

Everything On The Table

Reforms For The Australian Economy

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Introduction

Dear reader,

Over the last half century Australia's population has doubled and there have been tremendous advances in technology. However some things don't advance, they just keep repeating over and over. After a while you see the patterns. Politicians make grandiose statements and governments come and go. Yet we still have poverty, increasing wealth inequality and recurring economic crises.

My background as a professional aviator has ingrained in me the importance of constant learning and improvement. From my perspective as an industry and policy outsider I have not been weighed down by dogmas and convention. I see things differently to many who have been educated in certain ways of thinking and carry those constructs with them all their lives.

During COVID lockdown I put my ideas down in a book, *The Luckier Country*, published in 2022. I wrote plainly, in none technical terms, about the problems we face and suggested how they could be fixed. The success I have had with the book has led me to meet many interesting people and organisations who, like me, want to make things better. They have taken my understanding to the next level.

This paper is the culmination of those experiences, adding to the ideas in the book and distilling them down to nine recommended reforms that address the root causes of the issues our society faces.

Opposition to the various reforms will no doubt be considerable as they do challenge some long held beliefs. The interconnected nature of the reforms means they reinforce each other and all work together. For these reasons it is envisioned that most of them will be presented as a single package. There will be winners and losers. The hope is that a majority of people will find sufficient reason to support the proposals.

The recommendations are for Australia only. Each country has slightly different circumstances. The best way to help others is to be successful here which would offer a role model for their own countries.

An invitation is extended to anyone who may wish to contribute to the public debate in these areas and collaborate on offering the reforms. Lets work to advance our society, rather than have the same issues crop up again and again.

Executive summary

Table 1 lists the reforms and provides a brief commentary on the reason for each reform.

Table 1

Reform	Comments
1. Complimentary currency	WOKRs: An interest free, time depreciating currency optimised to be a medium of exchange rather than a store of value. Will prevent recurring economic crises and increase the availability of financial capital. Contributes to banks being not too big to fail.
2. No government borrowing	The federal government awakens to its full powers and understands it has a duty to use them responsibly. Interest bearing money replaced by equity money. Contributes to banks being not too big to fail.
3. Banks require 100% reserves	Holding 100% of deposits as reserves with the RBA prevents house price inflation and credit induced busts. Funding loans by borrowing from the RBA stops exponential M3 growth. Contributes to banks being not too big to fail.
4. RBA payments system	The payments system is essential public infrastructure, too important to leave in the hands of for-profit banks. Contributes to banks being not too big to fail.
5. RBA transaction account	Abolishes bank's role as financial intermediaries. Leaves them with lending functions (without money creation). Contributes to banks being not too big to fail.
6. Taxation reforms	Shifts taxation from earned to unearned income. Those who benefit from land and natural resources pay a fair public rent for their use.
7. Tax savings account	Provides a better means to slow the economy than manipulating interest rates. An essential reform for precise control of inflation.
8. Universal basic income	Returns the common wealth to the people. Replaces social security, welfare and superannuation.
9. Parliamentary reforms	Provides additional tools for elected representatives to use when issues are divisive. Gives people a greater voice for times when government is not listening.

Table 2 shows the financial situation after the transition period. As a broad guide, the reforms are possible with an annual budget deficit of less than 10 percent.

Table 2

Item	Dollars bn *1	
Total Expenditure 3 Levels of Government *2	\$1,000.4	
Cost of Universal Basic Income *3	\$689.0	
Less Social Security & Welfare savings *4	-\$266.7	
Less 'Other Purposes' *5	-\$137.8	
Total Funding Required	\$1,284.9	
Funds To Come From:		
Non Land Sources of Economic Rent *6	\$500.2	
Land Value Tax *7	\$421.1	5.5%
Compensation for lost stimulus (banks & off budget) *8	\$122.5	
Equivalent deficit spending required *9	\$241.1	9.2%
Total Funding Supplied	\$1,284.9	

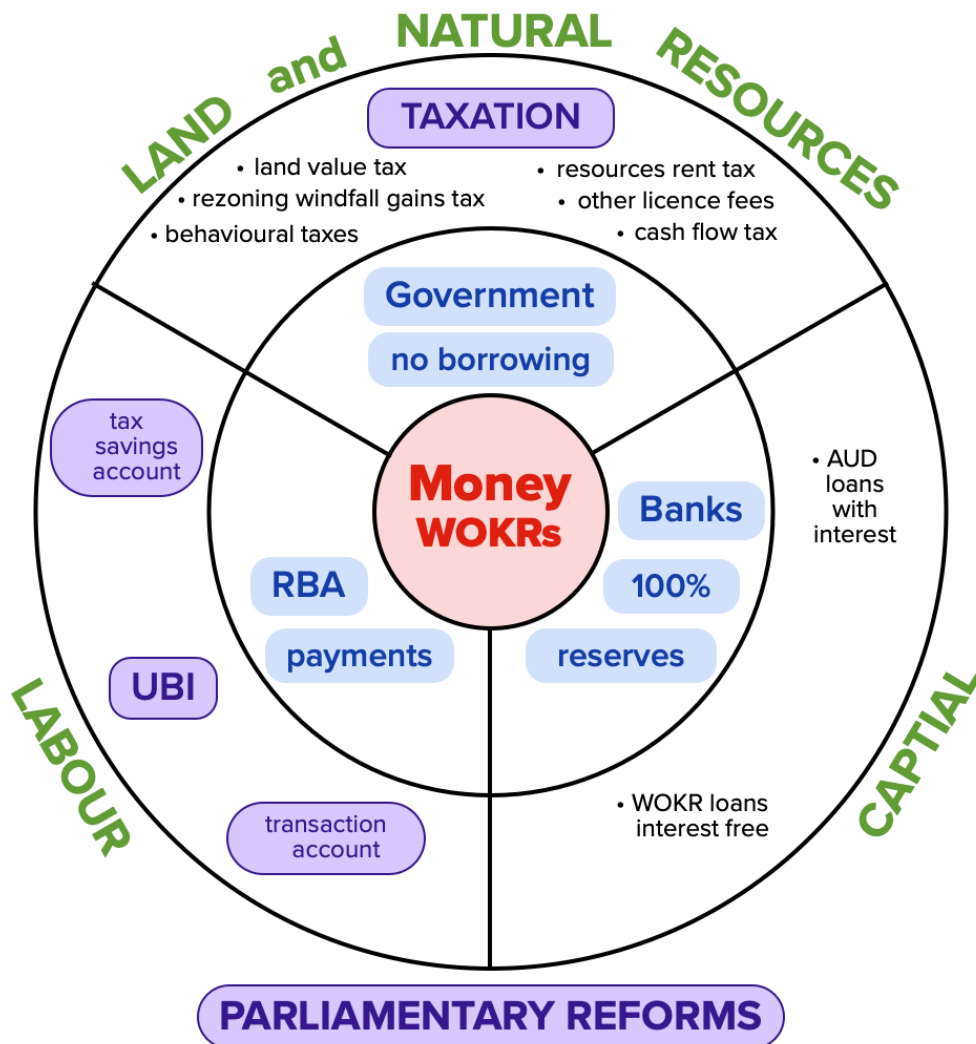
Notes to Table 2:

1. All figures are in AUD, however payments from the Government would be made in the equivalent WOKRs.
2. Expenditure of all three levels of government taken from ABS Government financial statistics measures 2023-24.
3. UBI: \$500 per week x 52 x 26.5 million people.
4. Social security and welfare would be replaced by UBI. This amount is federal expenditure from the 2024-25 estimates. Expenditure by the states would add to this figure.
5. Includes payments to the states and public debt interest
6. 'Total Resource Rents of Australia, Harnessing The Power of Monopoly' calculated that 47 percent of revenue could come from collecting unearned income from sources other than land. I've considered revenue to be equal to expenditure and rounded to 50 percent for this exercise.
7. Another approach would be to categorise land according to use and tax each category a specific rate. Using 5.5 percent across all categories was used to keep it simple.

8. The \$100b pa in M3 growth due to bank lending would cease, as would the off-budget expenditure of \$45b over two years¹. Therefore about \$122.5b is stimulus that the economy currently receives which would end. This stimulus would need to be continued by the federal government to avoid an initial depression of the economy. \$122.5b is about 5 percent of GDP which has not been picked up in the government's operating statement in the past.
9. The equivalent deficit spending required to balance the operational statement. It shows a deficit expenditure, in today's terms, of 9.2 percent of GDP is required. The question of whether this would be inflationary is addressed in the paper.

Figure 1 shows the recommended reforms in text with shaded background.

Figure 1



¹ Parliament of Australia. (2023, February 15). *Senate Economics Committee-20230215 (Off Budget Funds.mp4)* [https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:"committees/estimate/26528/0000"](https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:)

How strong is our economy?

The last century and a half has been a bumpy economic ride for Australia, and other countries of the world:

- The 1890s depression
- The Great Depression
- 1974-75, 1982-83, 1991-92 Australian recessions
- The 2008 Global Financial Crisis
- The COVID pandemic and the stimulus response.

Additionally, President Nixon cut the US dollar's final tie with the gold standard in 1971 and in Europe we witnessed the collapse of Marxist communism in 1989 and the formation of the European Union in 1993. These were significant events for the world economy including us.

Looking ahead, a number of commentators of economic, land and geopolitical cycles seem to agree that a significant turning point will occur later in this decade². There is no evidence that we are clear of turbulence for the foreseeable future.

The question that arises is how strong is our economy? Is our economy robust and resilient enough to be able to weather future economic shocks, either home grown or imported to our shores? And never mind the future, how are we doing today with managing inflation, rising house prices and the intergenerational wealth gap that is developing?

We can do better

The proposition of this paper is that we can do better. We can build resilience, robustness and economic strength so that we don't catch the flu when the big boys sneeze. Our future is not set in stone.

