THE MONEY TRICK

An Institute of Economic Democracy Publication

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Publication

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THE MONEY TRICK

It's time the people of Australia knew the alarming facts.

Test your **own** knowledge of these facts by the following questions:—

Do you know that no bank lends money deposited with it?

•

Do you know that when a bank lends money it CREATES it out of nothing?

•

Do you know that bank loans are merely pen and ink entries in the credit columns of a bank's ledger? They have no other existence.

•

Do you know that practically all the money in the community comes into circulation as a debt to the banks?

•

Do you know that money loaned by a Government bank is just as much a debt to the people as if it were loaned from a private bank?

•

Do you know that "fixed deposits" are a plausible screen to hide the creation of credit?

Did it ever occur to you that the banks enjoy this unique facility of creating credit and putting the nation progressively into debt-bondage because they create FINANCIAL credit against the REAL credit created by the people?

●

Do you know that during the last 40 years, from 1942 to 1982, Australia's National Debt (Commonwealth and States) has increased from $3,378 million to $33,589 million?

●

Do you realise that this debt is largely owned by the banks — if not directly, then as security loans?

●

Are you aware that the money received from Commonwealth Income Tax has risen from $282 million in 1942-43, $39.15 per head of population, to a total of $28,577 in 1982-83, no less than $2,000 per head of population?

●

The Commonwealth Taxation Office employed no less than 12,497 people at 30.6.77 and we paid their salaries totalling $130.7 million!

●

Do you know that the sales tax — introduced as a "temporary measure" in 1930, has, since 1946-47 to 1982-83, some 35 years, increased from $72.5 million to $3,629 million? It now takes over $250 per head of Australia's population.

●

Do you realise that every time a Government borrows money for a public work the people are debited with the liability (in perpetuity) but are never credited with the value of the asset?

●

Do you know that every repayment of a bank loan cancels the amount of the loan out of existence?

●

Do you know that Treasury Notes are Government I.O.U.'s — national pawn tickets for pledging the assets of Australia to the banks for the loan of OUR OWN financial credit?

●

Do you know that banks purchase bank sites, build premises and acquire assets at no real cost whatever to themselves — by the simple process of honouring their own cheques?

●

You may dismiss these affirmations as "incredible", or "absurd", but if you will read on, each one will be proved beyond all shadow of doubt.

Most of us have grown up with only the vaguest notions of money. We are fairly certain that it is the Government's right to print notes and mint coins. For the rest, our knowledge is distinctly foggy.

Most people, for example, labour under the impression that the only money in the community is notes, silver and copper. But this is a very, very small part of the community's money.

In fact, notes, silver, and copper — legal tender — **is used for less than five per cent of the total purchases made in Australia. Over 95 per cent of all business is done by cheques.**

This cheque currency is really **bank-created money** — bank credit — but it functions exactly the same as legal tender money. Banking authorities of world-wide repute state that banks can and do **create** credit up to nine or ten times their cash resources.

Banks go to great pains to perpetuate the fiction that they are merely "the custodians of their customers' deposits" — that they lend these deposits, and that their profit consists of the difference in the rate of interest which they pay to depositors and the interest they receive from borrowers.

Such an idea is quite wrong, and **it is the popular acceptance of this major monetary fallacy which gives rise to most of the false notions upon the subject of money.**

The **facts** about money are as follows:—

(1) Banks **do not** lend money deposited with them.

(2) Every bank loan or overdraft is a creation of entirely **new money** (credit), and is a clear addition to the amount of money in the community.

(3) No depositor's money is used when a bank lends money.

(4) Practically all the money in the community begins its life as an interest-bearing debt to the banks.

•

The Technique of a Bank Loan

All that a bank does in lending anybody, say, $1,000, is to open an account in the borrower's name — if he hasn't already got an account — and write Limit: $1,000, across the top of the ledger.

The borrower is now free to operate and overdraw on this account to the limit indicated.

When the account is drawn on by cheque, and in turn the cheque is lodged in another account at the same or another bank, a "deposit" is thus created and the supply of money increased.

Thus bank loans create "deposits", which plainly are not the source of loan money but, rather, the other way round, they are the outcome of loans.

•

Now for the Authorities

Now for the unassailable authorities on this matter of the creation of credit by the banks.

Governor Eccles, one-time head of the Federal Reserve Bank Board of the United States, said:—

"The banks can create and destroy money. Bank credit is money. It's the money we do most of our business with, not with that currency which we usually think of as money." — (Given in evidence before a Congressional Committee).

•

The Encyclopaedia Britannica, 14th Edition, under the heading of Banking and Credit (vol. 3, page 48):—

"Banks create credit. It is a mistake to suppose that bank credit is created to any important extent by the payment of money into the banks. The bank's debt is a means of payment, it is credit money. It is a clear addition to the amount of the means of payment in the community."

●

Mr. R.G. Hawtrey, previously Assistant Under-Secretary to the British Treasury, in his *Trade Depression and the Way Out*, says: "When a bank lends it creates money out of nothing."

In his book, *The Art of Central Banking*, Hawtrey also wrote:—

"When a bank lends, it creates credit. Against the advance which it enters amongst its assets, there is a deposit entered in its liabilities. **But other lenders have not this mystical power of creating the means of payment out of nothing. What they lend must be money that they have acquired through their economic activities.**"

●

Lord Keynes, the economist, and one-time Board Member of the Bank of England, states: "There can be no doubt that all deposits are created by the banks".

Professor Soddy, the eminent physicist, of Oxford University, wrote:—

"Is it possible in these days of disbelief in physical miracles really to caricature institutions which pretend to lend money, and do not lend it, but create it? And when it is repaid them, de-create it? And who have achieved the physically impossible miracle thereby, not only of getting something for nothing, but also of getting perennial interest from it?"

●

Professor H. Kniffer, in *American Banking Practice*, also testifies to this fact:—

"The percentage of cash to credit necessary for a bank to hold, demonstrated over a period of years, is 2½ per cent, with 7½ per cent as a reserve with other banks."

[This approximates to the practice in Australia where the trading banks hold a small percentage of cash for legal tender purpose, with a further deposit at the Reserve Bank of Australia.]

●

There is only One Restraint on Lending

The July, 1938 issue of *Branch Banking*, an English Bankers' Journal, stated:—

"There is no more unprofitable subject under the sun than to argue any banking or credit points, since there are enough substantial quotations in existence to prove to the initiated that **banks do create credit without restraint**."

There is just one restraint. "Sound banking practice" limits the creation of credit to nine or ten times the amount of cash or legal tender which a bank holds.

●

From Chamber's Encyclopaedia (1950), vol. 2, page 99, under the heading of Banking and Credit:—

"It is a fact that bank deposits are used as money, which provides the basis for the statement that 'Bank loans create deposits'. The creation takes place when the value of the loan is credited to the customer's account, or, if a different practice is followed, when one customer's overdraft becomes another customer's deposit."

•

Davenport's *Economics of Enterprise* states:—

"Banks do not lend their deposits, but by expansion of credits, **create deposits**."

•

"Banking is Little More Than Bookkeeping"

The late Sir Edward Holden, an eminent British banker, said:—

"Banking is little more than bookkeeping. It is a transfer of credit from one person to another. The transfer is by cheque. Cheques are currency (not legal tender). Currency is money."

•

The Rt. Hon. Reginald McKenna, one-time Chancellor of the Exchequer, and Chairman of the Midland Bank, addressing a meeting of the shareholders of the Bank on January 25, 1924, said this (and it is recorded in his book *Post-War Banking*):—

"I am afraid the ordinary citizen will not like to be told that the banks can, and do, create and destroy money. The amount of money in existence varies only with the action of the banks in increasing or decreasing deposits and bank purchases. We know how this is effected. Every

loan, overdraft or bank purchase creates a deposit, and every repayment of a loan, overdraft or bank sale destroys a deposit."

H.D. McLeod, in his *Elements of Banking*, states:—

"When it is said that a great London Joint Stock Bank has perhaps $50,000,000 of deposits, it is almost universally believed that it had $50,000,000 of actual money to 'lend out' as it is erroneously called . . . It is a complete and entire delusion. These 'deposits' are not deposits in cash at all . . . They are nothing but an enormous superstructure of credit."

•

Hartley Withers, in his book, *International Finance*, said:—

"A credit in the Bank of England's books is regarded by the financial community as 'cash', and this pleasant fiction has given the Bank the power of creating cash by a stroke of the pen and to any extent that it pleases, subject only to its own view as to what is prudent and sound business." (Page 31).

"It may sometimes happen that the borrowers may require the use of actual currency, and in that case part of the advances made will be taken out in the form of notes, but as a general rule the Bank is able to perform its function of providing emergency credit by merely making entries in its books." (Page 32).

•

Professor Heinz Wolfgang Arndt, Professor of Economics at the National University, Canberra, writing on Banking in *The New International Illustrated Encyclopaedia*, vol. I, page 321, said:—

". . . The other important function, which is exclusive to the banking system, is to create the community's money supply, and to administer the monetary system. The two functions are intimately connected since modern money is created by banks in the process of granting credit."

[Note: To create means to produce out of nothing.]

•

A good legal definition of banking was provided by the Judicial Committee of the Privy Council in the famous Bank Nationalisation Case (*Commonwealth Law Reports*, 1947, vol. 79, pp 632-633).

". . . The business of banking, consisting of the creation and transfer of credit, and making of loans, the purchase and disposal of investments and other kindred activities, is part of the trade, commerce and intercourse of a modern society . . ."

•

TRADING BANKS: H.W. Arndt and C.P. Harris, in their textbook *The Australian Trading Banks*, clarify this further in a special appendix, "The Creation of Money":

". . . The process of creation of money by banks is still commonly described as involving the "deposit of money by customers with banks" which can then "lend out more money than they have" because some of the money they have lent out "comes back to them as deposits" . . . Nowadays it is a mischievously misleading description. It is misleading because it wrongly suggests—

(a) that notes and coin are, but deposits are not, money;
(b) that banks merely borrow and lend money created by someone else;

(c) that deposits come into existence primarily through bank customers paying in notes and coin, and only secondarily through bank lending . . ."

•

DR. COOMBS: The former Governor of the Reserve Bank, Dr. H.C. Coombs, in the E.S. & A. Research Address at Queensland University on September 15, 1954 made the same clarification:—

". . . Any given piece of expenditure can be financed from one of four sources (or a combination of these sources)—

(a) new savings;
(b) accumulated reserves;
(c) money borrowed, other than a bank;
(d) money borrowed from a bank.

The last source differs from the first three **because when money is lent by a bank it passes into the hands of the person who borrows it without anybody having less.** Whenever a bank lends money **there is, therefore, an increase in the total amount of money available** . . ." (emphasis added).

•

BANK OF NSW: Finally, the matter has been put beyond all possible doubt by a most important Special Article "Sources of Money" in the *Bank of New South Wales Review*, October 1978, from which we quote extracts:—

". . . Today in Australia, as in most other modern economies, all money is a debt of the banking system . . . Another important source of money creation is by the banks . . . When a banker grants a customer credit by overdraft, the bank "opens an account" in its books and gives the client the right to draw funds without first having to put money into the account. But bank deposits only increase when the customer actually draws on the account to pay his creditors. In the case of loans, funds are deposited directly to the customer's credit and result in an immediate increase in the volume of money. In either case the money supply increases as a result of the bank's lending activities. As long as the debt remains outstanding the community's quantity of money is increased . . ."

•

The Origin of Banks

"And now, as I have said that the word *Banco*, as applied to a Bank, does not mean a Bench, I will tell you what it does really mean, and how it originated.

"In the year 1171 the City of Venice was at war with the Empires of the East and the West. Its finances were in great disorder, and the Council levied a forced loan of 1 per cent on the property of all their citizens, and promised them interest at 5 per cent. Such a loan has several names in Italian, but the most common is *Monte*, a joint stock fund . . .

"At this time the Germans were masters of a great part of Italy, and the German word *Banck*, a mound or heap, came to be used as synonymous with Monte, and was Italianised into Banco, and the loans or public debts were called *Monti* or *Banchi*.

"That the word *Banco* in Italian means a Public Debt might be proved by numberless quotations. I will give only one or two.

"Thus in an Italian Dictionary it says: 'Monte, a standing Bank, or Mound of Money, as they have in diversities of Italy'.

"Thus you see the words Monte and Banco are synonymous, and mean a Heap, a Mound, a joint stock fund formed by the contributions of a number of persons.

"This was the meaning of the word when it was first introduced into English . . .

"Equally great misconception prevails as to the meaning of the word Banker, and the nature of Banking business.

"It is said in a popular work on Banking: 'A banker is a dealer in capital, or more properly a dealer in money. He is an intermediate party between the borrower and the lender. He borrows off one party and lends to another; and the difference between the terms at which he borrows, and those at which he lends, forms the source of his profit'.

"I will now show you at once what a complete misconception of the nature of Banking business it is to say that a Banker is 'an intermediate party between the borrower and the lender'."

•

The Reader Can Prove the Facts Himself

Now, we think it will be agreed that we have produced adequate and incontrovertible evidence of the highest authority in support of the first three statements made on page 1 of this booklet:—

• That no bank lends money deposited with it.
• That when a bank lends money it **creates** the means of payment out of nothing.
• That bank loans are merely pen and ink entries in the credit columns of a bank's ledger.

However, if the reader is not prepared to accept the abundant evidence given by the authorities quoted, he can prove the matter for himself very simply.

