas and obliges people to live in congested cities, destroys family life and discourages the raising of children, is TREASON and should be recognized as such.

If all valuable land was mortgaged and credits increased continually as land prices rise, the rate of inflation would be much faster. Fortunately many people hold land for use and do not dispose of their holdings during their life-time. The family home or farm might even be willed to a member of the family without any credits being raised against it's market price.

It frequently happens, however, that some people are obliged to move to another district, in search of employment, changes in the family structure, because of debt, or other personal reasons. Such changes which continue to support the use of land are not inflationary unless there is increased borrowing on land price security.

Other countries have their methods of dealing with inflation - In Russia and China the land is owned by the State and there are no debts raised against speculative price increases. In Japan and Korea the working week is much longer and proportionately more people are productively employed. (only about 7% of people are employed in the public service in Japan compared with about 30% in Australia.)

The West Australian (21/4/88) reports that China, which has had almost stable prices, for 30 years is suffering the worst bout of inflation since the Communists came to power in 1949. Land speculation is not permitted in Communist countries - there must be other reasons.

Since China has encouraged trading with Western nations, workers have been leaving the land in search of more attractive work in the cities where trade unions have been artificially forcing up wages.

This has caused a shortage of food and prices have skyrocketed in consequence.

A shortage of products without an increase in credit or money supply will cause inflationary pressures in the same way that will result from an increase in Credit without a corresponding increase in the supply of goods.

In countries, such as Japan, land prices and rents are much higher because of population density but families are crowded together in a few square metres of space without even a thought of borrowing to buy a home site, which is quite beyond the resources of the majority of the workforce.

The wealthy classes with overseas investments have surplus funds to lend and have no need to borrow. Moreover, creditor nations do not need to tax, borrow and inflate to the same extent as in Australia.

The basic causes of inflation are highly complex and can only be established by an exhaustive examination such as the writer has attempted. Fortunately the remedy is absurdly simple and costless and benefits may be enjoyed progressively as remedies are applied.

Unless corrective action is taken Australia is facing a continual economic and social decline.

The destruction of a free enterprise society, which has happened, progressively, during the past half century under bureaucratic socialist dictatorship, is beyond belief. Only those who have been involved in industry and are able to apply the principles of classical political economy are able to evaluate. The writer has had a unique experience - listed as follows:-
Manager of Public and Private companies, past federal president Master Plumbers Assoc., past State president Master Plumbers Assoc., Sheet Metal Manufacturers Assoc. Air Conditioning Engineers Assoc., Sub-Contractors Assoc. Author and publisher of works on political science, presented papers to international conferences in San Francisco, Utrecht, Cambridge and Vancouver, worked abroad for 4 years during the depression of the thirties as a young man. - A family man with industrial and farming interests.

Arguments exposing the destructive effects of the present fiscal structure, with examples given, could be expanded indefinitely, but would add to the tedious nature of this most complex subject.

The writer is tempted however to make one final observation. To become the richest man in the world, one would need to own 3½ acres of land in central Tokyo.

The only skill required would be to hire the best lawyers, press agents, and government lobbyists to ensure against any changes that might lead to the restoration of human rights.

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"AUSTRALIA'S FOREIGN DEBT SET TO CLIMB"

(The West Australian - 3/8/87)

AUSTRALIA'S net foreign debt is about to show a sharp rise to between \$85 billion and \$89 billion at the end of December 1987, say market economists. This would be up from \$82.1 billion at the end of the September quarter and compares with \$82.4 billion at the end of December 1986.

The economists also predicted gross debt would rise to around \$110 billion in the December quarters compared with September's \$107.8 billion.

Foreign debt figures will be included in the Bureau of Statistic's December quarter Foreign Investment Bulletin due for release today.

The economists said Australia's foreign debt remained the country's key economic restraint in the near term.

Australia's present net foreign debt is near 30% of the gross domestic product or national output. Net debt is gross debt less Reserve Bank holdings.