Why is this important? Because in the real world, not the world of rarefied privilege but the real world in which most of us dwell, this stuff matters, hugely. It's just un-Australian to turn your back on your mates because, "I'm alright Jack". No-one gets left behind. So roll up your sleeves as we prise this economic machine apart and

² Ray Dalio's 250 year cycle: Dalio, R. (2022, May 3). *Principles for Dealing with the Changing World Order* by Ray Dalio. YouTube. <https://www.youtube.com/watch?v=xguam0TKMw8>

Kondratieff Wave: Kavanagh, B. (2021, May 30). *The Kondratieff Wave*. The Depression. <https://thedepression.org.au/?p=35214>

18 year land cycle: Harrison, F. (1983). *The Power in the Land: An Inquiry into Unemployment, the Profits Crisis and land speculation*. Shephard-Walwyn, London

shine a light into its dark recesses to figure out how the bloody thing works, without fear or favour.

We'll start by examining the major concepts of free market capitalism and the roles of the private and public sectors.

The free market system

A free market system is an economic system where prices for goods and services are determined in an open market. In this system, the laws and forces of supply and demand are free from any intervention by government or other authority. Transactions are made in open competition between willing buyers and sellers.

The idea behind a free market system is that the supply of goods and services will meet the demand at a certain price and the two will exist in happy equilibrium, automatically adjusting as either one varies.

In reality no pure free market system exists. Competition is not always perfect. Monopolies or near monopolies sometimes collude or price gouge. Various nations have differing priorities and agendas.³ The operations of multinational companies add another layer of complexity.⁴ Even our own state governments compete amongst each other for large firms to set up on their turf.⁵

On a micro scale, citing the ideal of a free market is a tactic often used by those who want less regulation in their industry, until the free market turns against them. Then they call for regulation or subsidies. On a macro scale, the globalist trend embraces the ideals of a free market system in principle, if not always in practise.

The inconvenient truth is that the creative destruction, which is a characteristic of a free market system, is not always pleasant. It can be brutal. The plight of manufacturing in counties such as the United States, the United Kingdom and Australia, and the disruption that this has caused to some communities, is evidence of this.

³ Volle, A. (2024, May 30). *MAGA movement United States political movement*. Britannica. <https://www.britannica.com/topic/MAGA-movement>

⁴ Packham, C. (2022, December 15). It's our gas, and we won't pay export prices Husic. *The Australian Financial Review*. <https://www.afr.com/companies/energy/it-s-our-gas-and-we-won-t-pay-export-prices-husic-20221214-p5c68o>

⁵ O'Connor, M. (2021, May 11). Flying Kangaroo took us for a ride. *Cairns Post*.

Capitalism

Capitalism is an arrangement where private individuals or businesses own land, capital goods and the means of production. Goods and services are created for profit. It has proved to be an excellent driver of innovation, entrepreneurship and productivity.

Over time, the size of private corporations have grown to the point that there are now a small number of companies that control massive global market shares in banking, media, food and beverage and oil.⁶ Together, the largest single shareholder in almost 90 percent of S&P 500 firms, including Apple, Microsoft, ExxonMobil, General Electric and Coca-Cola are BlackRock, Vanguard and State Street.⁷ That gives the people who sit on the boards of these companies huge powers to influence markets and policy.

The scale of this concentration of power has resulted in the very things that made capitalism so successful in the beginning to now have a deleterious effect on society. The continuing imperatives of profit, growth and market dominance has led to increasing wealth inequality and the suppression of competition and technologies. In Australia, capitalism has played a role in housing becoming a vehicle for investment and wealth creation.

Private sector

The private sector of the economy is where capitalism dwells. It's where firms provide goods and services for our consumption and seek to add value for their shareholders by earning profit. Since the 1970s in Australia, the private sector have become larger participants in the provision of services of a public nature, taking over roles from public ownership.

The operation of the private sector in the provision of public services has lead to an unreasonable expectation to be placed upon private companies regarding their obligation to the common good. Private firms have a primary duty to their shareholders and to operate with the law, and that is it. If they want to expand their responsibilities to a wider stakeholder group such as workers, community or planet that is their choice. But they should not be obliged to do so.

⁶ International Business Degree Guide. (n.d.). *Which Corporations Control The World?* Retrieved July 16, 2024, from <https://internationalbusinessguide.org/corporations/>

⁷ Fichtner, J., Heemskerk, E. & Garcia-Bernardo, J. (2017, May 10). *These three firms own corporate America.* The Conversation. <https://theconversation.com/these-three-firms-own-corporate-america-77072>

With this understanding, policy makers should be able to make better laws defining the guard rails that define how private firms operate. When they step outside the bounds of the law, such as has happened in the past,^{8,9,10,11,12,13,14,15} then appropriate penalties should be applied to deter repeat offences.

Public sector

The public sector's role is to ensure a minimum standard of living for all citizens, including first class public education and health services. It should maintain a stable economic environment and secure provision of essential services, food, law and order, and defence under all circumstances, foreseen and unforeseen. In short, its activities are focused on the common good of the people. Given that the private sector is absolved from this responsibility it is entirely up to our three levels of government to achieve this.

The public sector has nothing short of super-powers at its disposal to achieve these outcomes. However, it doesn't know it has them. That is probably best for now. These reforms will help it realise the power that it has and suggest ways it can responsibly use them.

⁸ The Australian Financial Review. (2024, April 12). PwC monetised secret government tax information: O'Neill. <https://www.afr.com/companies/professional-services/pwc-monetised-secret-government-tax-information-oneill-20240412-p5fjha>

⁹ Aston, J. (2020, August 11). JS Jacques can't blame predecessors for Juukan Gorge debacle. *The Australian Financial Review*. <https://www.afr.com/rear-window/js-jacques-can-t-blame-predecessors-for-juukan-gorge-debacle-20200811-p55koi>

¹⁰ de Krester, A., & Marin-Guzman, D. Qantas offers fast compo in \$200m saga as sackings ruled illegal. *The Australian Financial Review*. <https://www.afr.com/companies/transport/twu-calls-for-goyder-s-head-after-high-court-rules-against-qantas-20230913-p5e483>

¹¹ Moran, S. (2005, Mar 18). Record fines for petrol cartel. *The Australian Financial Review*. <https://www.afr.com/markets/commodities/record-fines-for-petrol-cartel-20050318-jl7yg>

¹² Mizen, R. (2024, June 23). Coles, Woolies face multibillion-dollar fines under new mandatory code. *The Australian Financial Review*. <https://www.afr.com/politics/federal/coles-woolies-face-multibillion-dollar-fines-under-new-mandatory-code-20240623-p5jnzd>

¹³ Spector, M. (2020, November 25). OxyContin maker Purdue Pharma pleads guilty to criminal charges. *The Australian Financial Review*. <https://www.afr.com/companies/healthcare-and-fitness/oxycontin-maker-purdue-pharma-pleads-guilty-to-criminal-charges-20201125-p56hs6>

¹⁴ O'Brien, J. (2018, October 4). Banking royal commission interim report: How Hayne could change Australia. *The Australian Financial Review*. <https://www.afr.com/companies/financial-services/banking-royal-commission-interim-report-how-hayne-could-change-australia-20181003-h165w2>

¹⁵ Williams, P. (2020, February 3). Why Hayne succeeded where ASIC was overlooked. *The Australian Financial Review*. <https://www.afr.com/companies/financial-services/why-hayne-succeeded-where-asic-was-overlooked-20200202-p53wyg>

Today's report card

Who thinks that today's economy is delivering freedom from poverty, provides equal opportunities for us all to live our best lives, ensures a stable economy and contributes to the health of the planet? We possibly aren't the worst in the world but with around a million low-income households in financial housing stress in 2019-20 there is clearly room for improvement.¹⁶

Much of the discussion of what to do about the housing crisis centres around supply and demand, but even among so called experts there is never full agreement. Few commentators have been able to give clear reasons why there seems to have been a supply problem for decades, let alone what to do about it.¹⁷ Some have even favourably likened the housing bubble to the mining boom and declared that "surging house prices in Australia are proving to be a powerful driver of investment and growth" and the tsunami of investment that resulted from the mining boom is "exactly what is happening right now in the housing market"¹⁸.

If housing worked entirely on the basis of supply and demand then over the nine plus years plus since those comments were made we would expect that the housing market would have corrected itself and the bubble would have passed. But instead, the housing crisis has worsened, with the ripple effects flowing into all manner of our daily lives.

Root cause of the problems

It's now time to examine the root cause of the problems, not only with housing but increasing wealth inequality, recurring economic crises and even the damage we do to the environment. The causes are not widely understood, yet have been identified

¹⁶ Australian Institute of Health and Welfare. (2024). *Housing affordability*. Australian Government. <https://www.aihw.gov.au/reports/australias-welfare/housing-affordability>

¹⁷ Here are some of the more significant government inquiries and papers:

- *First Home Ownership*. Productivity Commission public inquiry. June 2004.
- *A good house is hard to find: housing affordability in Australia*. Senate Select Committee on Housing Affordability. June 2008. Over 200 pages.
- *Out of reach? The Australian housing affordability challenge*. Senate Economics Reference Committee. May 2015. 461 pages.
- *Report on the inquiry into home ownership*. House of Representatives Standing Committee on Economics. December 2016. 94 pages.
- *Long-run Trends in Housing Price Growth*. RBA Bulletin. September 2015.

¹⁸ Cleary, P. (2015, April 11-12). Why the bubble is no trouble. *Weekend Australian*. Inquirer page 1.

for over one hundred years. Our problems stem from an improper understanding of the roles and functions of money and land. This has resulted in the hoard-ability of money and the appropriation of public wealth by private concerns.^{19,20}

Our lack of understanding is no accident.²¹ Rather it is testimony to the pervasive power of vested interests, those same interests who will oppose these reforms. They are the large corporations and wealthy individuals who put profits before people. Worldwide, these powerful entities hold sway over governments, academia and dogma.