(1) The total sum of legal tender (notes and coin) in use in Australia in 1981 was $4,977 million, though the total volume of money in existence was $55,387 million (*Pocket Year Book No. 67* 1982), more than eleven times the sum of legal tender in the form of notes and coin.

(2) **In contradiction of the banks' popular fiction that they only lend money deposited with them, we challenge the doubtful reader to find one bank depositor whose deposit has ever been reduced by so much as one cent in order that a bank may lend money to someone.**

•

The Chicanery of Bank Profits

The entire confidence trick of the banks is based on the perpetuation of the claim that bank profits are governed by the difference between the interest paid on fixed deposits and the interest charged to borrowers. It enables them to pull the proverbial wool over the eyes of the credulous public, and give verisimilitude to their balance sheet hocus-pocus that they make no more profit than any other commercial undertaking.

But profit loses all meaning when a group of financial

institutions enjoys the unique privilege of being able to **create** the nation's monetary requirements.

What we have to look closely at, in assessing how well the banks have done at the nation's expense, is to examine how their total **assets** have increased.

Total assets of Trading Banks in Australia have increased as follows:—

1962	$ 4.053.4 million
1970	$ 8,452 million
1975	$18,480 million
1980	$35,330 million

•

A Bank's Premises Cost it Nothing!

We have stated that most money comes into circulation as a debt to the banks.

We say "most" of it does. The only money that does not originate as a debt to the banks is the money banks use in their own purchases.

All money that a bank spends on its own behalf, whether it is the payment of its employee's salaries, the purchase of a building site, a building, stocks and shares, printing, advertising, stationery, etc., all such purchases put money into circulation debt free.

But with these exceptions, it is correct to say that the **bulk of the community's money begins its life as a debt to the banks.**

We have given abundant authority on this vital point.

•

How Banks Purchase Properties

But let us first deal with the statement that banks purchase properties or securities or advertising, etc., by the simple process of honouring their own cheques.

This is somewhat technical, but we'll try to make it as simple as possible.

Take the case of a property or bank premises. First, the bank draws a cheque upon itself. This cheque is paid into someone else's account — probably at another bank. Thus bank deposits are increased.

To offset this purchase in the bank's balance sheet, there would be an increase in the bank's assets, i.e., premises a/c.

The accounting technique is to debit Premises Account with the amount of the purchase and credit the same account with the value of the asset.

In a similar manner, a bank can purchase shares or Government securities. These would be paid for by a cheque drawn on the bank and in due course the amount of the cheque and purchase are placed to the debit and credit of Securities Account.

It may be argued, of course, that a bank pays for its properties and securities out of profits, or reserves. But this idea is as illusory as the fiction that a bank lends its deposits.

Neither profits nor reserves are affected by any purchase by a bank, because it hasn't actually parted with anything.

The position is very different when an individual buys a premises. **The cost of the purchase is debited in his bank account**. The individual, though he has acquired an asset, is down in his balance at his bank to the extent of the

transaction.

But in the case of the bank's purchase of a premises or securities, or indeed anything else, **the cost is no more than a book entry in its own books.**

As Hawtrey, one-time Under-Secretary to the British Treasury, observed in his *Art of Central Banking*: "Other lenders have not this mystic power of creating the means of payment out of nothing".

You may object that if bank "A" bought a premises and its cheque in payment was deposited with bank "B", the latter might not co-operate. That is a possibility, of course.

But this is met by an exchange of balances with other banks.

All banks follow the same system and provided they keep reasonably in step with each other, their own debits and credits cancel each other out. At the worst, all a bank would need to pay for would be the difference in favour of the other banks.

J.M. Keynes, a very frank and refreshing economist, who later became Baron Keynes, Board Member of the Bank of England, once pointed out that all the banks' own cheques are passed through the exchanges, where the debits and credits of each bank are worked out.

If the banks work in harmony with each other (as they do), they can meet their own requirements, and acquire assets, at no real cost to themselves.

That is to say, if all banks built or bought premises, etc., in proportion to the flow of deposits returning to each one, the cheques issued by the banks would cancel each other out and they would acquire the premises, etc., for nothing more than an increased deposit liability, which presents no great difficulty.

The foregoing may explain to the reader why the banks have been enabled to acquire the most valuable building sites in cities and towns and erect such remarkably attractive premises.

Most of the main city banks are beautified with marble from floor to ceiling, and the humble depositor feels like doffing his hat, and standing in silent awe and admiration in such an atmosphere of hallowed opulence and power.

Now we know the secret of it.

•

Bank Credit is the Community's Life Blood

The business world cannot function without bank credit, and every person in the community is equally dependent upon it.

Stop, or even restrict, bank overdrafts for one week and there would be a nation-wide crisis. Continue the restriction for three months and this nation would be plunged into a depression, with unemployment and bankruptcy for thousands.

Such a crisis happened in the early thirties, as millions of the older generation remember with sorrow and bitterness.

You may remember that during the depression there was no shortage of goods. The shops and stores were full. But credit had been restricted by the banks. The life blood did not flow freely, and industry died and unemployment was staggering.

Bank credit is the life blood of the community and if the flow of blood is restricted the patient's life is jeopardised.

•

How Money Begins

Now let us look at this credit business a little more closely. How does it come about?

There is an old economic tag that money originates in production and is cancelled in consumption.

Practically all the community's money has its roots in production. Most money sees the light of day as a "producer credit".

In other words, **it begins its life as a debt to a bank,** and from the moment it is released as a book entry in a bank's ledger, the credit created by the bank and loaned to a company or individual travels through the production system, much of it being used for consumption, and is finally cancelled when the debt is repaid to the bank by the borrower.

That industry — both primary and secondary — cannot function on its own resources is proved by the universal need it has of bank overdraft accommodation (i.e., bank loans).

•

A Nation in Pawn

In other words, this huge total of assets is in pawn to the banks, and in the event of any individual or company defaulting in its loan obligations, the individual or the firm would probably be put into liquidation in satisfaction of the banks' claims.

That's fair enough, you might say. But wait.

The banks lend money against the assets of the community. These assets were created by the total efforts of the community.

They were created by the resources of enterprising individuals, skilled executives, and adventurous management, in producing articles or services to satisfy a public need.

The banks made no contribution whatever to the development of a farm, a business, or a manufacturing company in its early, formative years. The bank comes into the picture when most of the hard pioneering work is done, and by granting a loan — a costless and effortless procedure — it merely monetises the REAL CREDIT created by a functioning industry and a consuming public.

In other words, the banks merely create — by the stoke of a pen, mark you, or figures in a bank ledger — the **financial credit** which is backed by the **real credit** created by the joint operations of producers and consumers. The people do all the work and run all the risks. The bank does nothing — nothing to create the assets — and runs no risk whatever with the credit it lends.

●

When a Bank Hangs Out its Sign

But let us look more closely into this question of the ownership of the real credit of Australia — the farms, factories, houses, offices, stores, railways, and all enterprises, public and private.

Take a farming district. Men take up a piece of virgin country divided into farms. They clear the land, grub out the stumps, plough what they can and get it under cultivation.

They build homes, barns, cowsheds, plant trees, erect fences, construct dams, sow edible grasses and put stock on to graze.

This developmental programme may take years. It will certainly require toil and sweat in heroic measure. Only the toughest survive — and those blessed with good seasons. The rest will fail. The struggle will prove too much for them.

Meantime, a small township has made a beginning in the locality, and it is not long before a branch of one of the trading banks sets up its sign, and many of the locals open an account with it.

It is not long before every farmer in the district is at the end of his resources. He wants more capital for stocking, for clearing, fencing, housing etc.

●

A Mortgage over Every Farm

So he goes in and puts his problem to the new branch manager of the local bank. The manager will probably make a personal inspection of the farmer's property, and if he is impressed by the amount of work done and the prospects of a profitable farm, he will approve his application for a loan.

But in return for the loan, the farm is mortgaged to the bank. The bank is now the virtual owner.

Now, note these points: The farmer, by his long and ceaseless energies over a period of years, has brought a piece of bush land into production. He has risked his all — and often jeopardised the health of himself and his wife — in battling with adversity.

By his energies, and his wife's loyal help, he finally creates a great asset — a farm that produces food — referred to in the popular Press as "the backbone of the country". He has added to the wealth, or **real credit**, of the country.

At this stage the farmer is generally obliged to go, cap in hand, to the banker, to ask for money — credit — to carry on, or to bring the property into greater production, or to tide him over a droughty season.

The banker has contributed nothing to the development of the farm — nothing whatever. And yet — we repeat — by the stroke of pen, the bank can make a loan to the farmer and acquire the virtual possession of the farm under mortgage, until every cent of the loan and the accrued interest are paid in full.

Now, don't tell us, please, that the bank in making the loan, lends the bank's reserves or money lodged with it on fixed deposit, to help the farmer at a critical period. Because we have seen, in all the authorities quoted, that the bank has done nothing of the sort. All it has done is to create **financial credit** — an effortless and costless process — against the **real credit** created by the farmer and by the activities of the people at large.

And it won't be long before every farmer in the district is under mortgage to the local bank — when the deeds of every farming property will be lodged in the

bank's safe until their debts are paid . . . or else!

●

Real Credit and Financial Credit

We have dwelt on this point at some length with a view to clarifying what is meant by the **real credit** of the country as distinct from the **financial credit.**

In the example given of the farming district, real credit is created by the farming community. The real credit is the **Substance**. The financial credit is the **Shadow**. And yet the figures in the bank's ledger are of vastly greater import than the productive potential of skilled men, rich land and milch cows!

At least, that is the cock-eyed situation that has developed out of the private monopoly of the public credit.

●

The Story of a City

Take a city, as an example — any city. Villages grow into small towns; small towns into big towns and big towns into cities — **and land values grow with them**. Thus we find property in the heart of a city bringing $2,000, $4,000, or $10,000 a foot.

What is it that gives property that fantastic value? Primarily, it is the huge aggregation of human beings who live in or around a city.

Take away the people and property values would slump.

The people represent all the facets of a civilised community — production, consumption, manufacturing, exporting, importing, retailing. Transport, the food supply, education, cultural activities, health services, social services, entertainment, and a thousand other vital factors go to make a community.

All these factors make up the REAL CREDIT of the nation.

Real credit may be defined as the faith or belief (credo, I believe) that a free community has the knowledge, energy and capacity to co-operate in satisfying its needs. **This is its power in association, and the end product is the sum total of the community's real credit.**

We see, therefore, that the **real credit** of a nation is created by the people through their abundant and many-sided energies — what economic textbooks refer to as "the increment of association".

Now the **financial credit of a nation should be a reasonably correct reflection of its real credit.** Since money is merely a convenient token system to enable the people to purchase goods and services, **it should be issued at the same rate that goods and services are produced, neither more nor less.**

•

Cuckoos in the Nest

But even more important is this point: Since the community creates all **real credit, the ownership of the financial credit which should reflect the real credit — the goods and services — also belongs to the people.**

But it doesn't. It belongs to the banks. Or, rather, it has been appropriated by the banks. The banks are really

financial cuckoos in the community's nest. The banks issue and cancel money without any regard to the total production of goods and services. They cancel financial credit arbitrarily, unscientifically, sometimes causing inflation, and sometimes causing deflation and depression.

As we go on we shall see that the **ownership of the real credit** of the community is the great issue that must be solved if Australia — **and all nations** which work under the same monetary system — is to survive as a free democracy or a slave state.

Today the banks enjoy a monopoly of the public credit. They create and cancel (destroy) money as though the real credit was created by them. Whereas they haven't lifted a little finger in its creation.

But by usurping the nation's sovereign prerogative to issue all its monetary requirements — not merely the small change (the legal tender) — the banks have established a powerful monopoly of credit by which they wield the greatest power without any responsibility whatsoever.

This monopoly of credit by the banks is not new. It has been going on for over 100 years, and during that time the banks have consolidated their position to one of almost unassailable power.

•

The Creeping Paralysis of Debt

Where does this private monopoly of credit lead to? To debt and tax bondage.

Individuals, businesses, industries, municipal councils and governments themselves are in debt bondage to the banks.

Banks being the only source of money, **the community has to borrow from the banks the money to pay the interest on the money it has already borrowed.**

It is inevitable, therefore, under this system, that we get deeper and deeper into debt.

The public debt of both the Commonwealth and the States has risen from $3,378 million in 1942 to $33,589 million in 1982 — over 1,000 per cent in 40 years!

•

How the Debt System Works

The debts owing on public undertakings are debts in perpetuity. They are never repaid. You have no doubt noticed that every Commonwealth Loan is mostly used to **renew or convert** — not to **redeem** — previous loans as they fall due. Debt is compounded on debt and interest on interest.

Here is just one example of what we say, typical of all public works:—

A loan of $32,000,000 was raised by NSW in 1888 for railway purposes. This loan fell due in 1924, and the State had then paid $51,815,452 in interest charges without repaying any of the principal.

The original interest was 3½ per cent, but the conversion rate was 5 per cent. The loan was redeemed in 1955, by which time NSW had paid **$99,651,052 in interest, without any reduction of the principal.**

Including principal and interest the total payment up to 1955 amounted to $131,651,052. **Nearly $100,000,000 in interest was paid on a loan of only $32,000,000.**

Do you wonder why the State railways don't pay — any State?

There is only one possible escape from such a financial deadlock — the national credit power of the Commonwealth must be used, debt free, to liquidate an intolerable debt burden that is threatening all States with bankruptcy.