Bank of New Zealand economist John Stroud said the Australian dollar's fall after the October market crash had contributed to the increased debt in the latest quarter. He said the heavy equity investment outflow that accompanied the share crash was replaced by further borrowings from offshore in the form of longer-term debt.

APPENDIX II

The Reserve Bank was a heavy buyer of Australian dollars in the weeks immediately after the crash, running down reserves by almost \$3 billion over a few weeks.

Wardley Australia economist Jeff Schubert said there was a pressing need to reduce the current account deficit to cut back the level of foreign debt. Mr Schubert, in a recent address to overseas investors, said the bare numbers of Australia's current account deficit and overseas debt might suggest Australia was sinking into an ever increasing mire - "perhaps even getting to the stage that it cannot repay its debts". But he added that Australia was likely to be saved by its cultural and institutional framework, which was both stable and adaptable.

AUTHORS COMMENT

The West Australian article discloses an alarming situation and confirms what a policy of 1) governments failing to collect their natural revenue and 2) financing public expenditure by vicious taxation borrowing and inflation, can do to one of the most richly endowed Nations on earth.

A substantial part of the debt, is not secured by real wealth; loans are based on land price which does not have a labour cost factor and therefore is neither wealth nor capital. Government borrowings are secured by the power to confiscate the wealth of future generations. Interest payable to a large extent, is spurious because it does not represent the earnings of capital.

"CALL FOR SWEEPING ECONOMIC REFORMS"

(The West Australian - 16/12/87)

SWEEPING reforms to the Australian economy, particularly in taxation, wages, working hours and education, are vital if Australia is able to survive in the new world economic climate. This is the view of Sir Roderick Carnegie, president of the Business Council of Australia. Sir Roderick, former managing director and chairman of mining giant CRA, told an Institute of Directors lunch in Sydney yesterday that Australia faced a world economy marked by massive trade imbalances, which could lead to further currency instability and protectionism.

"If we are able to transform our economy we will need radical change and we need it urgently. We must create an environment where costs cannot be passed on, where competition can flourish, where enterprise is not regulated and constrained," he said.

Sir Roderick said Australia was "still locked into the prospect of a sustained period of low spending growth, high inflation and high interest rates. This is a combination which discourages the investment economy we need to break out of our debt problem."

He said reform of work practices was one of the council's top priorities. "The business council has argued for some time that lack of flexible hours, or the cost premium on non-standard hours, has meant many firms are using their capital stock for only two-thirds of the time of many of their overseas competitors."

"By increasing cost-efficient use of existing capital stock we boost production without new investment and improve competitiveness because fixed costs can be spread over more production."

Also high on the council's agenda was wage reform, with Sir Roderick advocating wage-fixing arrangements and broader scope for "re-opening" inappropriate and over-prescriptive awards".

On education, Sir Roderick said "We need to shake the foundations of our thinking and come up with an entirely new education and training culture" to teach children how to compete in business.

Australia also needed to raise incentives by reform of the tax system "to encourage investment", he said, with the Business Council consistently pushing for the introduction of a value added tax.

AUTHORS COMMENT

Sir Roderick Carnegie advocates radical changes in taxation, wages, working hours and education as a matter of urgency. He states in particular - "We must create an environment where costs cannot be passed on, where competition can flourish, where enterprise is not regulated and constrained." Such conditions can only be achieved by the two fundamental changes proposed:

- 1) Government collection of publicly generated land rent revenue with simultaneous abolition of the robbery of taxation and all forms of legalised extortion.

- 2) Subject to the foregoing, restore the business of banking to competitive private enterprise, in which the issue of unsecured accounting credits would be contrary to the interests of the banks share holders and therefore would cease.

Sir Roderick then, with a genuine desire to reform the tax structure, dips into the archives and comes out with the value added tax, which imposes penalties on employment and production, identical with the pay roll tax, is a nightmare to competitive industry and has contributed to the 14% unemployment rate in the United Kingdom, which has been reduced to a second rate nation.

Governments have been tinkering with taxing methods for more than half a century and have not yet discovered a tax without a disincentive effect. Whenever there is talk of tax reform a total increase inevitably results.