Understanding land and natural resources

An important economic phenomenon needs expanding upon at this point. Economists refer to it as 'economic rent'. Economic rent in this context is not the same as the rent that you pay to your landlord in exchange for a place to live. Its meaning comes from the original French term 'rente' meaning 'dividend'. Economic rent is a dividend from society.

Definition of economic rent

Economic rent is a payment or benefit received by someone as a result of their ownership of a right, licence or privilege over a natural resource.

Natural resources are the things nature freely provides. Economists have long known that there is wealth in the ownership and control of those resources. Having a monopoly over anything that does not have to be made but merely gathered up is going to be valuable.

Land is a natural resource. You obtain an exclusive right to use a parcel of land when you buy it. Economic rent is what increases the value of your land while you sleep. It's a free kick. You don't have to do anything for it. It comes with the presence of people. To illustrate this, imagine a bare block of land in the boondocks. Suppose that over time a township grows around that block, complete with roads, shops,

¹⁹ Henry George (1839 - 1897) An American political economist and journalist.

For information on Henry George see <https://cooperative-individualism.org/george-henry-page.htm>

A free copy of Progress and Poverty may be downloaded from <https://standardebooks.org/ebooks/henry-george/progress-and-poverty/download?format=epub>

²⁰ Silvio Gesell (1862 - 1930) A German - Argentine economist.

For information on Silvio Gesell and to download a free copy of The Natural Economic Order go to <https://silviogesell.com/links/>

²¹ Gaffney, M., & Harrison, F. (1994). *The Corruption of Economics* (Second Edition). Shephard-Walwyn Ltd.

schools, a hospital and so on. Even though nothing was built on the land, it's value would have increased because of the presence of people.

On the extractive resources side, minerals, oil and gas exist under the surface of the earth. They don't have to be manufactured, only extracted, and refined or processed. Having the exclusive right to those resources is valuable. There is so much economic rent there that it has made a select few Australians billionaires.

Other examples of natural resources that confer a benefit to the owner of those resources are fishing and forestry licences, radio spectrum and airport landing rights. Even something as ubiquitous as water, which falls freely from the sky, can be corralled and a benefit gained.

In all instances it is the community who owns the natural resources. Problems arise when the economic rent flows back to the private owners of those resources at the expense of the community. This equation can help to understand the process.

$$\text{Production} = \text{Wages} + \text{Interest} + \text{Rent}.$$

The equation describes that the wealth created by production is distributed between the three factors that together produced those goods and services. Workers take the wages, capital takes the interest and the land and natural resources takes the rent.

In fact, what actually happens is that the rent is paid first leaving the workers and the owners of enterprises to compete for the remainder. In good times, workers and business owners pay little heed to this. In leaner times the competition between them is more apparent. However, they both completely miss the fact that at all times the rents are taken first. The situation is shown when the equation is rearranged:

$$\text{Production} - \text{Rent} = \text{Wages} + \text{Interest}$$

Put more simply, all the gains of society end up in the land.

How economic rent accumulates in land, driving house prices higher

Banks love to lend money with land as collateral. When banks lend, money is created. The borrowed money is spent into the housing sector where it ultimately pushes up land prices. Rising prices attract speculators who add to the increasing demand from population growth to inflate prices further. Supply is throttled so as not to dampen prices thereby maximising profits. The cumulative effects of these influences result in house prices growing faster than wages and consumer prices. Economic rent cannot be seen but these effects indicate its presence.

Understanding money and interest

Although we use it every day, money is the least understood of all the components of the economy. Yet, its irrational nature is responsible for many undesirable aspects of our lives which we think of as 'normal'.

It comes in two versions, notes and coins in circulation which we call currency, and in digital form. After Federation, our money was backed by the UK pound and later by the US dollar. Since 9 December 1983 its value in the foreign exchange market has been set by supply and demand.

Money Usage

We use money as a medium of exchange when we buy and sell goods and services. We also use it as a store of value, saving it for a rainy day, a major purchase, or retirement.

Money can be likened to blood flowing through the body carrying oxygen to every cell. Money's primary job is to feed all corners of the economy with life giving cash flow. There are two variables in how it does that. 1) The volume in circulation, and 2) the speed at which it circulates, which can be described as the number of exchanges in a given period of time.

Money is credit

Modern money is credit. Anyone can create credit. When credit is extended, the recipient of the credit is indebted. Here are some examples of credit creation:

Think about what happens when we buy a coffee at the cafe but don't pay up front. Credit has been created by an agreement between us and the cafe. They have extended us credit and we are in debt to the cafe as we sit and enjoy the coffee. There is no written contract and they don't charge us interest but we are expected to square up the debt in about 30 minutes or so when we leave. At that point in time the contract is satisfied and ends.

Credit cards are pre agreed contracts with the credit card supplier. Generally, interest will only be charged if the debt is not repaid at the end of the billing period, roughly every 30 days. Until then the credit, or money, may be used interest free.

Mortgages are credit for up to 30 years. There is a signed loan agreement and interest is charged for the whole period of the loan.

A credit/debt transaction takes place between us and the government too. It happens in two stages. In the case of physical currency, the notes in circulation are the first half of that transaction. Each note is a credit 'agreement' that the

government has extended to whoever holds the note. Given time, the tax man will catch up with us and we will be in debt to the government. That's when we return the credit notes that we hold in payment of our debt. The notes are removed from circulation and the transaction is complete. Digital transactions make the process more obscure but they follow the same principle.

Credit money comes from loans

Where does money come from? Most people think money comes from a big government printing press churning out the dollars. In fact, only about three percent of our money is produced this way. The other ninety seven percent is created when loans are made. The money that is lent is created out of thin air.

If no other account balance was reduced when the loan money was credited to the borrower's account then the money didn't exist before that moment. In that fraction of a second it was created by computer keystrokes. We don't get to see that moment of inception as it happens behind the scenes in the bank's accounts. We only see the money after it has been created.

Our banks create most of our money when they lend for housing.

Balance sheets have to balance, even if they only exist in the barista's head. From the bank's point of view, the loan agreement with the borrower's signature on it is a financial asset and is entered on the asset side of the bank's balance sheet. Now here is the part where the money is created. On the liabilities side, an entry of an equal amount is made by computer key strokes in the customer's deposit account.²²

The borrower is then able to access those funds. There was no other account balance that was reduced when that entry was made. The money did not come from another account. It was created out of nothing. Now it is sitting in the borrower's account as real digital money.

The money is misleadingly categorised as a 'deposit'.²³ This gives the impression that the money has come from somewhere else when in fact it was created out of nothing. It also helps bankers to claim that their loans are funded by deposits.

Figure 2 shows the elements of a banks's balance sheet when a loan is made.

²² Warner, R. (2014, September 16). *Can banks individually create money out of nothing? – The theories and the empirical evidence*. International Review of Financial Analysis Vol 36, December 2014, Pages 1-19. Science Direct. <https://www.sciencedirect.com/science/article/pii/S1057521914001070#s0030>

²³ Warner, R. (2014, October 29). *How do banks create money, and why can other firms not do the same? An explanation for the coexistence of lending and deposit-taking*. International Review of Financial Analysis Vol 36, December 2014, Pages 71-77. Science Direct. <https://www.sciencedirect.com/science/article/pii/S1057521914001070#s0030> Click on 'Download full issue' for this article.

Figure 2

ABC Bank	
Assets	Liabilities + Equity
Loan Contract	Deposit

This same process happens with all banks, for all their loans, whether it be a mortgage for a house, a business loan or even a loan to the government, made when they purchase a government bond.

At 11:00 am the next day, the banks square off their books with each other and the Reserve Bank. That newly created 'deposit' is treated like all the other deposits in the system, even though none of it was actually 'deposited' into the account. Calling it a deposit is a misnomer.

The sum of all deposits in the system forms part of a money aggregate called M3. The other major component of M3 is currency in circulation.

When the principle portion of a loan is repaid the money comes out of the borrower's account and is handed back to the bank. It is no longer counted in M3 so M3 is reduced.

This process of money creation is not well known, even amongst people who have worked in banks for decades. It has been denied by central bankers for a long time. The global financial crisis and the COVID pandemic have helped reveal the workings to the world.