Semi-public undertakings, such as water and sewerage boards, or electricity authorities, are all hopelessly debt-logged, a fact which makes the cost of their service to the public twice and three times as high as it should be.

A study of the debt position of Local Government throughout Australia reveals that in many cases over 50 per cent of rate revenue is required to service debt. The policy of all Federal Governments since the end of the Second World War has been to force the States and Municipal Governments to increase their debt burdens while financing many of their own activities out of taxation. This policy has intensified the breakdown of the Federal system of decentralised Government in Australia.

•

The Sad Story of Sydney's Harbour Bridge

There is a much-photographed and much-publicised bridge over Sydney Harbour. And it certainly is a proud monument to engineering science.

It was built 50 years ago at a cost of approximately $16,000,000. To pay for the bridge it was made a toll bridge, and every vehicle and every person who has crossed it in the last 50 years has paid a toll (pedestrians excepted).

So profitable is the toll that, after paying all maintenance expenses, the Sydney Harbour Bridge earns a nett profit of nearly $800,000 annually.

But the original capital debt marches on. Up to the end of 1955, $13 million was still owing on the bridge and interest payments had totalled $14,534,000.

Instead of costing $16 million, this bridge has already cost $27½ million and there is still $13 million owing — all this despite some $800,000 per annum in profit from tolls.

The authorities say that the bridge will be definitely paid for by 2005 — twenty years hence.

It is comforting to have that reassurance, but in another thirty years this noble structure will have been paid for several times over — and hundreds of millions of motorists will have been irked by the annoyance of stopping their cars to search their pockets for small change every time they cross it.

This is a typical example of how debt finance works. Public undertakings are paid for over and over again. The people are taxed and re-taxed for them over the years from generation to generation — and as we shall see as we proceed, **it is all so unnecessary**.

●

The Cancellation of Credit

You might ask, "Well, if the banks create money in the way you say, and lend it by way of overdrafts, and loans, why don't they own the assets of Australia, lock, stock and barrel?"

A fair question. The answer is this: Because when a company repays a bank's overdraft, or the individual

repays the bank's loan, **the bank is actually no better off as a result of the transaction.**

That may sound incredible, but bear with us, and we will explain the technique.

Take one specific instance, **typical of all bank advances:**

Jones & Co. arranged with their bank for an overdraft of $5,000. They lodge what is called "collateral security" to satisfy the bank (deeds or share scrip to the value of about $7,500).

Jones & Co. are now at liberty to write cheques to the value of $5,000, plus whatever they had previously to their credit with the bank. To be more precise, they can now "overdraw" their account to the extent of the overdraft limit of $5,000.

But when Jones & Co. repay the $5,000, the debt is cancelled, and $5,000 previously in circulation **has been cancelled out of existence.**

[Don't be confused here. The $5,000 has been paid out to other people by Jones & Co., but when the Company repays the loan to the bank, $5,000 is automatically cancelled out of existence.]

The position of borrower and lender at this point is as follows: Jones & Co. are (for the moment) out of debt to the bank, **but the bank is not one cent the richer for the repayment of the $5,000.**

All that has actually happened is that a ledger entry has been made in Jones & Co.'s account. They are no longer "in the red", as the banks describe it.

The only difference the repayment of the loan has made to the bank has been to make its position slightly more liquid and add to its interest earnings. By making its position more liquid, we mean that its ratio of overdrafts to cash deposits has improved slightly.

Remember what the Rt. Hon. Reginald McKenna, one-time Chairman of the Midland Bank, said: "Every loan, overdraft, or bank purchase creates a deposit, and every repayment of a loan, overdraft or bank sale, **destroys a deposit**". That is what is meant by the cancellation of credit.

If all money repaid to a bank were not cancelled in this way, then, of course, the banks would have owned the entire assets of Australia long ago.

It is as well to note the difference between a bank loan and a loan from an individual or company. The bank **creates** the money (or credit) it loans by a ledger credit entry. As the *Encyclopaedia Britannica* says, "it creates the means of payment out of nothing".

●

The Power of Life and Death

It charges interest upon this credit creation, and when the loan is repaid, both the debt and the money used in payment of the debt are automatically cancelled.

(Their cancellation, of course, does not apply to any cash or legal tender used in the repayment of the bank's loan, but legal tender usually represents no more than a very small percentage of bank transactions.)

When a loan is made by an individual or a company (other than a trading bank) the procedure (outlined above) is quite different. The money loaned is debited to the account of the lender and when repaid it is credited to the account of the borrower. **No money is cancelled in the transaction.**

Such loans are for a definite period, whereas the money loaned on overdraft by a bank is for an indefinite period. The banks have the power to call up the overdraft partly or wholly at any time they decide.

The fate of companies and individuals — and governments — is entirely at their mercy. Their power is stupendous, both in the creating and granting of loans, and in their arbitrary recall, with or without notice!

The banks give and the banks taketh away. They hold the power of life or death over the whole economy.

●

Man Creates a Frankenstein

The lengthened shadow of debt is taxation.

As debt waxes fat with every loan, so taxation casts a larger shadow and a deeper gloom over the lives and liberties of the people.

Debt is what governments sow. Taxation is the bitter harvest the people reap.

Taxation reduces the living standard of every man, woman and child, and is therefore a frontal attack, backed by all the sanctions of the State, on the personal freedom of the individual.

As practically all money issued has its origin in interest-bearing debt, it follows that all forms of taxation must increase, inevitably, mathematically, and remorselessly.

As taxation increases, so individual security decreases.

It is not so very long ago since taxation was a puling infant. But what an alarming change twenty or thirty years has wrought! The child has grown to a man, and the man has become a conscienceless thug who forces his way into every home, grabs what he can with impunity, and waylays rich and poor alike.

The taxation thug is the terror of the neighbourhood, holding the whole community to ransom.

And the irony of the situation is that it is no use calling the police, for the police, and all the sanctions of the State, are his aiders and abettors.

With the growth of taxation to the point of confiscation of income, we see the State, which should be the refuge and the protector of the people, following a policy which is alien to the interest of the people who compose it.

The State has become the enemy of the individual. Political parties are cynical, venal machines. The factions of right or left are concerned only with a struggle for power, perks and preferment, and once one or the other party is in office, platform promises crumble like piecrust, spoils go to the victors, salaries are constantly increased and the public welfare is regarded with open contempt.

•

The "Temporary Tax" that Came to Stay

But income tax is but one tax. Others have been added with almost every Budget until now human ingenuity itself is taxed to devise more ways of taking the income from those who earn it.

Customs and excise duties, land tax, property tax, sales tax, company taxes, probate duties, stamp duties, petrol tax, payroll tax, social services taxes, entertainment taxes — these have all conspired to forge heavy chains

upon the personal freedom of the whole population.

Take the sales tax as an example. Here you have the same story of modest beginning, with rapid growth to the point of confiscation of purchasing power, just as thieving often begins as petty pilfering and ends as grand larceny.

The sales tax was first introduced into Australia in the year 1930, as a "temporary measure", to help balance the first budget of the Great Depression. It began as a demure 2½ per cent and yielded $6,943,674.

In 1982-83 it yielded $3,629 million!

Australia loses the services of tens of thousands of men and women who could be far more profitably and productively and happily employed producing goods than in adding savagely to the cost of thousands of articles purchased by the public and to the cares of their fellows.

•

Taxes That Come Like "a Thief in the Night"

But that is not the end of the tax story. The most unfelt of all taxes are the customs and excise duties. These taxes are subtle, unseen, like the silent thief that comes in the night.

The innocent consumer suspects nothing. He drinks his glass of beer light-heartedly, quite unaware that on every small glass he pays a tax — excise duty.

The excise taxes on cigarettes are even more savage.

We repeat, taxation is the great price inflater.

Customs and excise duties cover a vast multitude of goods — most of the goods we import and many of those we make in Australia.

•

$3,700 in Taxes on Every Man, Woman and Child

When the whole burden of taxation is added together — income taxes, sales taxes, customs and excise duties, social services, property taxes and rates, payroll taxes etc. — it will be found that for the year 1982-83 it totalled approximately $3,700 for every man, woman and child in Australia. Commonwealth taxes, direct and indirect, took over $3,000 per head. State taxes and Local Government rates took the remainder. So the average family — mother, father and two kids — are slugged just under $15,000 in total taxation. In 1920 total taxation in Australia averaged about $10 per head. 62 years later it averaged $3,700 per head — an increase of about 37,000 per cent!

•

Why Taxation Must Always Increase

Even a cursory study of the figures relating to the growth of income tax, sales tax, customs and excise duties, and the dozen other subsidiary taxes, shows that the increases are pitiless.

During the space of half a life-time all these taxes have increased remorselessly and fantastically.

Why is this? The main clue to the answer of this question lies in the dispiriting fact that the nation has surrendered its sovereign prerogative over the issue of money.

There is no more incongruous and depressing spectacle in Australia than the Commonwealth Government every few weeks offering its Treasury Notes (the nation's I.O.U.'s) to the banks in return for money to carry on the nation's business.

Thus the national estate has been systematically pawned to the banks and the people have been progressively sold into debt and tax bondage.

So the interest burden on the National Debt has increased with similar mathematical progression. Every government, every municipality, every public utility is debt-logged, and to meet their increasing interest obligations they must, in desperation, do one, or all, of three things:—

(1) They must constantly increase the cost of all public services.

(2) They must invent new sources of taxation or increase the old taxes.

(3) They must borrow more debt money.

As we know to our cost, they do all three, and the spiral of price, debt and taxation is ever upward.

•

What if Water Were Issued as a Debt?

Does it not occur to you as preposterous that private institutions — as private as a butcher's shop or a chain store — should have the sole right to create and issue money as a debt, thus making tax bondage inevitable?

Just imagine if the Water Board issued all water for human requirement as an interest-bearing debt, and that, in order to meet our interest obligations on the water we used, we had to go back to the Water Board to borrow more water to pay the Board for the water we had already used.

What a fantastic situation! And yet that is precisely what the banks do with money. They monopolise its creation, issue it only as a debt, and oblige us to go back to the same polluted source — the only source — to borrow the money to pay interest on the debt already incurred!

•

The Vast Social Evils of the System

It is the most tragic irony of our civilisation today that although man has solved the age-old problem of dire poverty and scarcity, although his inventive genius has given the world an Age of Plenty, we have become individually more and more enmeshed in the heavy chains of debt. Progress has been purchased by tax bondage — and quite needlessly.

Instead of being more free, man is more enfettered. Instead of enjoying better health with shorter hours, labour-saving devices, and social services, many diseases, and especially diseases of the nervous system, are more widespread than ever before.

Those who have managed to put away some savings find their value progressively reduced by inflation — a hidden tax. Many who thought they were retiring on adequate retirement funds find that the inflation robber forces them to seek some type of work. Debt and taxation are the basic cause of inflation.

This alarming increase in mental disorders — it is equally true of America, Britain, Canada and New Zealand — has been a development of the last thirty or forty years.

No doubt war and depressions have played their part in reducing millions of people to nervous wrecks and borderline sanity cases, but the abiding fear which haunts men and women from their earliest, formative, impressionable years, right through life, is the fear of insecurity.

No matter how hard the average man and woman works, no matter how much they deny themselves the simple pleasures of life, the great majority can never hope to own their own homes, or to travel outside their own country, or make provision out of their own resources for their old age.

As the shadows of life begin to lengthen, the prospect before the average man and woman is the depressing picture of eking out the last years of their lives on the old age pension, aided and abetted by the free medicine of the Welfare State.

That is the pitiable level of security that most people can expect — the drab offerings of the Welfare State.

This haunting sense of insecurity from the cradle to the grave leaves a great many social evils in its train. The problem of delinquency is one. The alarming increase in mental cases is another. The increase in deficiency diseases is a third.

But worse than all this is the pitiful attempts which are made by the mass of the people to escape from life, with its hazards and obligations. The popular forms of escapism are alcohol, horse racing, picture shows, radio serials, television and cheap fiction — all of them harmless enough in moderation, but when such poor hobby horses are ridden to death, life is lived on a pathetic level.

•

Doubtful Blessings of the Welfare State

Of course, the politicians, and our masters, the bureaucrats, will tell you that our debt and tax bondage is made as tolerable as possible.

Does not the Welfare State give us old age pensions to eke out the balance of our lives in poverty street after we are too old for the employment treadmill?

And doesn't the Welfare State hand out widows' pensions, war pensions, child endowment, unemployment benefits and free medicine?

And is not the Welfare State based on the socialistic principle that no man shall go bare-footed? Everyone will have one boot.

And if all this were not enough to endear us to our enslavement by the powers which have usurped the community's credit, there is the rose-strewn pathway to the time-payment institutions.

We can buy almost anything on time payment — expensive labour-saving gadgets, furniture, clothes, even holidays. Yes, and we can provide for our funeral expenses

by the same "easy" payments (at an added interest charge of 17 to 25 per cent).

But we cannot buy security in freedom, we cannot buy happiness, we cannot get peace on any terms. We are enslaved to the private monopoly of the public credit.

•

Tax Bondage is a Cause of Child Delinquency

Perhaps it never occurred to you that tax bondage is the prime cause of that relatively new social evil — youth delinquency?

But consider the facts. In the lower and middle income brackets it is now the rule rather than the exception for the mother of the family to get a job, once her children are old enough to go to school.

Good money is offering, and often no great skill or previous experience is called for. The prospect is tempting to any woman. In fact, it is the only way families in the lower and middle income groups can pay direct and indirect taxation, which averages $6,284 per annum on a family of four, and still be able to afford a car, or such domestic facilities as a washing machine, refrigerator, etc.

