A WEEKLY COMMENTARY

ON TARGET

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The price of Freedom is eternal vigilance —

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THOUGHT FOR THE WEEK: "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?"

- The late Professor Soddy, eminent physicist.

BEHIND THE PYRAMID CRISIS: The Pyramid Building Society, based in Geelong, Victoria, is the second biggest building society in Australia, and its threatened collapse has national implications. The Pyramid affair has also highlighted the realities of a financial system which is based upon confidence and trust. But the system also tends to mask the fact that irrespective of what form it takes, money is only of value when people will accept it in the faith that they can use it to buy goods and services they require. An examination of official figures reveals that less than 10 percent of the nation's total money supply is created in the form of what is often termed "legal tender": notes and coins. The bulk of the national money supply is created by the banking system in the form of what is termed bank, or financial credit. This form of money, operated upon mainly by cheques, is generally accepted by people because they have faith in it. If people ceased to have faith in this form of money, it would be of no value whatever. And if people generally decided that they should withdraw all their deposits from the banks in the form of "legal tender", then every bank in Australia would have to close its doors - until official action was taken to print and to mint enough money in which people had some faith.

In assessing what has happened to the Pyramid Building Society, it is essential to realise that only trading banks have been granted a licence by government to create money in the form of financial credit. While it can be demonstrated that Building Societies do minimally increase purchasing power in a community by making loans, unlike the banks, they do not have a licence to create money. They are in an even more vulnerable position than banks if they are faced with a "run" - large numbers of depositors wishing to withdraw money at the same time. For this reason, and because Building Societies and Credit Unions are a threat to the banks because they attract deposits which the banks require as a basis for creating credit, the banks naturally welcome any developments which weaken the Building Societies and Credit Unions. The philosophy of monopoly dominates the banking system.

The crisis concerning Pyramid recalls the famous incident back in the Great Depression period of the thirties when the Premier of N.S.W., Mr. Jack Lang, resisted the same type of financial policy being imposed upon Australia by the Hawke-Keating government. The Lang N.S.W. government attempted to offset the harsh deflationary policy being now imposed by the trading banks at the behest of the Federal Government, using the N.S.W. Savings Bank, the second largest of its kind at the time in the British Commonwealth, to finance housing loans and to assist primary producers. With media support, a "run" on the N.S.W. Savings Bank was created. People were told that their deposits were at risk, and similar unsavoury tactics were used to stampede people, who demanded their money in "legal tender". The N.S.W. Savings Bank put up a great fight for seven months, exhausting its liquid assets before closing its doors.

But the created panic resulted in a "run" on the trading banks also. This resulted in a national crisis which forced the chairman of the Commonwealth Bank Board to make a dramatic national radio broadcast on May 31st, 1931. Sir Robert said that the N.S.W. Savings Bank was sound and that only statements by those "who desired to bring about disaster" were responsible for the bank closing its doors. He went on to say that there was no need for people to fear about their deposits with the banking system because, "..the Commonwealth Bank had control over the note issue, and command of resources, in the form of currency, to any extent, which, in the opinion of the Bank Board, is deemed necessary". This was an historic statement which can be recalled with profit at the present time when the Reserve Bank exercises the same powers exercised by the Commonwealth Bank Board. Although reluctant to spell it out, spokesmen for the Reserve Bank and the Federal Government, which in theory at least, dictate financial policy, would in the event of a run on any of the trading banks be forced to take action to prevent a collapse of the banking system.

The 200,000 depositors with Pyramid had good reason to believe their savings were safe. Few, if any of these people are high-flying speculators, but ordinary Australians, the "little people", who believed that Building Societies are adequately supervised under the authority of State Governments. Some of them recalled that when the St.George Building Society in N.S.W., the biggest in Australia, was also experiencing a "run", Premier Neville Wran promptly stepped in and assured depositors on behalf of the N.S.W. Government that they need have no fear about their deposits. South Australian Labor Premier Don Dunstan did likewise when a panic developed about the Hindmarsh Building Society.