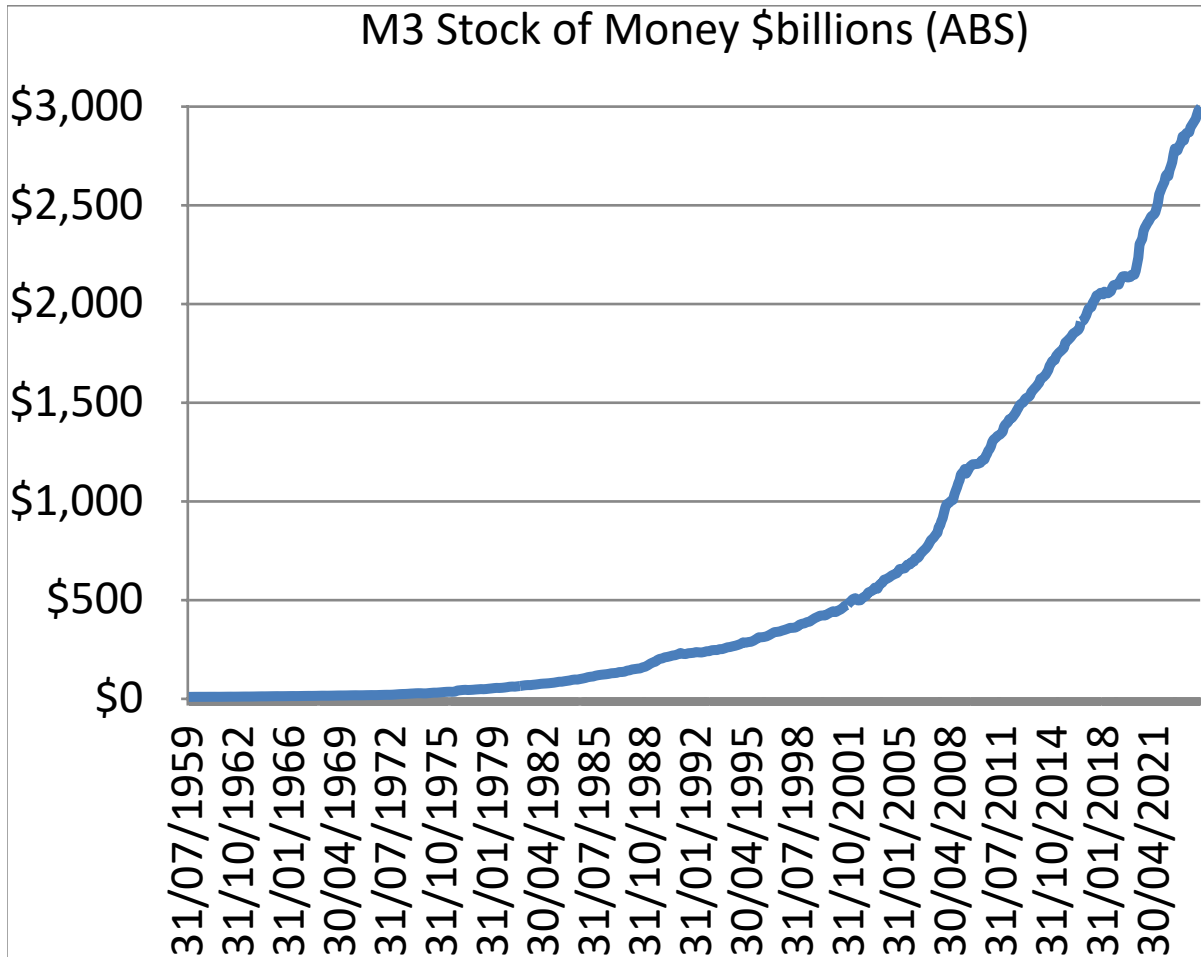
A similar process applies when banks lend to the government by purchasing a government security such as a bond. The bank creates the money and hands it to the government in exchange for that paper financial asset. The Reserve Bank of Australia (RBA) is the government's bank and the accounts held by the Reserve Bank are not counted in the M3 aggregate. Later, when the government spends money and it winds up in someone's bank account, the money is again counted in M3. For example, if the government spends the money on submarines, the money leaves Australia without ever adding to M3. If it is paid into a pensioner's bank account then it is counted in M3 and adds to the money supply.

That is the mechanics of it. There is a lot of money moving around every day, some of it adding to M3 and some of it subtracting from M3. It would be impossible to follow every transaction but the net effect can be seen by looking at the M3

aggregate which is published by both the Reserve Bank of Australia and the Australian Bureau of Statistics (ABS).

Figure 3 shows the total M3 stock of money for the last sixty years or so.

Figure 3



Notice that it is increasing at an exponential rate. The reason for this type of growth is part population growth and part increasing loan size. The story of money, especially money created from loans, which I shall refer to as 'credit money', is also the story of interest. It is impossible to talk about one without the other.

Why interest exists

There are a number of theories seeking to explain the origin of interest.²⁴ In spite of being condemned by three of the world's major religions, the practice of charging interest still exists.²⁵

I think the primary reason that it exists in our post industrial economy is that it provides banks with their profits.

The harmful effects of interest bearing debt

Recall that when a loan is made the principle is created out of thin air. However, loan repayments comprise both the principle and interest. Where does the money to pay the interest come from?

Using a simple example, suppose there is an island where there is no money. Someone goes to the bank and wants to borrow \$100. No problems, the bank creates the money and credits the borrower's account with \$100. However, when the loan is due to be repaid at the end of the year, the bank wants the \$100 back plus \$10 in interest. All the money on the island was used to repay the loan principle so where does the money come from to repay the interest?

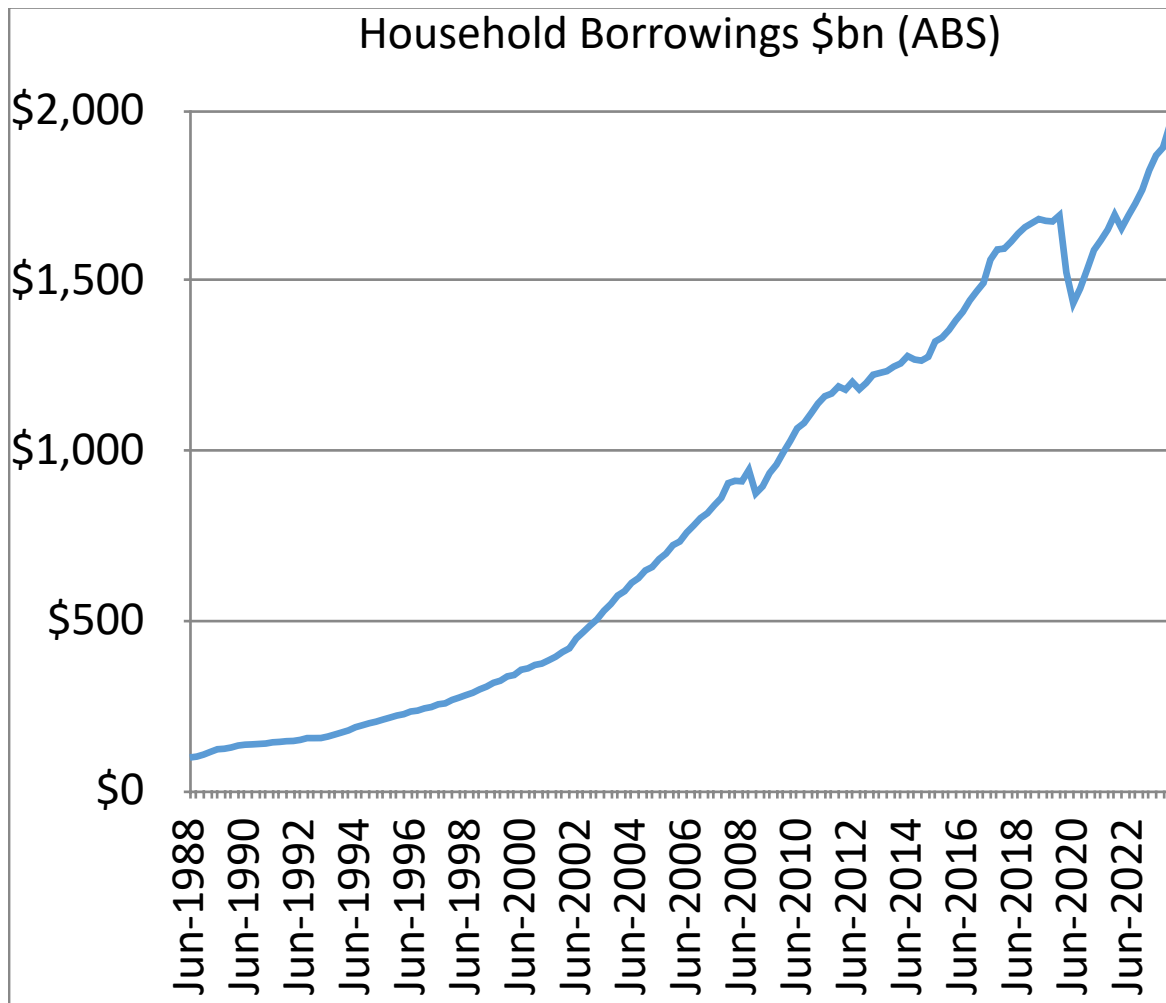
The solution is that the bank makes another loan to the customer, this time so that they can pay the interest. More money is created. In the real economy this process occurs constantly. After decades, the result is the exponential growth of money in the system shown in Figure 3. Not only does the money supply grow but people's indebtedness grows too.

²⁴ Sidman, J. I highly recommend 'Silvio Gesell: Beyond Capitalism vs. Socialism' course by Josh Sidman for anyone who is interested in the topic. Available at <https://silviogesell.com/video-course/>

²⁵ The religious texts and teachings of Judaism, Christianity and Islam have all expressed strong opposition to the charging of interest at various points in history.

Figure 4 is a chart of household borrowings from banks, which is mostly for housing.

Figure 4²⁶



It shows that over the last three and a half decades household debt has increased at a rate that looks like it could be exponential if it was to continue unchecked. Most of this debt is not for the production of real goods and services which would provide value in the future. It is for housing. Sooner or later the value produced by the economy in the present will be insufficient to support the repayment of this debt. It is unsustainable. The bubble will burst, again.

²⁶ ABS 5232.0 Australian National Accounts: Finance and Wealth, Series ID [A3373147](#) Households ; Loans and placements borrowed from: Authorised deposit taking Institutions ; \$ Millions Original STOCK_CLOSE Quarter Table 1. I converted millions to billions for clarity.

Billionaire hedge fund manager, Ray Dalio, does a good job of describing the cyclic nature of the buildup of debt and the inevitable de-leveraging in this animated YouTube video.²⁷

In conclusion, it is money lent at interest which is the driving force behind the exponential rise of the money supply and people's increasing indebtedness. In the natural world anything that increases exponentially cannot continue to do so indefinitely. I would expect M3 growth to also be governed by this natural law, making a de-leveraging inevitable at some stage. High levels of debt is like dry kindling to the economy. Just one spark is enough to start a huge bush fire.