But what happens to the children? The children arrive home from school before 4 p.m. There is no mother to greet them. So they order their own lives. Play in the street, with doubtful companions, possibly, and under no control.

The mother gets home between 5.30 and 6.00 p.m., and is hard put to it to prepare the evening meal and do the domestic chores left undone in the morning. She is in no mood, nor has she the time, to attend to the problems of the children.

How easy for the children to gather the impression of unwantedness and make their own small lives as much away from home as possible.

And so the seeds of possible delinquency are sown.

We are not suggesting that parents are blameless, but there is an over-riding cause and a pressing economic urge which obliges all too many mothers of the race to go to work to supplement the family income.

So we see how confiscatory taxation strikes at the very foundation of civilised society — the home.

•

Automation Will Cripple the Taxpayers Who Survive

We have dwelt at some length on confiscatory taxation and the social evils it spawns. But worse is to come.

There is on the horizon a dark cloud slowly but surely assuming menacing proportions. We refer to automation.

Don't misunderstand us. Automation is inevitable. It will quicken the tempo of change in lifting the burden of monotonous types of work from the backs of men to the backs of electronic, manless machines.

Automation will put the coping stone on this Age of Plenty by increasing the Plenty, and do it with less and less human effort.

But let us be under no illusions. Where labour-saving inventions in the past have meant a steady reduction of working hours, automation will mean a steady reduction

of working men — and women.

By that time — the next five or ten years — the taxation load will have grown very much heavier, and the number of taxpayers to carry the onerous burden will have grown fewer.

If now taxpayers are at staggering point, automation will bring the declining number of taxpayers to the point of complete collapse.

If the people displaced by automation are to live and live as this Age of Plenty entitles them to live, whether employed or not, then it becomes even more imperative for the Australian Government to assert and exercise its sovereign prerogative to create its monetary requirements instead of borrowing them.

It must become master in its own house if all the stupendous problems that are now taking grotesque and frightening shape are to be resolved in sanity and commonsense.

The money-creation and debt story in Australia is the same overseas. Nations are now wallowing in crisis, through a sea of debt and usury.

CANADA

Canada's public debt position is frightening. The following figures tell their own story:—

Federal Public Debt (March 31st, 1982)

1940	$ 3,695.7 million	Interest	$ 125.6 million
1950	$ 15,188.1 million	Interest	$ 395.8 million
1960	$ 15,574.1 million	Interest	$ 551.6 million
1970	$ 22,637.2 million	Interest	$ 1,379.5 million
1979	$ 69,146.0 million	Interest	$ 8,141.0 million
1982	$130,000.0 million	(Prov. est.) Interest	$16,700.0 million

Provincial Debt

1977 $35,668.5 million			
1978 $40,505.8 million	Interest	$ 3,000	million

Local Government Debt

1977 $20,095.6 million	Interest	$ 1,500	million

(Note: The Provincial and Local Government Debt figures are those published in the *Canadian Year Book* for 1980-81 and are the most up to date obtainable).

Canada's latest budget has lifted Federal taxes alone to a point where direct and indirect taxation per head of population is over $3,000 — over $12,000 for the average family of four, a mother, father and two children. Provincial and Municipal taxes add another $2,000 per head to this total. This brings total taxation, starting at Municipal level and including Provincial and Federal taxes to approximately $20,000 for the average Canadian family of four.

Of this huge total, approximately a quarter is paid as interest on government debt! This is a higher percentage than elsewhere in the Western world, with the exception of Northern Ireland, where 66 per cent of taxation revenue goes as interest on debt.

THE UNITED STATES

The biggest economy in the world — the United States of America is also being stretched on the debt-rack. The 1982 budget deficit alone has topped $100 billion. On top of this figure, the Administration is trying to find $115 billion interest on a National Debt that has topped $1 TRILLION; *TIME* magazine, in an inadequate attempt to convey the size of a trillion-dollar debt, explained that a line of one trillion dollars, all touching, would reach 1.2 million miles into space on the other side of the sun!

The effect on industry is staggering. Two-and-a-half million farmers in the US have an average debt of $85,000 per farm; a combined total farm debt now exceeding $200 billion!

But farmers aren't the only ones affected. The New York finance magazine *Forbes* (March 29, 1982) said:—

". . . Gross interest payments are flowing through the economy at a rate approaching $900 billion a year — about $4,000 per year for each American man, woman and child. That's interest, mind you, not debt. It's an increase of 200% since 1976 . . . The tremendous burden of debt service is taking a growing toll in bankruptcies, savings-and-loans failures, dividend omissions and continued declines in housing prices . . . In 1950 the average corporation had $43 of operating income after depreciation to meet each dollar of interest payment; today's figure is less than $4 . . ."

BRITAIN

In 1982 it was revealed in the House of Commons that interest on the National Debt now cost more than defence, education or national health. National Debt interest rose from £705 million ($1,410 million) in 1955 to £8,661 million ($17,322 million) in 1980. Thus, National Debt interest costs every man, woman and child in Britain over $340 per head each year — over $1,300 annually for the average family of four. The British situation is chaotic, with the demise of many industries. British Steel, nationalised in the postwar period, is propped by huge injections of taxpayers' money. British Leyland — almost all that remains of the car industry — has been bankrupt twice. The textile industry in Bradford is closing up. Both the shipping and aircraft industries are shadows of what they used to be.

Britain's basic problem is public and private debt. Part of Britain's $250 billion national debt is still owed on World War I. Britain has paid that debt twice, and compound interest has left a sum still outstanding bigger than the original loan. Final payment is scheduled for the 2004!

Apart from an unemployment queue of over 3 million, there has been a shift in Britain's workforce of over 28 per cent from private industry to government in five years.

Both Northern and Southern Ireland have massive financial burdens. Of Eire's budget, 66 per cent goes in interest payments on debt.

•

US Tax Commissioner Leads the Revolt

The crass stupidity of the present monetary system, so far as taxation is concerned, was recently exemplified by the following cable which appeared in the Sydney *Sun-Herald* from New York:—

> *As the deadline for Americans to pay their income tax loomed this week, thousands of people visited pawnbrokers, banks and finance companies to raise the necessary money.*
>
> *The US is having its greatest business boom for years but, paradoxically, Americans say they have never felt so broke.*
>
> *"They've run me dry," said Ralph Novin, a*

> *Dallas (Texas), pawnbroker. "Men have deluged me with women's wedding rings, watches, television sets, clothes, irons and mantel clocks to raise tax money."*
>
> *J.R. Chaplin, loan chief of a Chicago finance corporation, reported a steep increase in loans, for income tax payments.*
>
> *A Detroit bank official estimated tax loans to be 3 per cent higher than last year.*
>
> *Apart from individual loans, business-tax loans from major New York City banks have skyrocketed in the past two weeks by $763 million, or 8 per cent above last year's jump.*
>
> *Many who have had trouble paying their tax find a simple expedient. They just don't pay.*
>
> *Despite stepped-up collections by the Internal Revenue Service, tax delinquencies last year rose by nearly $32 million. Many Americans are criticising inconsistencies in the US tax laws.*
>
> Life *magazine said the Treasury "dips with a sieve, and the pattern of the sieve gets crazier every year as the rulings, court decisions and amendments pile up."*
>
> *Besides the millions of ordinary citizens, there are some 300 organisations in America agitating for a repeal of the tax law.*
>
> *This week, T. Coleman Andrews, former US Commissioner of Internal Revenue (i.e. US Commissioner of Taxation) unexpectedly came to their support by saying: "Federal income taxes should be abolished. America today is in the death grip of taxation. Taxes are too high from top to bottom."*
>
> *Andrews condemns the present income tax structure as "brutal, confiscatory banditry com-*

pounded by extreme complexity" and "an intolerable threat to the unfettered freedom of enterprise which made America great."

Early in June, 1978, the press headlines referred to the launching of a massive tax-revolt movement in the United States as property owners in California used their constitutional rights to force a vote on a proposal to slash taxes. Shock waves were sent right across the USA as taxpayers voted for big tax reductions in a massive two-to-one majority.

Here is a lead for tax-weary Australians.

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The Great Treasury Bill Racket

What does the average citizen know of Treasury Bills? Absurdly little.

Treasury Notes are the I.O.U.'s given by the Commonwealth Treasury to the Reserve Bank.

In other words, Treasury Notes are pawn tickets by which the national assets of Australia are systematically pledged to the banks.

This is how the system works:

The banks have a nice working arrangement whereby they acquire Treasury Notes from the Reserve Bank. These Treasury Notes are in denominations of $2,000, $10,000, $100,000 and $1,000,000 each.

The private banks obtain them from the Reserve Bank by a process of what is known in high banking circles as rediscounting.

The trading banks acquire the Treasury Notes by drawing on their accounts with the Reserve Bank, where it is the practice for the banks to keep large balances or

deposits.

Say a bank decides to acquire $1,000,000 worth of Treasury Notes. It draws a cheque on its account with the Reserve Bank.

The purchasing bank's account with the Reserve Bank will therefore be debited with $1,000,000 and credited with an interest-bearing security, worth $1,000,000, plus the discount.

The bank therefore not only acquires an interest-bearing investment, but it acquires a security which CAN BE CONVERTED INTO CASH AT ANY TIME with the Reserve Bank.

And, as we have seen, $2,000 of cash is the usual backing for $20,000 of loans and overdrafts.

But let us follow the process through, and see where the Treasury Note racket affects the people of Australia.

Every three or four months a Commonwealth Loan is floated. Commonwealth Loans average about $600 million per annum.

There is usually a great, Commonwealth-wide publicity ballyhoo behind these loans, in which the public is exhorted to subscribe because the loans are for public works — for roads, schools, irrigation works, state railways, housing, etc.

This advertising is grossly misleading, because the main purpose of the loans is not to finance public works at all. **The main purpose of the Commonwealth Loans is to redeem a volume of outstanding Treasury Notes.**

That is to say, the chief purpose of Federal loans is to buy these Bills back from the banks which hold them, and thus reduce the volume of the short term national debt.

Don't make the mistake of concluding that this process of buying back outstanding Treasury Notes in any way reduces the National Debt. It doesn't. All that it does is to convert portion of the short term debt into long term debt, i.e., into permanent National Debt. This is what is called funding the National Debt.

In simple terms, when a Commonwealth Loan is floated, the money subscribed by the public — individuals and companies — is chiefly used to redeem, say, $100,000,000 worth of Treasury Notes.

In the process of redemption the public and companies get the bonds, but the banks achieve the equivalent in increased liquidity of assets, enabling them to lend again.

But from the public's point of view, an even more disturbing aspect is that the National Debt has been added to. It grows, remorselessly, every few months to what is now an astronomical figure — and, of course, taxation grows with it.

There is no plan apparently known to the custodians of our national financial policy which offers even the flimsiest hope of escape from this iniquitious system.

It never seems to occur to anyone that the National Debt should ever be redeemed — though one Auditor-General is on record as saying that in one particular year, two or three millions were actually set aside for debt redemption.

He added, with classical naivete, that the money used for the purpose was loan money!

You may well ask, if money subscribed to Federal loans is mainly used to redeem the short-term debt, how are public works financed?

They are chiefly financed by credits made available by the Reserve Bank in return for Treasury Notes.

A fully subscribed Federal loan, of say, $150 million

may be used to redeem $100 millions worth of outstanding Treasury Bills. The balance may be used for public works.

This is not to suggest that the public works programme will not be carried out. It will. But the finance used will be mainly through Treasury Notes. From a bank's point of view these are gilt-edged securities of the highest order, backed by the taxing power of the Federal Government to redeem from time to time so that the highly profitable practice of short term lending to the nation can be repeated over and over again.

Why the Reserve Bank allows the private banks to acquire them (and by a virtually costless process!) is one of those incredible things that defies explanation or common-sense, judged by the normal standards of this most uncommon faculty.

But an even more inexplicable thing is why the Reserve Bank, a mere department of the nation, should regard the credit it costlessly creates for the Treasury as an interest-bearing debt, on which the people, through taxation, pay interest in perpetuity. This is a classical example of the tail wagging the dog, or the weather cock, not merely indicating the wind, but creating it.

ALL THAT THE RESERVE BANK DOES IN EXCHANGE FOR THE TREASURY'S NOTES IS TO MONETISE THE CREDIT OF THE NATION. The bank didn't create the national assets which back the loans. These were created — or will be — by the people of Australia.

The bank's function was effortless, costless, and could have been, and no doubt was, performed by a junior ledger clerk.

Why in the name of sanity this simple transaction is allowed to become the basis of our National Debt, and the pitiless taxation which has to pay the interest on it, transcends all the laws of logic.

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Amazing Examples of Credit Power

In *Australia's Government Bank*, Dr. L.C. Jauncey records the humble start of the Commonwealth Bank of Australia:

"On July 15, 1912, with no subscribed capital and with assets of only £10,000 in the form of a loan from the Commonwealth Government, the Bank opened its doors for business.

"On July 7, 1921, a deputation of unemployed waited on Sir Denison Miller, then Governor of the Bank.

"Mr. Scott (member of the deputation): 'In your address in London, Sir Denison, you stated that to meet the necessities of war certain things had to be done by you, which, before the war, would not have been dreamed of. You financed Australia for £350,000,000 for war purposes, and, had the war continued, you could have financed another £350,000,000. Are you now prepared to finance Australia £350,000,000 for productive purposes?'