Doubts about Pyramid early this year resulted in Treasurer Rob Jolly and Attorney-General Andrew McCutcheon issuing a joint statement which in essence said that there was nothing wrong with Pyramid.

As we go to press the position is by no means clear. We learn that the Victorian Government has had discussions with all the major banks and the Victorian Building Societies Association.

The Premier of Victoria, John Cain, is reported as saying that the major banks would agree to "provide a line of credit" to support the liquidity of building societies, and this "line of credit" will be supported by the (Victorian) State Government.

But wait for it! Mr. Cain again: "In the light of the advice received today from the Administrator of the Farrow Group (Pyramid, Geelong and Countrywide Building Societies) it is unfortunately not possible to include those societies in this agreement." There! What does that mean?

It almost certainly means that the banks want to get rid of the Pyramid Group. Mr. Cain has acknowledged that the above agreement with the banks will bring the building societies in Victoria (Capital, Bendigo) <u>progressively into the banking sector</u> (our emphasis...O.T.).

<u>The Age</u> (Melbourne) had a highly significant cartoon on page 13 of its issue of Monday, July 2nd.

It carried the title: "The Pyramid Queue", and portrayed seven layers of men with dismal faces forming a pyramid (13-14 on the bottom row, tapering to the apex), which was represented by a smug looking gentleman with "BANKS" written across his chest.

There is obviously more to come in the "Pyramid" debacle, and we shall comment further next issue.

<u>**BRIEF COMMENTS**</u>: As bankruptcies reach new levels, and will, as we have constantly predicted, go even higher, Treasurer Paul Keating continues to claim that his "strategy" is "on track". It is impossible to measure the growing pain which the Hawke-Keating Government is inflicting on the Australian people. But an indication of the plight of the nation is the dramatic appeal for Federal financial assistance by the Salvation Army, which has never before in its long history had to make such an appeal. The Army says that it has never known such an appeal for help from Australians who, generally through no fault of their own, find themselves on the economic scrapheap. This is happening in a nation rich in natural resources, productive capacity and adequate skills.

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Paul Keating's brutal treatment of the State Premiers at the recent Premiers' Conference demonstrated once again how far the Federal system has been eroded in Australia. The State Governments must, however, accept their share of the blame for the serious plight of the nation. They have never sought to have power effectively decentralised back to the State, preferring to accept a situation where they can blame the Federal Government for their plight. They prefer not to accept responsibility.

We trust that those trusting people who still believe that Dr. Hewson is a genuine alternative to Paul Keating, noticed how Dr. Hewson suggested that if he had been Paul Keating, he would have been even harder on the States. The philosophical bankruptcy of the Liberal Party was again demonstrated at the recent "retreat" of the Federal Executive of the party. Better marketing and organisation were suggested as essential for the election to government, along with a programme designed to win National Party-held electorates.

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In the June 12th Victorian edition of the A.B.C's. 7.30 Report, a spokesman for the banks admitted quite readily that the three major banks have written off $1 billion of debts. But as these debts cost the banks nothing to create, the banks have lost nothing. And, needless to say, not one depositor has lost a cent.

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Once again the value of Upper Houses has been demonstrated, in Western Australia, where the Liberal Party in the State's Upper House has declined to pass the Labor Government's "anti-racist" legislation.

This dangerous totalitarian legislation was first introduced by the West Australian Labor Government late last year, passed in the Lower House, but then blocked in the Legislative Council. Zionist spokesmen expressed their annoyance. After consultation with the Liberal Party Opposition in the Lower House, community leaders and the press, a revised version of the legislation was introduced but again blocked in the Upper House, with a motion to have the legislation "deferred and referred". Zionist leader Doron Ur says he is "furious".

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The Sun Herald (Sydney), January 7th, reported that Israel may revoke the citizenship given to 19 former Soviet citizens, after discovering that they were members of a persecuted Christian sect.

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