The harmful effects of the store of value function of money

Money's use as a store of value sometimes works counter to its primary job of distributing cashflow. Storing it away reduces the volume and speed of circulation. Using the blood analogy again, the blood tends to clump or pool in places where there is already enough blood. It doesn't get to where it is needed.

The most critical time for this to happen is when a wave of caution sweeps through the economy. Those who can, reduce their spending. One person's spending is another person's income so incomes drop. Businesses cut back and reduce employment. This feeds back to the economy as a further loss of confidence which causes more people to reduce spending and so on, resulting in a downturn.

Money is withheld from circulation at the very moment it should be spent.

The wealthy have a greater capacity to save so their savings increase whilst the poor are still spending most of what they receive for necessities. The accumulated savings of the rich are then able to buy distressed assets at bargain prices. The swings in the economy allow the rich to get richer and cause the poor to get poorer.

Money sometimes acts contrary to the way we would like it to in times when the economy is running hot as well. When the economy is overheating, as evidenced by increasing price inflation and low unemployment, the dollar loses value relative to a basket of consumer goods. Savers are motivated to use those savings to purchase assets that preserve their wealth in such times, such as commodities, stocks or housing. Taking money out of storage and investing in such assets pushes up the prices of those assets. A speculative bubble forms, owners feel rich and spend more, further feeding inflation.

In conclusion, the store of value function of money accentuates any small disturbances in the economy and makes them more extreme, both down and up.

²⁷ Dalio, R. How the Economic Machine Works by Ray Dalio. <https://www.youtube.com/watch?v=PHeObXAluk0>

Economists assume equilibrium in their models, but our credit money contributes to instability in the real economy.

How credit money and interest cause a scarcity of financial capital

For a given degree of risk, investment funds seek the greatest rate of return. Australian dollars can be stored in a bank account and earn a risk free rate of interest. Unless there is a greater rate of return on offer elsewhere, money will not be deployed to assist enterprises needing financial capital to produce real goods and services. Economists call the rate of return on offer for new investments the 'marginal efficiency of capital'. If the marginal efficiency of capital does not exceed the risk free rate money will not be deployed into new ventures.

Interest rates form an artificial hurdle that results in financial capital being scarce.

How credit money and interest drive the need for constant growth

The need for continual growth is sometimes referred to as the 'economic growth imperative'.

The requirement to pay interest on borrowings is a large driver of this need for growth. Even if the business has no debt itself, interest still drives the increasing household debt shown at Figure 4. Sooner or later employees will want increased wages to service their increased household debt.

If a business cannot provide a rate of return above the risk free rate, it won't be able to provide value to shareholders or attract further financial capital. Eventually the owner will close it down.

Interest sets the hurdle for profit.

How interest adds to the prices of goods and services

If a business needs profit above the risk free rate of interest to be attractive to investors and lenders, then it follows that, in aggregate, the cost of goods and services must increase until that minimum level of profit is achieved. The cost of our goods and services contain an interest cost component.

In summary, interest and credit money have a toxic effect on our economy for these reasons:

1. Creation of interest bearing debt, primarily by bank lending, is the main driver of the unsustainable increase in the stock of money.
2. Money's use as a store of value is irrational because it destabilises the economy leading to recurring crises. With each cycle the rich get richer and the poor get poorer.

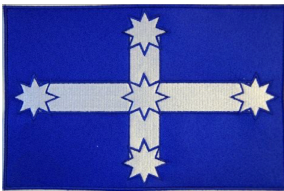
3. The risk free rate of interest is an artificial hurdle that businesses need to clear before they can attract funding. The result is a scarcity of financial capital.
4. Businesses, and the economy in general, have a need for continual growth which arises from interest.
5. The production cost of goods and services includes an interest cost element.

Fixing the problems

We'll now move onto the nine reforms listed in Table 1 which I believe will fix the problems identified above. Before we do, I'd like to pause and ask, "Why should we bother trying to change the very heart of our system?"

Why should we fix it?

To answer that question I will invoke three powerful images that help define what it means to be Australian. Many have given their lives for the principles enshrined in these symbols:



The Southern Cross flag, later to be known as the Eureka flag represents the constant struggle to improve our systems.



The Aboriginal flag represents that the land belongs to all of us and we are all entitled to share in its wealth. The flip side is that we all have a responsibility to care for it.



The Australian flag represents that we are all Australians. Whatever it is that we wish our country to become, it is up to us to make it so.

Constant improvement

Hopefully enough Australians are like me and would like to leave the place in better shape than we found it. Tinkering on the edges won't do it. These are major structural reforms and although they don't all need to be done tomorrow, they all need to be done.

The current trajectory is unsustainable

We are on an unsustainable trajectory. Marxist communism collapsed last century. Is it capitalism's turn this century? We can make improvements now or do nothing and watch it break. What are we going to do?

Changing world order

Authoritarian regimes are rising and challenging our democracy. It may come to a fight for our way of life. Lets make it worth fighting for.

How do we fix it?

Personal values

The first step is to examine our collective values. Our ingrained desire to get something for nothing at the expense of our fellow citizens always has, and always will be, the root cause of our problems. These reforms will deliver a just and equitable society. I'm not suggesting that we are equal in terms of dreams, goals, ambitions or abilities. Far from it. But we all should be equal in importance and opportunity.

Examining our own personal values will be the hardest step. Dearly held beliefs will need to be objectively reassessed. We will never all agree on everything, so we will need to compromise. The changes must be understood by people and we all need to agree to live by them. They cannot be imposed upon us.

Public sector role

The role of the public sector needs to be reasserted. It is unfair to expect the private sector to take on a public service role when the public sector has super powers at its disposal to do the job.

Cooperative individualism

Part of the attitude switch is to move away from rugged individualism towards cooperative individualism. Rugged individualism may have been appropriate as

recently as 150 years ago when the land and water were there for the taking and survival depended upon taming nature. Today most of our population have little to do with the land and live in cities surrounded by millions of other people. The key to survival in this environment is cooperative individualism. The common good takes precedence over individual rights.

Keeping those values in mind, we'll now discuss each of the nine reforms in detail.

Reform #1. Complimentary currency (WOKRs)

We discussed the deleterious effects of credit money and interest on the economy. Money's function as a store of value compromises its use as a medium of exchange at times when the economy needs its lifeblood to keep circulating. A better design for money would provide encouragement for its use as a medium of exchange and make it less attractive as a store of value. In other words, design it to be spent rather than saved.

This reform offers an improvement to our monetary system by the addition of a new currency. A currency which would encourage circulation and penalise hoarding. One that would not be based upon the payment or receipt of interest. The new currency would operate in parallel with the existing Australian dollar.

The idea of a complementary currency is not new.²⁸ We already have Reward Dollars and Flybuys Dollars used in loyalty programs which are a type of alternate currency. When paying for goods at the supermarket, loyalty scheme members have the choice of paying with loyalty dollars or regular dollars.

The parallel currency that I recommend would be based on one hour of unskilled labour. Its unit could be called a WOKR, standing for 'working hour'. In round terms it would correspond to whatever the minimum hourly rate is, which is currently about \$25 Australian dollars.

Being based on an hour of labour gives it an inflation proof quality. An hour of labour by a stone mason 2,000 years ago is worth the same as an hour of labour today. A forty hour working week for a labourer would pay 40 WOKRs in the year 2001, and 40 WOKRs in the year 4001.

To encourage circulation and discourage hoarding the WOKR would not pay or demand interest. Instead, it would depreciate over time at the suggested rate of 1% per month. This feature means that people will be motivated to use it for everyday exchanges and not for savings.

²⁸ A description of complementary currencies used around the world is given in: Kent, D. (2005). *Healthy Money Healthy Planet, Developing Sustainability Through New Money Systems*. Craig Potton Publishing.

Borrowings denominated in WOKRs would not require the payment of interest. The availability of interest free loans would have an huge impact on the economy in the following ways:

1. Financial capital would be more plentiful:

Recall that Australian dollars can sit in a bank account and earn a risk free rate of return. They will not come out of storage until a better yield is available, making financial capital scarce.

WOKRs would work very differently. Normally WOKRs would depreciate over time. The depreciation stops when they are lent out. To illustrate this principle, a loan of 1,000 WOKRs would be repaid by 1,000 undepreciated WOKRs in the future. If the 1,000 WOKRs were hoarded in an account, after 12 months the account balance would be 886 WOKRs. If lent, after 12 months a lender would still have 1,000 WOKRs and the borrower would be pleased to have had the use of the 1,000 WOKRs interest free for 12 months.

This simple principle alone means that the interest rate hurdle for the deployment of money would fall to zero. Instead of Australian dollars being hoarded in a risk free account, WOKRs would be available as an interest free option for those wanting to use them. Many startups could receive interest free funding in WOKRs, whereas if only Australian dollars were on offer, they wouldn't have that option.

Looking at the economy in aggregate, with more enterprises getting the opportunity to obtain interest free finance, there would be more demand for workers. More demand for workers would mean upward pressure on wages. Higher wages would lead to more spending and investing which would be a boon for the economy. The profits that would normally go to banks as interest on debt would instead be redirected to workers.

2. The constant need to grow business profits would be reduced:

Interest free WOKR loans would make accessing financial capital cheaper, helping enterprises start and survive.

3. The cost of interest would not be a part of the cost of producing goods and services:

With less interest costs embedded in the production of goods and services, the prices of goods and services could fall.

The way WOKRs are lent is important. WOKRs must not be created from nothing as is currently the case with dollars.

A legitimate function of for-profit financial institutions might be to provide an investment trust service for individuals who have surplus WOKRs. The nature of the

investment could be a loan or an equity stake depending on the purpose of the trust. Such trusts would minimise the risk to any one investor and provide some liquidity if they needed to withdraw their WOKRs. Competition in this field would keep the fees for this service to a reasonable level. Most importantly, their business model would not involve creating WOKRs out of nothing.