"Sir Denison Miller: 'Yes, I shall do my best'."

●

In the Australian Press of July 7, 1921, Sir Denison Miller is reported to have said this:

"The whole of the resources of Australia are at the back of this bank, and so strong as this continent is, so

strong is this Commonwealth Bank . . . Whatever the Australian people can intelligently conceive in their minds and will loyally support, that can be done."

In other words, that which is physically possible can be made financially possible.

Backed by the credit, i.e. the faith, of Australia, the Commonwealth Bank, which started with a capital of $20,000 was able to create credit over the next eight years to the extent of $700,000,000!

The Commonwealth Bank, incidentally, affords a most amazing example of how privileged a bank is in acquiring assets.

As we said, the Commonwealth Bank opened its doors for business in 1912 with assets (or, rather, liabilities) in the form of a loan of $20,000.

By 1956 it was able to boast assets to the total of $4,000,000,000 — **a figure exceeding all the assets of the larger companies in Australia!**

Every year sees a further increase in total assets.

Add this stupendous figure to the assets of the private trading banks and you get an idea of the extent to which the banks have expropriated the **real** credit — i.e., the real wealth — created by the people of Australia. The banks have acquired the **credit** — nearly $8,000,000,000 of it! — and have saddled the people with the **debt**.

In monetising the real wealth of Australia (i.e. creating its monetary equivalent) the banks have issued the money as a debt and so acquired assets equal to about one-third of the entire wealth of Australia.

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The Incredible Story of the Rural Bank

Another illuminating example of Credit Power is afforded by the meteoric growth of the Rural Bank of New South Wales.

Up to the year 1948, the Rural Bank was a savings bank. Its branches in 1947 numbered fifty-eight, valued at \$1,327,430, and its assets totalled \$74 million.

Then, in 1948, a dramatic change took place. The Federal, Labor Government, under Prime Minister Chifley, introduced a Bill to nationalise the trading banks of Australia.

This threat alarmed the Government of New South Wales — a Labor Government — so while Mr. Chifley's legislation was before parliament, the New South Wales Labor Government rushed a very short Bill through all stages within one day's sittings of Parliament.

This Bill's purpose was to change the constitution of the Rural Bank from a virtual savings bank to a bank of issue — that is to say, a bank which has the power to CREATE CREDIT.

In the few years since the Rural Bank became a bank of issue, it has increased its assets amazingly.

Valuable corner sites have been acquired for premises in the city of Sydney and all the leading country towns.

In 1956 it had over 110 branches, its assets had jumped to \$138 million, and it disclosed reserves to over \$20 million.

There is nothing comparable in business or industry with banking when it comes to acquiring assets.

The assets of the Colonial Sugar Refining Company in 1956 did not exceed \$120 million and the CSR is an

Australia-wide organisation — the largest sugar producing company in the Southern Hemisphere, in addition to its vast subsidiaries producing building materials, chemicals and pharmaceuticals.

And there is the great Broken Hill Proprietary — the foundation of Australia's iron and steel industry. Its ramifications are Australia-wide, and yet its assets are only \$110 million. General Motors-Holden's assets at December, 1955, were \$94 million.

Does it not strike you as utterly fantastic that a bank, which employs a few hundred clerks, with no machinery more pretentious than typewriters and adding machines, with no plant more impressive than office buildings, and unknown to the general public outside its own State, can vastly increase its assets far beyond our greatest industries and do it in relatively few years?

Does it not strike you as preposterous that an institution which produces nothing more than figures in books, can acquire the ownership of assets more vast than our greatest industries which employ thousands of people in all States, and upon whose physical production the entire economy of Australia depends?

It is a most illuminating example of CREDIT POWER — the greatest power in the world.

Once a nation understands it, and resolves to use it, without the chains of debt and taxes, once it has the statesmanship to use this vast power potential boldly and wisely as a constructive and liberating force, that nation will bound ahead, the great problems which confront and confound it will be solved with expedition and satisfaction, the grievous burdens of debt and taxation will be gradually lifted from the backs of the people, enabling them, at long last, to raise their heads to heaven in thanksgiving.

CREDIT POWER!
CREDIT POWER!
THE POWER AND THE GLORY!

Royal Commissions on Finance

Has there been no public outcry against a financial system that leaves such a trail of human suffering in its wake?

Of course there has. The outcry usually results in the appointment of a Royal Commission to inquire into it. Such Royal Commissions have been held in Britain, Canada, Australia, and New Zealand.

The personnel of these Royal Commissions were mostly men in the fifty to sixty age bracket. They were men who had built up successful careers in industry, law, accountancy, and commerce.

Their minds had long been made up in regard to the financial customs of their age. They had all personally done well under the financial system they were asked to inquire into.

In short, all these Royal Commissions consisted of men whose mental attitudes and understanding of the financial and monetary system had been conditioned by a life-time of familiarity with the traditional practices. They could conceive of nothing else. They were pledged to the preservation of the status quo. Custom, tradition, the mesmeric spell of orthodoxy, the day-to-day practices of a life-time — it is very difficult, if not impossible, for a group of men to think outside such a powerful, inhibiting,

circumscribing framework.

It is no reflection upon the honesty of the men who made up these Royal Commissions when we record that their reports for the most part white-washed the prevailing financial and monetary system.

They made some criticisms, to be sure, some minor recommendations, but for the most part they gave their blessings to the old system and short shrift to any new, unorthodox system or innovation that some witnesses presented to them.

Nobody was surprised, therefore, and only a small minority of public opinion was disappointed, when the reports of these Royal Commissions followed much the same pattern.

But some very interesting and significant things **did** emerge from these Royal Commissions. Here, for example, is what the British Royal Commission (presided over by Lord MacMillan) found in regard to the creation of credit in 1920.

We quote from chapter 4, page 34:—

"It is not unnatural to think of the deposits of a bank as being created by the public, through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit . . .

"The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposits in cash."

Australian Royal Commission on Money

The Australian Royal Commission into the Monetary and Banking system of Australia made its report in 1937.

After nearly two years of exhaustive inquiry the Commission, in its report, was obliged to admit that the Commonwealth Bank (now the Reserve Bank) possessed all the **power** necessary to finance all Governmental needs.

Section 504, of the Commission's Report, headed "Creation of Credit", reads:—

". . . Because of this power, the Commonwealth Bank is able to increase the cash of the trading banks in the ways we have pointed out above.

"Because of this power, too, the Commonwealth Bank can increase the cash reserves of the trading banks; for example, it can buy securities and other property, it can lend to the Governments or to others in a variety of ways, and it can even make money available to the Governments and to others **free of any charge** . . ."

As this last clause has led to a good deal of controversy as to its exact meaning, Mr. Justice Napier, Chairman of the Commission, was asked to interpret it, and his reply, received through the Secretary of the Commission (Mr. Harris) was as follows:—

"This statement means that the Commonwealth Bank can make money available to Governments or to others on such terms as it chooses, even by way of a loan without interest, OR EVEN WITHOUT REQUIRING EITHER INTEREST OR REPAYMENT OF PRINCIPAL."

Thus the Commonwealth Government was given the happy alternative of obtaining all its loan requirements without recourse to borrowing from the banks on Treasury Bill security, and so involving the nation in additional national debt, and the people in more onerous tax burdens. BUT IT DIDN'T TAKE IT.

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A Bank Governor's Frank Admission

Some of the most frank evidence on banking practices was given by Mr. Graham Towers, Governor of the Central Bank of Canada, before the Canadian Government's Committee on Banking and Commerce.

During the 1939 session this Committee confined its proceedings to an examination respecting the Bank of Canada. The witness for the Bank, subject to cross-examination, was Mr. Graham F. Towers, its Governor.

The Committee held thirty sittings and its proceedings cover 850 pages, so that to bring out the important points necessitates drastic condensation. We have endeavoured to do this fairly, and in each case we give the page number of the proceedings so that reference can be made to the context.

Bear in mind that the following statements made or agreed to by Mr. Towers are those of the Governor of the Government-owned Central Bank of Canada.

(The following extracts are from the Minutes of Proceedings and Evidence Respecting the Bank of Canada, Committee on Banking and Commerce, 1939. Government Printing Bureau, Ottawa):—

Question: "But there is no question about it that banks create the medium of exchange?"

Towers: "**That is right. That is what they are for . . . That is the Banking business, just in the same way that a steel plant makes steel.**" (p. 287)

"**The manufacturing process consists of making a pen-and-ink or typewritten entry on a card or in a book. That is all.**" (pp. 76 and 238)

"**Each and every time a bank makes a loan (or purchases securities), new bank credit is created — new deposits — brand new money.**" (pp. 113 and 238)

"**Broadly speaking, all new money comes out of a Bank in the form of loans.**" (p. 461)

"**As loans are debts, then under the present system all money is debt..**' (p. 459)

Mr. Towers continued: "A government can find money in three ways: by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process." (p. 29)

Q: A banker can purchase a federal government bond by accepting from the government, we will say a bond for $1,000 and giving to the government a deposit in the bank of $1,000?

Mr. Towers: Yes.

Q: . . . what the government receives is a credit entry in the banker's book, showing the banker as a creditor to the government to the extent of $1,000?

Mr. Towers: Yes.

Q: And in law all that the bank has to hold in the way of cash to issue that deposit liability is 5 per cent?

Mr. Towers: Yes. (p. 76)

Q: Ninety-five per cent of all our volume of business is being done with what we call exchange of bank deposits —

that is simply bookkeeping entries in banks against which people write cheques?

Mr. Towers: I think that is a fair statement. (p. 223)

Q: . . . the need of a currency gold reserve was today largely psychological so far as domestic currency was concerned?

Mr. Towers: As far as domestic currency was concerned; yes.

Q: **But if the issue of currency and money is a high prerogative of government, then that HIGH PREROGATIVE HAS BEEN TRANSFERRED TO THE EXTENT OF 88 PER CENT FROM THE GOVERNMENT TO THE MERCHANT BANKING SYSTEM?**

Mr. Towers: **YES.** (p. 286)

Creating New Money

Q: **When a $1,000,000 worth of bonds is presented (by the government) to the bank, a million dollars of new money or the equivalent is created?**

Mr. Towers: **Yes.**

Q: **It IS a fact that a million dollars of new money is created?**

Mr. Towers: **That is right.** (p. 238)

Q: Now, as a matter of fact, today our gold is purchased by the Bank of Canada with notes which it issues — not redeemable in gold — in effect using printing press money . . . to purchase gold?

Mr. Towers: That is the practice all over the world . . . (p. 283)

Q: When you allow the merchant banking system to issue bank deposits — with the practice of using cheques — you virtually allow the banks to issue an effective substitute for money, do you not?

Mr. Towers: The bank deposits are actually money in that sense.

Q: . . . as a matter of fact they are not actual money but credit, bookkeeping accounts, which are used as a substitute for money?

Mr. Towers: **Yes.**

Q: **Then we authorise the banks to issue a substitute for money?**

Mr. Towers: **Yes, I think that is a very fair statement of banking.** (p. 285)

Q: **Will you tell me why a government with power to create money should give that power away to a private monopoly and then borrow that which parliament can create itself, back at interest, to the point of national bankruptcy?**

Mr. Towers: . . . we realise, of course, that the amount which is paid provides part of the operating costs of the banks and some interest on deposits. **Now, if parliament wants to change the form of operating the banking system, then certainly that is within the power of parliament.** (p. 394)

Mr. Towers: **The banks cannot, of course, loan the money of their depositors.** (p. 455)

Q: You have agreed that banks do create money.

Mr. Towers: They, by their activities in making loans and investments, create liabilities for themselves. They create liabilities in the form of deposits.

Q: You will agree with the statement that has been made that banks lend by creating the means of payment.

Mr. Towers: Yes.

Q: So that with the increase of 500 million of bank deposit money (from 1934 to 1938) we have not had any inflationary result?

Mr. Towers: We have not. The circumstances of the time have not encouraged it. (p. 643)

Q: . . . so far as war is concerned, to defend the integrity of the nation there will be no difficulty in raising the means of financing whatever those requirements may be?

Mr. Towers: **The limit of the possibilities depends on men and materials.**

Q: **. . . and where you have an abundance of men and materials you have no difficulty, under our present banking system, in putting forth the medium of exchange that is necessary to put the men and materials to work in defence of the realm?**

Mr. Towers: **That is right.**

Q: Well, then, why is it, where we have a problem of internal deterioration, that we cannot use the same technique . . . in any event you will agree with me on this, that so long as the investment of public funds is confined to something that improves the economic life of the nation, that will not of itself produce inflationary conditions?

Mr. Towers: Yes, I agree with that, but I shall make one further qualification, that the investments thus made shall be at least as productive as some alternative uses to which the money would otherwise have been put. (p. 649)

Q: **Would you admit that anything physically possible and desirable can be made financially possible?**

Mr. Towers: **Certainly.** (p. 771)

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Do Bankers Understand the Creation of Credit?

Do all bankers understand the mechanism of credit creation by the banks?

No. We have discussed this matter with scores of bankers, and only an odd one understands how banks create and cancel credit and how they purchase securities.

When we place the facts of the matter before them — and the facts are beyond dispute — the average banker is almost inarticulate with incredulity, and often with indignation.

This is understandable. A man who has spent the better part of his life under the impression that banks only lend money deposited with them, and that the banker's profit consists of the difference between the interest he pays on fixed deposits and the interest he charges on loans, finds it most difficult, if not impossible, to dislodge this firmly fixed idea from his mind.

You may say that it is incredible that bankers would not know their own system. Not at all. Men are conditioned by custom. They grow up in a tradition. They accept, without question, the routine practices of their profession.

Apparently these practices work admirably. They do! From the point of view of administration, the banking system is probably the most efficient we can point to. Why should anyone question it? — especially those in its employ. **That is the power of tradition.**

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Revealing Statement by NZ Bank Chairman

In the higher realms of banking, however, there is no doubt that most of the VIP's know the facts. This was admitted by Mr. H.W. Whyte, Chairman of the Associated Banks of New Zealand, in his evidence before the New Zealand Royal Commission in 1955. He admitted, quite frankly, that banks **create credit** when making loans and advances, and he added:—

"They have been doing it for a long time, but they didn't quite realise it, and they did not admit it. Very few did. You will find it in all sorts of documents, financial textbooks, etc. But in the intervening years, and we must all be perfectly frank about these things, there has been a development of thought. Until today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create credit. I have told you that they do; Mr. Ashwin (Secretary to the Treasury) has told you that they do; Mr. Fussell (Governor of the Reserve Bank) has told you that they do.

"But twenty, forty, fifty years ago you would not have found many people who would have said that. They didn't quite appreciate they did that.

"The system has not changed very much; it is the system that stands today, not very much different from what it was forty, fifty years ago, but there has been a development of thought."

Further, in reply to Dr. Mazengarb, Q.C., who submitted to the commission a series of monetary reform proposals on behalf of H.J. Kelliher, one-time director of the Bank of New Zealand, Mr. Whyte, reiterated the point: "There is no secret about banking; there is no secret about banks creating money; there has been a development of thought in the matter."

●

This "Development of Thought"

We must confess we were most intrigued by the somewhat naive admission that "there has been a development of thought in the matter".

What the Chairman of the Associated Banks of New Zealand really meant, we suggest, **was that there has been a development of knowledge of the facts of money**.

During the Depression years, hundreds of thousands of hungry, unemployed people had nothing else to do but study a new and strange phenomenon — the paradox of poverty amidst plenty.

The seasons were bountiful. The warehouses were bursting. The shops were full. But few could buy the goods, and untold numbers of people were destitute. The food was there. The clothes were there. All that was missing was money — this relatively costless ticket system had broken down as a distributing mechanism.

In those days £1 notes or £100 notes could be printed for 2d. each, and bank ledger credit could be issued at no cost at all.

But money was a private monopoly. Its issue and control were sacrosanct — more sacred than human lives.

How absurd it all was, when we look back on those bitter years!

But hungry men began to think, to inquire, to find out how the monetary system worked, and what they found out was as revelationary as the facts given in this booklet.

A great literature grew up exposing the truth in regard to the creation of credit, and this truth was thrust embarrassingly under the noses of bankers in high places.

This was the reason — and the only reason — for Mr. Whyte's admission that "there has been a development of thought in the matter".

●

Do the Economists Understand the Creation of Credit?

No. This subject forms no part of the economics course. The pathetic result is that in their writings and speeches, where it is necessary to touch on the subject of bank credit, the economists repeat the old fiction that bank loans are limited by their deposits.

Very few Australian economists, to our knowledge, understood the creation of credit. One was Professor A.G. Mackay, who, in his textbook on "Economics", stated:—

"In this way, by means of a loan, an advance, an overdraft, or by the cashing of bills, the banks are able to increase the volume of deposits in the community, and because of this process it is not correct to say that a bank loans out deposits which people make with it.

"It is clear that IT CREATES THE DEPOSIT BY THE ISSUE OF THE LOAN; the loan travels back to the bank or to another bank and assumes the form of a deposit."

Professor R.F. Irvine, Professor of Economics at Sydney University, about the time of the First World War, introduced the study of bank credit and financial mechanism generally into the economics course.

It was a very popular course, and students and professor often discussed the dangerous implications of a financial system that placed so vast a power for good or evil in private hands for private profit.

Apparently, Professor Irvine's handling of the economics course gave considerable concern to the banks, with the result that some charge was trumped up against the professor and he was obliged to resign.

During the days of the Depression, Professor Irvine lectured extensively in Sydney on the broad lines followed by his book.

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Has There Been No Outcry in High Places?

Has no statesman warned the people of the evils inherent in a private monopoly of the public credit?

Yes, a few have, but remember, finance is all-powerful. It controls the Press (by overdrafts) and is in a position to make and break anyone who dares to challenge and expose its power. Most politicians quickly learn that if they are going to "get on", the simplest policy is to play safe, conform to orthodox practices and procedures, and don't "stick one's neck out".

It is an appalling reflection upon the public men of all countries that they conform to the orthodox tradition in this supine, spiritless and sycophantic manner, but they justify their attitude by the cynical reflection that there are no political plums for those who kick against the traces or

try conclusions with powerful vested interests.

But there is one notable, indeed, classical example of courageous statesmanship which did challenge and successfully buck the bankers of his day. That man was Abraham Lincoln.

To finance the American Civil War, he was obliged to go to the banks for money. The banks attempted to exploit the desperate situation of the northern armies, and agreed to lend money at interest rates varying from 24 to 36 per cent interest!

This was usury of an outrageous nature, and Lincoln refused financial help at such a monstrous price.

Instead, he printed the famous "greenbacks", and the United States' note issue has followed the greenback design ever since.

The "greenbacks" enabled the North to conduct its war against the South with very little debt, but before the "greenbacks" were issued the North was desperate for finance, and the result of his negotiations with the predatory banks compelled Lincoln to observe:—

"I have two great enemies; the Southern army in front of me and the financial institutions in the rear. Of the two, the one in the rear is my greatest foe."

This statement by Lincoln, and his other statements upon the government's part in financing the nation are confirmed by the *Appleton Cyclopaedia* (US) of 1861, page 292:—

"The money kings wanted 24 per cent to 36 per cent interest for loans to our Government to conduct the Civil War.

"The monetary needs of increasing numbers of people advancing toward higher standards of living can and should be met by the Government. Such needs can be served by issuing national currency and credit through the operation of a national banking system. The circulation of a medium of exchange issued and backed by the government can be properly regulated. Government alone has the power to regulate the currency and the credit of a nation.

"The government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the government and the buying power of consumers. **The privilege of creating and issuing money is not only the supreme prerogative of government, but it is the government's greatest creative opportunity.**

"The financing of all government enterprises, the maintanance of stable government and ordered progress, and the conduct of the Treasury will become matters of practical administration.

"More will cease to be the master and become the servant of humanity. Democracy will rise superior to the money power."

But Lincoln was assassinated before he fully translated this debt-free monetary policy into effect, and there is quite an amount of evidence to sustain the theory that he was assassinated at the instigation of the banks, which saw in his new policy a challenge to their lordship over money.

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The Banks "Gift from Pandora"

Garet Garret, regarded as "the clearest expositor of economics in the United States", makes these interesting remarks about that tragic abstraction, bank credit, in his book, *The Bubble that Broke the World*:—

"Of all the discoveries and inventions by which we

live and die, this totally improbable helix of credit is the most cunning, the most liable, the least comprehended, and next to high explosives, the most dangerous. All that the bankers themselves really know about it is how it works from day to day. Beyond that, it is a gift from Pandora."

Phillip A. Benson, president of the American Bankers' Association, in a speech at Milwaukee, on June 8, 1939, quoted in the *New York Times* of June 11, 1939, said:—

"There is no more direct way to capture control of a nation than through its credit system."

W.E. Gladstone once stated:—

"From the time I took office as Chancellor (December, 1852) I began to learn that the State held, in the face of the Bank and the City, an essentially false position as to finance. The hinge of the whole situation was this: The Government itself was not to be a substantive power in matters of finance, but was to leave the Money Power supreme and unquestioned. In the conditions of that situation I was reluctant to acquiesce, and I began to fight against it by financial self-assertion from the first. I was tenaciously opposed by the Governor and Deputy-Governor of the Bank (of England), who had seats in Parliament; I had the City for an antagonist on almost every occasion."

(The term "the city" in London refers to the banking and financial institutions, and the quotation is from Morley's *Life of Gladstone*.)

With one or two notable exceptions, the Church has maintained a sepulchral silence on the subject of financial policy, averting its eyes heavenward in the presence of a stupendous temporal problem.

The two exceptions were Archbishop Le Fanu, Anglican Primate of Australia during the Depression. He spoke out frequently and courageously against a financial policy so heavily freighted with the social evils of anti-Christ.

Anglican Primate of Australia (Archbishop Le Fanu) in October, 1935, said:—

"Every man in the community is heir to all the inventions and scientific knowledge which have made this easier life possible, and yet the enhanced values and opportunities of life are not shared as they should be.

"Our present financial system is not doing its job. The fundamental Christian objection to the existing capitalistic system and to the bankers' control of money, from which it seems inseparable, is that it holds persons in serfdom to the exigencies of financial policy."

Pope Pius XI in the Encyclical *Quadragesimo Anno* wrote:—

"It is patent that in our days not alone is wealth accumulated, but immense power and despotic economic domination is concentrated in the hands of a few . . .

"This power becomes particularly irresistible when exercised by those who, because they hold and control money, are able also to govern credit and determine its allotment, for that reason supplying so to speak the life-blood to the entire economic body, and grasping, as it were, in their hands the very soul of production, so that no one dare breathe against their will."

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Nationalisation of Banking is not the Answer

The unthinking mind, after perusing the alarming array of facts in this book, may be forgiven if he said at once that the answer to the problem was to nationalise the banking system.

Whilst this may appear, on the surface, to be the obvious answer, in our opinion it is not the correct answer.

Indeed, in our opinion, after many years of study and research, there is only one thing more disastrous than the present monetary system, which is mostly in private hands, and that is a nationalised monetary system.

Experience in several fields has shown that a public monopoly is far worse than a private monopoly.

There is a certain amount of competition among the private banks, but a public monopoly is complete and unequivocal.

Such a monopoly may work with tolerable satisfaction in regard to postal services or railways, but God help Australia if the flow of credit — the life-blood of the nation — was within the arbitrary powers of a group of bureaucrats from whom there was no appeal — except to another group of bureaucrats.

It should be noted that the Reserve Bank follows precisely the same financial policy as the private banks, except in a few minor details. It finances the Federal Government's needs in return for Treasury Notes, and insists that the Treasury Notes be redeemed by the frequent raising of public loans, thus adding progressively to the National Debt and to taxation.

Although a Government institution, it acts towards the nation as though it were a private concern. It is quite alien in spirit and policy to the national interest.

Please don't hasten to tell us that the "profit" it makes goes into the national coffers. We know that. But the profit benefit from the nation's bank is almost too trivial to mention when we consider what the Reserve Bank **could do** for Australia if it functioned under a different monetary policy.

The Bank of England is another instance of the empty futility of nationalising a great bank. What has it benefitted Britain since its costly nationalisation took place under the Attlee Government? A few paltry millions. It follows the same alien policy to the nation that it did before. **It is still a power above the nation, instead of being in the service of the nation.**

No. The answer to the problem does not lie in bank nationalisation, which merely changes the name over the door, but makes no change in monetary policy.

You don't make a monopoly any better by making it larger.

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Our Attitude to the Banks

We make no apology for drawing public attention to the social evils that arise out of the present monetary system.

It is time the public, and especially those who sit in high places, knew the facts. "Know the truth and the truth shall make you free".

But the sum total of what we say in this book must not be construed as an attack upon the banks or upon the hierarchy of bank personnel.

That is neither the point nor purpose of this book. Merely to fill readers with an unhealthy revenge complex against the banks would defeat its purpose.

There is nothing new about the present method of creating credit and charging it as a debt to the community. It began a long time ago.

Our present banking system began with the goldsmiths. As the goldsmiths were craftsmen in gold and silver, they were the only people equipped with strongrooms for the safekeeping of such valuables.

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How the Cheque System Began

In those days the only money was gold, silver and copper. It was minted into coinage in the name of the king, and put into circulation in the payment of the army, navy and public service. Those were the halycon days of no public debts.

It was at this stage, however, that a new development took place in the monetary system.

Burglaries and highway robbery were very common in England before a properly organised police force was established by Sir Robert Peel in 1835. For safe-keeping, therefore, gold plate and sovereigns — the chief monetary token — were lodged with the goldsmiths.

Every time one lodged, say, 20 sovereigns with a goldsmith, he gave a receipt for the amount. These receipts gradually became currency — that is to say, people accepted the goldsmith's receipts in payment of a debt.

And, of course, it was only a matter of time when the goldsmiths themselves woke up to the fact that this practice of the payment of debts and purchase of goods by the giving of a goldsmith's receipt put the goldsmith in a unique position.

Long experience had shown them that very few people withdrew their gold coinage once it was lodged with them. By keeping only 10 per cent of the money deposited with them, the goldsmiths could meet all day-to-day withdrawals. **The other 90 per cent of the money they were now free to lend at interest.**

They learned, to their intense satisfaction and immeasurable profit, that every £100 of gold sovereigns deposited with them was sufficient backing for the lending of £900 in what were called "gold receipts".

These gold receipts began to circulate as money because each one was a promise to pay gold on demand. Thus the gold receipts were the forerunners of the bank note.

Garet Garrett, in his book, *Anatomy of Credit*, tells the story of the origin of banking and credit in these terms:—

"How can a bank lend credit to the amount of nine times its cash deposits? Perhaps the easiest way to explain it will be to tell the story of the old goldsmiths, who received gold for safe-keeping, and who issued receipts for it.