WOKRs: A Digital Currency (Except When The Internet Is Down)

In normal circumstances, WOKRs would be fully digital, with access to accounts being by card or phone. The time depreciating feature would be automatic, appearing as a deduction from the account balance each month, week or even daily. This would be similar to the way account fees reduce the account balance in some accounts now.

Recall that the public sector had the responsibility to maintain a stable economic environment under all circumstances, foreseen and unforeseen. Our economy is very dependent on digital money transactions. Without getting too far into the hows or whys, we must have a contingency plan in the event that the digital payment system is taken down.

Very briefly, this is how WOKRs would be used in that situation. WOKR plastic notes would be printed in anticipation and be disseminated to local council vaults. Denominations could be 50, 20, 10, 5, 1, $\frac{1}{2}$, $\frac{1}{4}$, $\frac{1}{8}$ WOKRs. When the emergency occurs local councils would issue WOKR loans to essential services and people to enable the medium of exchange functionality to continue in the old fashioned way, i.e. physical cash.

The time depreciating function would still operate. The plastic note would be time stamped upon release into the economy. This validates the note and starts the depreciation clock. After six months a payment of one WOKR would need to be accompanied by an additional $\frac{1}{8}$ WOKR note. After 12 months from validation a payment of one WOKR would need to be accompanied by two $\frac{1}{8}$ notes or a $\frac{1}{4}$ note, and so on, every six months.

The depreciation of $\frac{1}{8}$ every six months approximates two percent a month depreciation, about double the normal rate. This is primarily for simplicity but has the added benefit of providing a strong incentive to keep the money moving in a time of crisis.

Table 3 summarises how WOKRs and Australian dollars (AUD) would exist side by side. Some transaction types in the table refer to reforms that are discussed further on.

Table 3

Transaction Type	WOKR	AUD	EITHER
Payment of wages	Payment of wages from government are made in WOKRs		Wages from for-profits could be paid in WOKRs or AUD
Citizen's Dividend / UBI	Payments in WOKRs only		
Consumption expenditure	Most shopping for daily consumer items		Major purchases, e.g. car
Capital goods for businesses		Mostly AUD, especially if they are imported	
Deposits	RBA Transaction account. No interest paid		Savings accounts with for-profit organisations. Pay interest on AUD, No interest on WOKRs
Loans	Interest free loans. Payments continue until the full amount borrowed is repaid.	Loans denominated in AUD charge interest in the usual manner.	Lending in AUD or WOKRs is a for-profit function conducted by for-profit organisations.
Interest Income	N/A	Paid in AUD	
Dividends			The company has the choice to pay in AUD or WOKRs.
Housing Rent			In AUD or WOKRs
Taxes	WOKRs paid into the tax savings account will cease depreciating		Tax savings account will accept both WOKRs and AUD.
International transactions		AUD would remain our international facing currency	
Currency Conversion	WOKRs to AUD or other currency. A 2% fee to discourage this conversion.	AUD to WOKRs. No charge	

Reform #2. No government borrowing

Section 51 of our Constitution gives the Commonwealth Parliament the power to make laws concerning banking, currency and legal tender, and the right to issue paper money. These are super powers, yet the parliament does not realise it.

That is not as big a criticism as it first appears. The reason is that up until the 9th December 1983 the super powers lay dormant. On that day, our link to the United States dollar was severed and we acquired full financial sovereignty. That was just over 40 years ago and it takes a long time for realisations of this magnitude to fully sink in. The awareness of this super power is growing but it is still not mainstream. I will now explain what this super power is.

The super power is simply that the federal government of Australia does not need our taxes, it does not have to borrow money from the banks, and it will never default on its debt. Let me explain these one at time.

The federal government does not need our taxes in order to spend

The federal government does not need to gather our taxes in before it can spend. Did Prime Minister John Howard say to the United States, "Sorry Uncle Sam, we can't join you in the war on terror until we get the Australian people to pay more tax"? No he didn't. He just committed us to war in Afghanistan and Iraq without worrying about how it was going to be paid for. How about the response to the Global Financial Crisis or the COVID 19 pandemic? Was there any question of paying for those relief measures at the time? No there wasn't. That came later for different reasons.

Since the 9th December 1983, when the federal government tells the Australian people they can't afford something, it's not true. What they are saying is that we don't have the sophistication yet to use our super powers.

Well, if that is true I hear you ask, why do we have taxes? Good question. If we don't need taxes to fund the government's expenditure, why do we pay them? These are the purposes for taxation:

1. To give value to the Australian dollar. We all need dollars to pay taxes or else bad things happen to us. The demand for dollars gives it value.
2. To take money out of the economy. Think of a bath tub. The water flowing into the bath tub economy is government spending plus the money created by bank lending. If the water didn't drain out the plug hole in the form of taxes the bath would soon overflow and create a mess.
3. To redistribute the wealth. This purpose is fundamental to the reason for all the proposed reforms outlined in this paper. It is not happening to the degree to which it should in our present system.

4. To shape people's behaviours. Taxation is a powerful tool and it can affect how people behave. If you want less of something, tax it, e.g. climate pollution.

The federal government does not need to borrow money in order to spend

The current practise is that governments fund any budget shortfalls by borrowing money. They do this by issuing treasury notes and bonds and selling them to the financial services sector, predominantly the banks. In exchange for their money, the government pays interest on this debt.

Estimates of our net debt in 2024-25 is \$552.5 billion, increasing to \$697.5 billion in 2027-28. This equates to about 20 to 22 percent of GDP for the federal government debt alone.²⁹ The net debt for all three levels of government across the nation is currently about 150 percent of GDP.³⁰ Should we be worried by this debt?

The answer is no, we should not be worried by the debt. It can be regarded as merely an accounting record and could be paid back tomorrow if we wanted to. The reason is that 99.99998 percent of our federal debt is in Australian dollars and as mentioned earlier the federal government has the super power of being able to create Australian dollars out of thin air.³¹

Do not mistake our situation with most other countries in the world. They have their own arrangements and don't have the same super powers Australia has. A fix for the United States is not applicable to us. Perhaps Canada and the United Kingdom, and maybe Switzerland, have similar situations as our own but I haven't researched them so I can't be sure.

The biggest threat our debt poses to us is if we actually do try to pay it off. We would be committing future generations to lives of austerity for no reason whatsoever other than to make numbers on a page satisfy some bygone dogma.

Interest payments on the net debt receive attention from time to time in the media. Interest payments for the federal government are expected to be \$14.5 billion for 2024-25 increasing to \$26.0 billion by 2027-28.³² This is money provided mostly to the banks in exchange for money they created out of thin air to lend to the government.

²⁹ Budget 2024-25 Paper Number 1, Table 3.5: Australia Government general government sector balance sheet aggregate. <https://budget.gov.au/content/documents.htm>

³⁰ For the methodology see Appendix A of Gill, A. (2022). *The Luckier Country, Recovery Reform and Prosperity*. Wallaby Publishing. <https://amzn.to/39RVtxP>

³¹ Gill, A. (2022). *The Luckier Country, Recovery Reform and Prosperity* (page 109). Wallaby Publishing. <https://amzn.to/39RVtxP>

³² Budget 2024-25 Paper Number 1. Page 78. <https://budget.gov.au/content/documents.htm>

Although \$14.5 billion is not a large amount of the 2024-25 federal budget total expense of \$734.5 billion³³, it is paid to banks for doing nothing. It's a distortion of the economy which the banks will fight tooth and nail to retain for obvious reasons. To give a feeling for the size of the payment that goes to the banks for doing nothing it is about the size of the federal government's transport and telecommunication budget \$16.8 billion³⁴ or one third of the defence budget \$48.0 billion.³⁵

The federal government will not default on its debt

Knowing that almost all our debt is denominated in Australian dollars and that the federal government manufactures Australian dollars I think it is easy to see that whilst ever our debt is in Australian dollars there is no risk of default. Any assessment to the contrary by the International Monetary Fund or other rating agency is nonsense.

The Constitution has numerous provisions that allow for the federal government to assist the states with their debts. The federal government may lend to the states, it may assume their debt and pay it off or it may forgive debt the states owe to the federal government. The implication of these mechanisms will be referred to again later.

The federal government should awaken to its super powers and stop borrowing money. When it borrows money it brings interest bearing liabilities into its accounts which enriches the banks, entrenching their hold on the system. When it simply spends money into existence, it creates 'equity' money that is not interest bearing and bypasses the banks.

Reform #3. Banks require 100% reserves

We have already discussed how banks create most of the credit money in the Australian economy. This shows up as an increased money supply and in the debt of households and businesses.

Figure 5 reinforces the relationship between household debt, (read bank lending) and house prices.