"These receipts, representing the gold, began to pass from hand to hand as money. Seeing this, and that people seldom touched the gold itself or wanted it back, so long as they thought it was safe, the goldsmiths began to issue paper money redeemable in gold, without having the gold in hand to redeem it with.

"A very audacious idea, and yet it worked, because if a goldsmith was honest, he was solvent, as, in exchange for

that paper which he promised to redeem in gold on demand, he took things of value, called collateral, in pledge so that against the outstanding paper he had good assets in hand, and if people did come with his paper, wanting the gold on it, he had only to sell the collateral, buy gold, and then redeem the paper, according to his promise — always providing that the collateral was liquid and easily sold, and that too many people never came at once, all demanding gold on the instant.

"Fewer and fewer people ever did want the actual gold. So long as they believed in the goldsmith, they preferred to use his paper for all purposes of exchange — paper which no longer represented the actual gold, and yet was as good as gold because whenever anyone did want the gold, it was forthcoming. From this evolved modern banking."

In the time of Cromwell, the goldsmiths were referred to as "bankers", and in 1694 a private company was formed in London which, in consideration of lending the State £1,200,000, was granted a charter to form the Bank of England.

The establishment of joint stock banks followed in due course, and the system spread to all parts of the world.

It is idle, therefore, to point an accusing finger at the banks or those responsible for the present monetary system. They have merely inherited the system, and for the most part, have no sense of guilt for the multitude of social evils it has given birth to.

The power to change the system is within the province of any democratic State, and this can be done without dispossessing the banks or nationalising them.

But reforms will involve considerable pruning of their powers and also a very salutary increase in the exercise of

the sovereign power than belongs to the nation.

Winston Churchill's Proposals

Winston Churchill, in his Romanes Lecture at Oxford University in 1930, laid a logical foundation for approaching these problems, with a view to their ultimate solution. We quote the following extracts from that notable address:—

"Direct taxation has risen to heights never dreamed of by the old economists and statesmen, and at these heights has set up many far-reaching reactions of an infrugal and even vicious character. We are in the presence of new forces not existing when the textbooks were written . . .

"Beyond our immediate difficulty lies the root problem of modern world economics; namely, the strange discordance between the consuming and producing power . . .

"If the doctines of the old economists no longer serve for the purposes of our society, they must be replaced by a new body of doctrine equally well-related in itself, and equally well-fitting into a general plan . . .

"Have all our triumphs of research and organisation bequeathed us only a new punishment — the Curse of Plenty? Are we really to believe that no better adjustment can be made between supply and demand? Yet the fact remains that every attempt has so far failed.

"Many various attempts have been made, from the extremes of Communism in Russia to the extremes of Capitalism in the United States. But all have failed, and we have advanced little further in this quest than in barbaric

times.

"Surely it is this mysterious crack and fissure at the basis of all our arrangements and apparatus upon which the keenest minds throughout the world should be concentrated.

"It would seem, therefore," Churchill went on, "that if new light is to be thrown upon this grave and clamant problem, it must in the first instance receive examination from a non-political body, free altogether from party exigencies, and composed of persons possessing special qualifications in economic matters.

"Parliament would, therefore, be well advised to create such a body subordinate to itself, and assist its deliberations to the utmost. The spectacle of an Economic sub-Parliament debating day after day with fearless detachment from public opinion all the most disputed questions of Finance and Trade, and reaching conclusions by voting, would be an innovation easily to be embraced by our flexible constitutional system.

"I see no reason why the political Parliament should not choose in proportion to its party groupings a subordinate Economic Parliament of say one-fifth of its numbers, and composed of persons of high technical and business qualifications."

Nine Vital Proposals

After twenty-five years of serious research into the monetary and financial problems of this era, the Monetary Research Institute makes the following proposals, which might well serve as a basis of study for a non-party com-

mittee along the lines suggested by Winston Churchill.
(1) **That a National Monetary Authority, responsible to Parliament, be appointed to:—**
A: Control the policy of the Reserve Bank and Trading Banks;
B: Relate the total of monetary issues each year to the total productive capacity of capital and consumable goods and services.
(2) **That the National Monetary Authority, using the Reserve Bank as its instrument, provide the Federal and State Governments and Municipalities with their monetary needs for capital development, without the incidence of debt or interest.**
(3) **That the National Monetary Authority introduces the principle of a National Balance Sheet, debiting it with the cost of all National Capital development, but crediting it with the asset value of all such development.**

(At present, all Federal and State public works are charged up to the people in the form of further national debt. BUT THE PEOPLE ARE NEVER CREDITED WITH THE ASSETS. No business could long function in solvency under such a lop-sided policy of accountancy.)
(4) **That public loans be REDEEMED — not RENEWED — as they fall due, the redemption being underwritten by the Commonwealth Reserve Bank.**
(5) **That income tax be reduced at a flat rate of five per cent per annum. The results to be assessed at the end of each five-year period, and the progressive reduction to be continued IF THE NATIONAL ECONOMY RESPONDS SATISFACTORILY, until taxation has been reduced by 50 per cent.**
(6) **That vexatious taxation — to give it no harsher name! — such as sales tax and payroll tax — be progressively reduced over a period of five years and then abolished altogether.**
(7) **That no trading bank be permitted to discount Treasury Bills — in fact, Treasury Bill finance should be terminated as an instrument or symbol of further national indebtedness.**
(8) **That overdraft rates be reduced to the cost of debt service, giving the banks a normal profit-margin, but substantially pruning their power over governments in particular and the nation in general.**
(9) **That the war-time policy of price subsidies be re-enacted, but with this vital difference: that the subsidies be paid from the national credit account and not from increased taxation.**

The soundness of the price subsidy principle was abundantly proved in the last war. It was a most effective mechanism for maintaining a stable price level in a highly inflationary period.

The monetary changes proposed are to be implemented gradually, not precipitately. Governments and the people at large could witness the gradual change from an insolvent, debt-logged, tax-ridden economy, staggering from crisis to crisis, to a solvent economy, which had at last found a happy and practicable way of escape from the chains which enfettered it.

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Summary of Merits

The foregoing proposals are by no means exhaustive or comprehensive, but they might well serve as the foundation stones of any monetary reform policy.

In sum, their implementation would:—

A: Assert the sovereign right of the nation — the Federal Government — over monetary policy in general and money for the capital development requirements of Commonwealth and States in particular.

It would be master in its own house and no longer obliged to pawn the national estate to the banks.

B: It would make a beginning in the long, uphill task of redeeming the National Debt.

C: It would gradually put an end to a taxation policy that is today nothing short of confiscation of income, and which tomorrow would turn taxpayers, out of sheer struggle for human survival, into a nation of Poujades, or tax evaders on a nation-wide scale.

D: It would progressively reduce the inflated price structure to something like normal. Taxation is the arch inflater.

E: The trading banks would be free to finance private industry, but at a rate of interest more in keeping with the service they render in mobilising and monetising the community's credit.

To those fearful people who insist that these proposals would lead to inflation, may we ask for a little cool reasoning?

First, never let it be forgotten for one minute that all forms of taxation are automatically loaded into prices.

Now, if we can so re-arrange our financial system that income tax can be lowered by 5 per cent per annum, prices will fall, generally, by that amount each year.

Second, by a gradual policy of national debt amortisation (i.e., by **redeeming** instead of **converting** Commonwealth loans as they fall due) the National Debt will be steadily reduced and taxation can be correspondingly lowered.

Third, the forthright abolition of sales tax would reduce the prices of a very wide range of articles by 10 to 33 per cent.

Taxation, in its several forms, is the great price inflater. Once we begin, as a nation, systematically to reduce the high incidence of taxation, the whole price structure will come down amazingly, and money will gradually be restored to its pre-war purchasing power.

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The Dictatorship of Finance

You would imagine that once the great basal lie that the **Banks lend their deposits** was exploded, once the real truth about the creation of money was pointed out, that the people who govern us would take steps without more ado to redress the transcendental evils that rise out of a debt-finance economy.

But things don't work quite as simply or as straightforwardly as that.

First of all, there is that instinctive resistance to change which you will find in most men.

Singularly enough, this resistance is found in the men generally endowed with the highest intelligence and education.

The reason is because this type of man has usually done better than the great mass of his fellows. He feels that a system that has treated him well cannot be bad.

Indeed, this type of man is so convinced of the cardinal virtues of the **status quo** that he resists the mere suggestion of change as a matter of course.

Call it perversity or what you will, but whatever it is, it is of such a stiff-necked nature that it becomes the most insuperable obstacle to progress.

Professor Sir Grafton Elliott Smith, in his *Introduction to Human History*, has dealt with this mental attitude as follows:—

"Most men, even without being consciously dishonest or wilfully stupid, seem to be unable to examine heterodox views with understanding and impartiality.

"The inertia of tradition and the lack of courage to defy it when new evidence fails to conform to it, seems to be potent enough to blind all, except the ablest and most fearless of men, to the most patent facts."

But there is another aspect, somewhat more sinister. In our present civilisation, money power is the greatest power, we regret to say, in the whole world.

It is the power to give, and the power to take away; the power to destroy and the power to create, the power to crush opposition or bestow favours.

This power is exercised through the control of the Press, the Radio and Parliament itself — the three greatest mediums of controlling public expression and conditioning the public mind.

Personally, we refuse to believe that the great majority of public men are corruptible. We are quite sure that only an odd one would succumb to the suggestion of bribery.

But there are other and more subtle ways of inducing men to conform to a policy.

Ministerial office is generally enough to put the quietus upon any tendency to unorthodoxy. A Cabinet Minister — regardless of party — quickly realises that the sweets of office are his only so long as he conforms to the present monetary policy.

Knowing this, he instinctively becomes an apologist and a defender of this policy and all its works.

Whilst he may be in genuine agreement with what is called financial orthodoxy, he will generally go out of his way, in gratitude for its favours, to serve and maintain and strengthen the position of financial interests.

If there were no acceptable alternative to the bankers' debt and tax system, then there would be nothing left to do but to settle down with stoic resignation to the rapid decay and collapse of civilisation and the decline of human life to a low order of serfdom and debt slavery.

But there **is** an acceptable alternative! It enjoys such recognition as to place it beyond doubt or disputation.

Not even the most financially orthodox mind would quarrel with the proposition that the sovereign prerogative to create money belongs to the Commonwealth Government.

You may well ask, why doesn't the Government exercise this power?

WHY DOES IT PROGRESSIVELY PAWN THE ASSETS OF THE PEOPLE TO THE DEBT MERCHANTS, WHEN IT HAS THE POWER TO CREATE, WITHOUT THE EVIL INCIDENCE OF DEBT OR TAXATION, ALL THE MONEY REQUIRED FOR GOVERNMENTAL PURPOSES?

You can write your own answer to these questions, but no satisfactory answer is forthcoming from those who sit in high places.

The fact remains that the nation has surrendered its rights over this most vital of all things — the monetary system — to interests which are pursuing a policy as alien to the well-being of the people as any hostile invader.

We are prisoners in our own house. We have been delivered into debt and tax slavery by the very people we have elected to govern us.

In other words, the people, in their utter and child-like simplicity, have elected "servants" to Parliament, armed them with all the sanctions of physical power, and permitted them to carry out a policy which is nothing short of a declaration of economic war, against the interests and well-being of the very people who elected them.

And for this service we pay them handsomely and bestow honours thick upon them!

Is it any wonder that Democracy, as practised, is in great danger of falling into grievous disrepute?

The attitude of the average businessman to taxation is that it is a necessary evil. He growls about it, adjusts his mode of life to it, and submits.

Now, that would be a logical enough attitude if taxation were necessary, but as we have seen, IT IS NOT NECESSARY — certainly not necessary to the point of confiscation.

It is imposed upon us by the power of money subordinating the power of Government and the sovereign prerogative of this nation.

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Towards a World Dictatorship

The debt system not only results in growing political and economic centralisation inside nations: it is being used to attempt to impose an international dictatorship. Following the First World War there was the establishment of "The Bankers' Bank", The Bank of International Settlements, based in Switzerland, and the fostering of what was known as Central Banking.

The Bank of International Settlements demonstrated that it was above nations by continuing to operate freely right throughout the Second World War.

The international merchants of debt planned further centralisation during the Second World War, which saw as one result the establishment of The International Monetary Fund and The World Bank.

Financial credit is now being created on an international basis and loaned to nations — **against their assets, of course!**

Mr. William McChesney Martin, former Chairman of Directors of the American Federal Reserve Banking System lecturing at the Per Jacobbsen Foundation in September, 1970, on the subject, "A World Central Bank?" said: "I move on now to speak about the most dramatic development to date in the process of evolution toward a world central bank. This is the agreement to create Special Drawing Rights . . . International money is now being created deliberately and systematically and as the result of multilateral decision."

Mr. McChesney Martin frankly conceded that the establishment of an International Central Bank creating international credit must have a serious effect upon national independence: ". . . One often hears it said that the existence of a world central bank is inconsistent with the maintenance of national sovereignty. So it is, if by sovereignty one means what has been traditionally defined by that phrase — the unfettered right of national governments to act in whatever way they may choose in economic financial or defence matters . . . Further evolution along the path toward a world central bank will require nations to accept further limitations on their freedom of independent action."

Surely the totalitarian message is clear enough? Nations like Australia can only defend themselves if they insist upon effective control over their own credit.

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Why Pawn the Nation?

The debt merchants foster another myth: that Australia must obtain "foreign capital" in order to develop its vast resources.

What really happens has been explained clearly by Queensland consulting economist H.W. Herbert: ". . . Getting $100 million from overseas expands the money supply in Australia by $100 million. The Reserve Bank issues counterpart funds in new Australian dollars to match the overseas money (which stays in London or New York and adds to the Reserve Bank's international reserves).

"Using overseas money is every bit as much 'printing money' as Government spending or enlarging the Budget deficit or expanding trading bank advances. Mr. Fraser and his Ministers allow the Reserve Bank to create an extra $100 million of new money for a foreign company to start a mine, but will not allow the Bank to introduce $100 million of new money to an Australian company to do so . . ." — *Sunday Mail,* Brisbane, July 2, 1977.

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The Despotism of Custom

Throughout history, man has shown a strange reluctance to consider new ideas, no matter how feasible they were.

When the first iron ship was constructed in England, the public was quite sure it would sink like a stone, and ridiculed the idea.

Marconi hawked the invention of wireless telegraphy from one shipping company to another, without success.

The story is told that the Chairman of Directors of the great Cunard line agreed to Marconi addressing a board meeting to put his invention before them.

Marconi assured the directors that it was possible for ships equipped with wireless to send Morse code messages hundreds of miles. But in spite of the fact that in those days scarcely a day went by without a shipwreck, the directors of the Cunard line were not impressed with the invention. Indeed, it is recorded that the Chairman apologised to the Board for inviting Marconi along "to waste their time".

Before Dr. Simpson discovered chloroform, operations and amputations were performed in cold blood, with the screaming patient held forcibly down until he lapsed into a merciful unconsciousness.

One would have thought that Simpson's great discovery of anaesthetics would have been hailed by the world as a gift from Heaven. But no. Medical men were sceptical, and the Church attacked the discovery on the ground that pain was ordained by God as a punishment for the sins of men!

Thirty years was to elaspse before anaesthetics were generally accepted by medical men and the public.

Sir William Harvey, who discovered the circulation of the blood, delayed publishing his results for 12 years because, he said: "I not only fear injury to myself from the envy of a few, but I tremble lest I have mankind at large for my enemies".

This was prophetic, for when the discovery was published, "some writer calumniated me and laid it to me as crime that I had dared to depart from the precepts and opinions of all anatomists".

Sir William Osler, in commenting on this, wrote: "There is no evidence to show that Harvey's lectures on the circulation of the blood had any influence on the profession".

John Aubray, in his biography of Harvey wrote: "His discovery gave a decided check to his professional prosperity. It was believed by the vulgar that he was crack-brained, and all the physicians were against him".

When Villemain announced in 1869 that tuberculosis was a specific disease "he was treated almost as a perturber of the medical order".

When X-rays were discovered, morality brigades were formed to resist such a destruction of decency and privacy. A London firm made a small fortune selling X-ray proof underwear to women!

Sir Patrick Manson, who discovered that malaria, once the world's greatest killer, was caused by mosquitoes, was laughed at by his medical contemporaries, and referred to contemptuously as "Mosquito Manson". They would not believe that malaria could have such a simple explanation.

And the same stiff-necked resistance, the same fanatical opposition, will be shown to the nine very simple, eminently sane suggestions made in this book for reform-

ing the monetary system and liberating the people of Australia from debt and tax bondage.

Before these obvious proposals are implemented, it will require a great body of informed and intelligent public opinion to overcome the violent resistance of powerful vested interests, and with the ordinary citizen, the despotism of custom.

As Walter Bagehot, the English essayist observed, "There is no pain like the pain of a new idea".

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What Can YOU Do About It?

It is usual for most men, when confronted with the fraud of unnecessary taxation, to exclaim: "What can I do about it? The individual is powerless".

You can do nothing whilst you harbour the notion that the individual is powerless. It is defeatist. More, it **isn't true.**

The individual is all powerful if he will but exert himself in his own defence; if only he will add his voice to other voices.

The doubts and timidity of the individual disappear when confronted by the dynamic truth that THE INDIVIDUAL, IN ASSOCIATION WITH A SUFFICIENT NUMBER OF OTHER INDIVIDUALS, CAN PERFORM MIRACLES IN GETTING THE RESULTS HE WANTS.

When people reach the stage that an unnecessary thing is too atrocious to be tolerated; when they become mentally and even physically sick at the sight or thought of unnecessary suffering, they will **not** tolerate it.

They will demand of those in authority that it shall be ended — and quickly.

This is what happened when child labour in mines was abolished, when slavery was abolished, when petty theft was no longer punishable by death. The time came when no jury would convict. The people simply wouldn't stand it — and said so.

We are reaching that stage today in regard to taxation. The people won't stand it. Not only that, but we believe they are in a mood to take effective action.

This brings us back to the individual citizen — to you and me. A grave responsibility rests upon us.

To accept the infamy of taxation with merely a growl is to be a silent and supine accessory to the fraud.

The first thing — indeed, the basic fact of Democracy — is for the elector to feel an abiding sense of his **Power** over politicians and Parliament.

He must surely realise the truth of the fact that once public opinion makes itself definitely articulate upon any issue, no democratic Government dares to ignore this expression of the popular will.

History is rich in examples of the power of the public opinion, and it is no exaggeration to say that it is the greatest power in the world. The power of public opinion is a moral power. It is Democracy at work.

But we must never forget that public opinion is made up of people like you and me. If we weakly and meekly accept the economic purgatory handed out to us, then, of course, we have no right to complain.

The alternative to apathetic acceptance is effective action. And this brings us back to the question: What action can the individual take to make his protest effective?

Shall he refuse to pay taxes? No action could be more futile or more undemocratic. To fight taxation itself is to beat your hands in vain against an **effect**, while leaving the **cause** of taxation, the Private Money Monopoly, untouched.

Not to pay taxation as a matter of principle may be heroic; but it is far better to work for the reform of financial policy in the constitutional way.

We are a Democracy, and still enjoy some of the great privileges of democratic government. If Parliament enacts a law that works against the public interest, we must abide by it, but work for its amendment or repeal at the first opportunity.

The virtue of the democratic system is that it gives us the **right** to change a bad law into a good one.

We must confess, of course, that the attitude of Parliament to the question of national finance puts a great strain upon the toleration of men who see wrong being piled upon wrong and treasonable folly added to folly.

It is precisely this factor which is building up the impression in the public mind that the institution of Parliament is hostile to the public interest, and that it pursues its taxation policy with a brutality that might be more reasonably expected in a conquering invader who levied tribute from the conquered.

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If Democracy is to Survive

If Democracy is to survive the many sinister forces which challenge its existence, Parliament and people must stand upon the ground of a common interest.

If Communism is to be kept at bay in the British Commonwealth of Nations, the gathering impression must be quickly dissipated that Parliament is the enemy of the mass and a growing threat to the freedom of the individual.

We warn those who sit in high places that the obstinate refusal of Federal and State Governments to abandon the anti-social policy of tax-slavery is rapidly bringing Parliament and Parliamentarians into the most cynical regard.

This attitude, of course, does not absolve the individual from his responsibility. What Parliament is, and the evil that Parliament perpetuates, is merely the lengthened shadow of the elector's failure to demand — and get — something better.

If he takes these evils lying down, he simply gets what he deserves. "The price of liberty is eternal vigilance", but if electors as a whole are content to resign themselves to their heavy chains of economic servitude with a growl, or a lukewarm protest, or an indignant resolution, still heavier chains will be forged for them.

Whether we are bondmen or free, hinges upon one thing, and one thing only: the fight we are prepared to make to assert our sovereignty over Parliament.

The people asserted their sovereignty when they demanded that the national Insurance Act be not proceeded with.

The people asserted their sovereignty when they insisted that the most dangerous features of the Reserve Bank Amendment Bill be withdrawn.

They asserted their sovereignty when they demanded and received assurances from the Federal Government that the National Register would not be used for industrial conscription.

Great numbers are not always necessary for a successful assertion of the people's sovereignty over Parliament.

What is required is the persistent and intelligent direction of clear instructions and demands to the focal point of governmental power — the individual Member of Parliament.

Co-operation rather than hostility is called for.

We are convinced that the average Member of Parliament would much prefer to give his allegiance to his electors rather than to his Party. But unless electors assert themselves, the prevailing party machines will over-ride the electorate.

Where a sufficient body of public opinion is built up, no sitting Member dare disregard it. And if a sufficient number of Members are so influenced, no Government could proceed with anti-social legislation.

Point out that taxation is **not necessary** — that it is a monstrous imposition — that it halves your personal freedom and doubles your troubles.

Insist that the Reserve Bank could — and must — provide at least sufficient financial credit, without any tag of debt whatever, to pay for public works, national debt redemption and substantial tax reduction over a period of years.

Insist that the persistence in the present policy is leading rapidly to the decadence of democratic government, the decay of human society, the decline of individual freedom, and the ultimate death of civilisation itself.

Above all, don't resign yourself to the defeatist notion that the individual is powerless to effect far-reaching changes. Such a notion has no basis of truth.

The great changes of history have been brought about by individual action. The mass of the people were never identified with them.

Great reforms resulted from the efforts of a few thousand individuals who knew exactly what they wanted and insisted upon getting it.

They fought on until resistance crumbled. Big organisations were not, and are not, necessary.

Take courage from the fact that wherever you are, however far removed from town or city, you will be associated with similar action by thousands of other individuals, unknown to you, and that it is precisely this associating together in a common cause which multiplies your power as an individual ten thousand times ten thousand.

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One Last Chance?

Take a sweeping view of Australia's position:—

Indonesia is credited with a population variously estimated from 100 to 124 millions. China boasts 815 millions, increasing at the rate of 18 millions per annum. It is estimated that the population of China will shortly be over one thousand millions!

And here is Australia with a paltry 15 million people trying to settle a vast continent (larger than Europe) with white people in a land shadowed by a thousand million Asiatics.

If this rich outpost of Western civilisation is to be held for the white race, great changes in thinking and acting must take place at all levels of society, and particularly at the highest political and financial levels.

Any policy that circumscribes Australia's development, any faint-hearted statesmanship that puts a financial brake on Australia's progress, must be rejected forthwith

by the people as suicidal.

At present we are living in the proverbial fool's paradise, when the grim facts of the situation demand the most vigorous, bold, and imaginative developmental policy that can be conceived by resolute statemanship.

Money must be released for development as though Australia were at war — and, indeed, we are at war. At war with the vast problem of water conservation in an arid continent; at war with the problem of filling our provocatively empty country; and at war with our own national lethargy in the face of forces which might well spell out subjection as a free people.

The conquest of the arid heart of Australia — an area which represents one-half of this continent — calls for study and research by the best engineering brains, backed by the necessary finance.

Housing projects on a great scale must be undertaken, limited only by manpower and materials.

The building of first-class highways to link this continent and give all parts of it a greater unity of purpose is no less urgent.

The overall policy for Australia's development must be governed by the principle that what is **physically** possible should be **financially** possible.

But instead of courage and resolution at high political levels, we are the unhappy witnesses of an incredible spectacle of political ineptitude, venality, indecision, and timidity.

Adequate military defence, based upon the latest technology, is not undertaken because financial orthodoxy insists that there is a shortage of adequate funds.

And, finally, industry itself is languishing for the money to develop this young country to a greater pitch of self-sufficiency in an uncertain world and an unpredictable era.

Confronted with this dispiriting portrait of nation-wide frustration, the natural human reaction is one of fear, insecurity and indecision.

There is conflict and confusion politically. There is growing chaos economically. There is the threat of collapse financially.

No wonder, then, there is bewilderment socially. We seem to be living in a time of mindless anguish.

It is opportune that Australians ask themselves if this country can long endure on a foundation of everexpanding debt.

And what nation was ever built on the quicksands of tax enslavement?

Let there be no illusion: If the people don't destroy taxation, taxation will destroy them.

Simple arithmetic is all that is required to show how inevitably it will spell out the doom of ordered society, and of those living standards which have taken so long to build up.

This is the grim Guignol picture that confronts us now, and it would be stark indeed were it not for the simple and obvious way of escape envisaged and outlined in this book.

The glaring evils in the present financial system were made by men and can be unmade by men. There is nothing immutable in the laws of man. What folly has long condoned, wisdom can undo.

And once the nation asserts its sovereignty over credit power, once it begins to create its own monetary requirements, it will at last begin its escape from defilement with the pitch of debt.

It will begin the long task of liberation from the intolerable yoke of taxation.

It will begin to use credit power as the greatest physical power for good.

Recall again the words of that wisest of statesmen, Abraham Lincoln: "The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity".

Australia's "greatest creative opportunity". That is the magnificent prospect ahead of us if only we have the resolve to pursue it.

We have pointed the way. We have given the people the facts.

Time for effective action is short.

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The Institute is one of the specialist divisions of the Australian League of Rights. *Enterprise,* the main journal — is produced quarterly. Regular information bulletins on fiscal, monetary and economic problems are available to Associate Members. A range of booklets on similar topics is also available. A book list is available on application.

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The following booklets are particularly recommended:

Alternative to Disaster – B. Monahan

Freedom and Inflation – B. Monahan

Consumer Discounts – The Answer to Rising Costs

A Programme for Ending Inflation – E.D. Butler

The Creation and Control of Money

Money Fact and Fiction – D. Malan

The Cattle Crisis – C.E. Pinwill

Copies of this book may be obtained from the following addresses:—

P.O. Box 16, Inglewood, W.A., 6052.
P.O. Box 270, McLaren Vale, S.A., 5171.
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