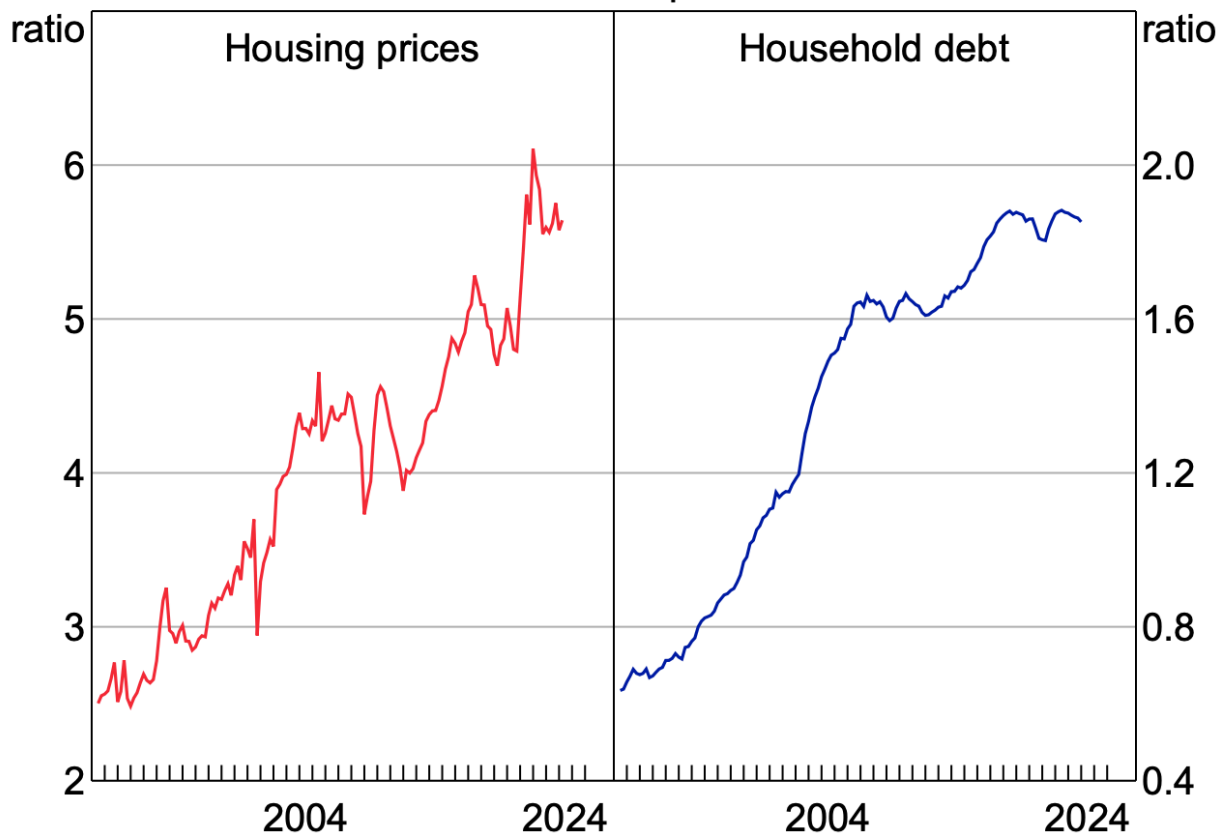
³³ Budget 2024-25 Paper Number 1. Page 193. <https://budget.gov.au/content/documents.htm>

³⁴ Budget 2024-25 Paper Number 1. Page 219. <https://budget.gov.au/content/documents.htm>

³⁵ Budget 2024-25 Paper Number 1. Page 203. <https://budget.gov.au/content/documents.htm>

Housing Prices and Household Debt*

Ratio to household disposable income



* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises.

Sources: ABS; CoreLogic; RBA.

House prices have increased from about 2.5 times household disposable income to about 5.5 times, which is over double. Household debt has increased from about 0.6 times household disposable income to about 1.8 times, almost triple, for the duration of the chart. The two are linked and cannot continue increasing as they have done without creating more and more social problems.

How much money is being created by bank lending? Referring to Figure 3, the money supply increased from \$500 billion in 2001 to \$3,000 billion in 2021. In round terms that is over \$100 billion dollars per year. This is a direct stimulus to the economy which does not appear in any government's budget. It is beneath the radar of most commentators and the national accounts. As most of the money created is spent into housing the visible effect is increasing house prices.

\$100 billion per year is a considerable amount of money, being about five percent of GDP. That makes banks a key part of the economy and dare I say, too big to fail

under the existing system. If we want to improve the way our economy works then we must change the role of banks.

The need to diminish the prominence of banks was realised decades ago, at the height of the Great Depression of the 1930s in Chicago, Illinois. A scheme to do that has become known as The Chicago Plan. There have been a number of variations added to it over the years. For this discussion I will use the model described by Jaromir Benes and Michael Kumhof in an IMF working paper published in 2012.³⁶

Banking services can be divided into two main functions: 1) deposit taking and performing as an intermediary between transactions, and 2) lending.

The Chicago Plan envisaged the separation of these two functions which would have the following benefits:

1. Better control of the money supply, thereby reducing the fluctuations in the economy.
2. Reduction in debt, both public and private.

Benes and Kumhof describe the transition to the new arrangement as a two stage process. The stages are outlined here for the Australian context.

Stage 1

The Australian federal government provides 100 percent backing of bank deposits. This is accomplished by using money which the bank borrows from the government. The best way to illustrate how this would work is to go back to the bank balance sheet and follow what is proposed there. The entries are shown in Figure 6.

³⁶ Benes, J., & Kumhof, M. (2012, August). *The Chicago Plan Revisited* (IMF Working Paper WP/12/202). International Monetary Fund. <https://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf>

Figure 6

ABC Bank	
Assets	Liabilities + Equity
Loan Contract	Deposit
Reserves held with the RBA	Loan from the RBA

The bank borrows, from the government, an amount equivalent in value to its deposits held. The money remains with the government's bank, the RBA, as reserves. The borrowed reserves are an asset to the bank so it appears on the asset side of the bank's balance sheet. In this instance, it is the bank who has borrowed money so their debt appears on the liabilities side of their balance sheet.

Looking at this new situation from the bank customer's point of view, their deposit money is now 100 percent backed by deposits held at the RBA and is absolutely safe. Previously, if there was a run on the bank by depositors, it would have been impossible for the bank to pay everyone their money. Under this new arrangement every depositor would be able to withdraw the full amount of money in their account because it is held as reserves with the RBA.

This one reform could prevent the civil unrest that has occurred in other countries when banks have had to shut their doors. The contentious deposit guarantee of \$250,000 would be made redundant.³⁷

Under this funding scheme the government controls the volume of credit creation. By requiring the banks to fund their loans exclusively from either their equity (basically shareholders funds) and/or loans from the government, the banks don't get to create the deposits out of nothing any more. Instead, the money creation is done by the government and adds to M3 once only. Deposit creation by the banks is not repeated over and over which causes the unsustainable rise in the money supply.

Stage 2

The Australian federal government accepts the outstanding debt remaining of all mortgage holders, in exchange for reducing the amount of the bank's loan from the RBA. This is a cancelling out of assets and liabilities on the bank's balance sheet.

³⁷ Khadem, N. (2020, July 16). *Coronavirus crisis heightens fears bank deposits could be wiped out under 'ambiguous' laws*. ABC News. <https://www.abc.net.au/news/2020-07-16/coronavirus-crisis-heightens-fears-bank-deposits-could-be-wiped/12458462>

Referring to the balance sheet in Figure 6 above, the Loan Contract on the asset side is zeroed out and their Loan from the RBA on the liabilities side is reduced by the same amount.

Let me say that again as though you were the mortgage holder. The government pays the bank the amount owing on your housing loan. It puts the money in a special account for you which can only be used to repay your outstanding loan principle to the bank. This money does not appear in M3 so massive inflation of the money supply will not result when this is done on a national scale.

You and the government can come to some arrangement to pay the principle back to the government. The amount and timing of the payment of the principle is an area for further investigation as property prices may be affected by these reforms.

The interest charges on the loan owing to the bank are still the responsibility of the borrowers. Investment loans made by the bank which are not secured by housing and which involve specially assessed commercial risk, remain on the bank's books.

This second stage of the Chicago Plan reduces the debt of people, adding a huge amount of robustness and resilience to the economy. In the words of Ray Dalio, a "beautiful deleveraging" would be achieved. The Chicago Plan removes the banks from the very privileged position they have managed to manoeuvre themselves into over the centuries.

Reform #4. RBA payments system

The payment system infrastructure in today's digital economy is critical. It must be as secure as possible, able to withstand deliberate attacks by foreign states and organised crime. It is of national security importance and should not be left to for-profit banks to administer.

Government can give the payment infrastructure the resources it needs to be up to the task. Cybersecurity needs to be proactive for it to work properly. The private sector is not good at allocating capital for something that hasn't happened. When it does happen it's too late, the disruptions have succeeded.³⁸

Prevention of disruption to our payments system starts with the government fully taking over the payments system and the financial intermediary role from the banks.

³⁸ Swan, D. & Bagshaw, E. (2024, July 20). 'Largest IT outage in history' caused by US-based cybersecurity firm. *The Age*. <https://www.theage.com.au/business/companies/microsoft-outage-across-australia-brings-down-major-businesses-20240719-p5jv2w.html>

Reform #5. RBA transaction account

Every citizen would have a fee free transaction account with the RBA. This effectively removes the banks from the financial intermediary role where they are involved in all transactions within the economy. One of the current functions of the Reserve Bank is to oversee the payment system. It would not be such a huge leap for them to offer a free transaction account to every one to enable the day to day monetary exchanges to occur without having the banks as intermediaries.

Where does this leave the banks? The commercial banks would have to operate like any other business. They would still be in the lending and investment business but would have to compete for customer's money which would be lent out in the style of an investment trust. Creating deposits from nothing and lending those funds would be a thing of the past.

The effect of reforms #1 to #5 is that banks would no longer be able to extract profits from ordinary hard working people who currently have no other choice but to deal with them in their every day lives.

The exponential increase in the stock of money would end and be bought under the control of the government. Together with the interest free complimentary currency, and the tax savings account, which will be introduced with the taxation reforms, the government would be better equipped to prevent inflation and recessions. House price inflation as we have known it would be a thing of the past.

Reform #6. Taxation reforms

Although the federal government does not need our taxes in order to spend, recall that there were other purposes for taxation. But not all taxes are the same. It's a case of good tax and bad tax.

In a rare show of consensus amongst economists over the centuries, it is almost unanimously agreed that taxing the unearned income arising from the privatisation of natural resources is the least bad form of tax. That is, economic rents should be taxed, not wages or capital. Workers should get to keep all they earn and business enterprises should be fairly rewarded for the risk undertaken. However, those who receive unearned income at the expense of the rest of us should be made to repay that income back to the people.

Abolishing all existing taxes and replacing them with the collection of unearned income from economic rent complies with the following principles of good taxation:

- Tax is not levied on labour or capital. Taxing these areas places a drag on the economy by suppressing the things that drive the economy. Economists refer to this as inefficiency. A tax needs to be as economically efficient as possible.
- Compliance with the tax system needs to be easy and simple, both for the tax payer and the tax collector.
- The tax system needs to be fair.

The components of the new tax arrangements would be:

- land value tax
- resources rent tax
- other licence fees
- rezoning windfall gains tax
- cash flow tax, on money that would be whisked off overseas and where the taxes above have not been able to capture a fair share of the company's revenue (think multination tech giants)
- Some special taxes designed to shape behaviours. The example given earlier was a climate pollution tax.

Besides the collection of unearned income, other benefits of the new tax system would be:

- The complexity of the tax system would dissolve. The Australian Taxation Office could be slimmed down considerably.
- Being able to arrange one's affairs for the purpose of minimising tax would be eliminated. For some multinational corporations the practise of offshoring of profits via related party loans and the creative accounting that goes on would be futile. For individuals the onerous record keeping and annual submission of tax records would be a thing of the past. The economic rent derived from within Australian borders from our land, sea and sky cannot be hidden.
- With taxes coming off wages and capital, the cost of production is reduced. This could result in cheaper goods and services.

Achieving major tax reform is difficult. By including tax reform in a package of reforms, that will be voted on as a block, gives the best chance of success.

Reform #7. Tax savings account

Under the present system there are two ways that the quantity of money, M3, is affected. The first is when the RBA sets an interest rate target, referred to as monetary policy, and the second is the budgeted spending and taxing of our governments, or fiscal policy. Neither method is particularly good, the former because it punishes borrowers disproportionately and the later because of the

considerable lag. In fact, it is not unusual for the two to be working in opposition rather than in unison.³⁹

Along with the new tax system would come a new tool for precise control of the money supply. That tool is what I call a tax savings account. The tax savings account is a way to pull money out of the economy in a precise and responsive way. This tool absolutely must be in place before the federal government deploys its superpowers. Under these recommended reforms the RBA would not have a role in controlling the money supply. That role would be taken over by a special committee and the tax savings account would be its tool.

The tax savings account would be an account all taxpayers held with the government into which they would pay their tax installments, in dollars or WOKRs. Money would be paid into the account in advance. The dollar balance would receive interest indexed to inflation and the WOKR balance would not depreciate so as not to penalise early payments. At an interval agreed between the taxpayer and the tax office, tax owing would be withdrawn from the account. Except in cases of hardship, money paid into the account would not be able to be withdrawn by the account owner.

The tax savings account would also provide the important mechanism for the government to take money out of the economy in a precise and timely manner. To demonstrate how it would operate, suppose the government is concerned that the economy is heating up a little too fast. They need to deflate the economy by taking money out of it. One option would be to reduce spending, say on infrastructure projects. That is problematic because infrastructure works are long term and the government needs to dab the brakes immediately. They could raise taxes but that is going to annoy people and would also take some time to filter through the system.

If the government offered a temporary deal where \$1.00 paid into a tax savings account would buy \$1.10 of tax payments it would put a smile on people's faces as they willingly handed over their surplus money. Discretionary spending would be curtailed whilst people snapped up the tax bargain. Everyone is happy. The government is pulling money out of the economy in a timely manner and the people get a little thank you for parting with their money.

Depending upon the rate of uptake from the public and the resulting effect on the economy, the offer may be adjusted up or down according to needs.

Of course, the tax discount would mean that the total amount of tax revenue collected would subsequently be reduced. However, recall that revenue generation

³⁹ Commins, P. (2024, June 22-23). Cost-of-living help to delay mortgage relief. *The Weekend Australian*, Page 4.

was not one of the purposes of taxation listed earlier. Controlling the amount of money in the economy was a purpose for taxation, and this is the way to do it.

Reform #8. Universal basic income

A universal basic income (UBI) is a regular income paid unconditionally to every Australian citizen. It would be paid in WOKRs straight into everybody's transaction account with the RBA, either weekly, fortnightly or monthly. The amount would be sufficient to allow a basic standard of living.

Much of the literature on a citizen's dividend deals with how it could be funded. I have introduced the concept of the government spending money into existence from nothing, so any question of where the money would come from suggests that Reform #2 'No government borrowing' should be reviewed. Asking where the money would come from is not the correct question to ask. The correct question to ask is, "If we do this, will we blow up our economy?". More on this later.

Basic income experiments have been conducted in many countries around the world. However none have been conducted at the scale that is recommended here. The almost universal response to these limited trials is that a basic income makes people happier and enriches their lives.

The universal basic income would replace all social security and welfare payments currently made by all three levels of government. It would also eliminate superannuation which is essentially a tax concessional environment for retirement investments. The changes to the tax system and the introduction of the universal basic income would make superannuation redundant.

Here are some common objections to a universal basic income and my responses.

A UBI will make people lazy and hurt individual enterprise.

Granted, some people will take the money, all the while having their backsides firmly glued to the couch. While a UBI is not a welfare system, Australia does have a welfare system which does a similar thing for many people. You might find those who tend towards indolence are already there.

The rich are rich because they deserve it. The poor are poor because they made bad choices.

Generalisations such as this are bigotry, especially in today's environment. As I mentioned, the reforms aim to improve justice and equality. We are all Australians and we all deserve to receive a portion of the wealth that belongs to us. An Australian UBI is a dividend paid to Australian citizens. It is for everybody, without judgement.

A citizen's dividend is a trojan horse for communism.

If your definition of communism is that the government owns everything and runs everything then the proposals in this paper are not communism. Private land ownership is still available but you will pay tax on it. Workers will receive all the wealth they produce as there is no income tax and no company tax. Private land ownership and workers keeping all the wealth they produce are not elements of a communist system.

If by communism you mean that the government controls you by getting you hooked on free money then I make this important point. The UBI is to be regarded as a birth right and is not means tested in any way shape or form. If a government down the track suggests doing so then we have a problem.

Rather than a larger more pervasive government, the reforms in this paper will result in a smaller government which intrudes upon private lives less than it does now. The UBI is the only payment people will get from the government. What they do with it is up to them.

Work gives meaning and purpose in life.

That may be true for many people, so work if you want to. The UBI gives choice. If you don't need or want the payment, give it to charity, or keep the payment and work for charity. You are free to choose.

A job guarantee would be better.

The idea of a job guarantee is that the government would create a job for the unemployed. I can't think of a more depressing way to spend my time than turning up for some pointless job and going through the motions. Depending on the details of the scheme, it could provide money to retain skills or to re-skill so as to form a ready pool of workers from which employers may draw when demand for workers increases.

In my view, workers are not multi function machines able to be removed and replaced at the whim of a business' profit and loss statement. They are people with families, friends, homes, emotions and desires. Each has different skills and aptitudes. Not everyone is suited to every job. Skilling up takes time. Considering the unemployed to be an "industrial reserve army" awaiting the next phase of economic expansion is not realistic.

Whilst there is overlap between a job guarantee and a UBI there is one fundamental difference. A UBI comes with no strings attached and delivers choice. A job guarantee would require extensive government apparatus to administer and somebody would be pulling those strings.

A UBI should be means tested.

A UBI is not intended to be a method to re-distribute wealth. That is the job of the taxation system. It is not a welfare system in the traditional sense. It should be regarded as a universal right of all citizens. To serve that purpose it cannot be means tested.

A UBI will encourage people to have children.

This is a valid point, it may. Some people may have multiple children to receive multiple citizen's dividend payments. Depending upon your point of view that could be a good thing for the country or a bad thing. It also raises the question of the timing of when the payment is paid to the child rather than the parent or guardian. These are issues that would need to be addressed and no doubt many more will arise. A UBI on this scale has never been done before so there will be considerations that will need to be worked through.

Social Expectations

I mentioned that a universal basic income would be an unconditional payment. That was true in terms of the usual qualifying tests that are customary for welfare payments. However, there are a couple of expectations that would come with the payment of a UBI.

The first would be an expectation that people give back to the community in some manner. The form that this would take is not prescribed but is left to the individual as to how much they are able to contribute. It could be as simple as picking up rubbish in their neighbourhood, volunteer work with a local community organisation or becoming a member of one of the state emergency service organisations.

The other expectation would be national service with the military, if that ever became part of our defence plan. It's not part of this paper, but I believe we need more 'defence' in our defence force, which would include Reserve service. If you wish to read about that you can here.⁴⁰

Reform #9. Parliamentary reforms

Change is brought into existence through laws created by parliaments and applied by courts, but it all starts with people speaking up. These parliamentary reforms give people a stronger voice for the times when government is not hearing us.

The list of issues and occasions where our federal government is perhaps not listening to the people as attentively as it should is long. Examples include decisions and laws made or not made around renewable energy and climate change. In the

⁴⁰ Gill, A. (2022). *The Luckier Country, Recovery Reform and Prosperity* (Chapter 11). Wallaby Publishing. <https://amzn.to/39RVtxP>

future the reforms recommended in this paper may need the voice of the people to support them at a critical moment in the process and these reforms to parliamentary procedures may make the difference between being heard and not.

Parliament can fail in a number of ways. The first is when party politics, and those who curry favours with politicians, have undue influence in the creation of laws and thus the direction of change. Sometimes the naked ambition of leaders and their parties takes precedence over the responsible management of the country.

The second way parliament can fail is when the governing party is so deeply divided within itself over an issue that they become deadlocked and unable to deal with the matter effectively. There comes a time when there is nothing left to say by either side and the same points are being rehashed by speaker after speaker. No new information is being discovered by committee inquiries. The voting is stalled, yet the issue is unresolved. An example of this was the same sex marriage legislation. It was a tortuous process over 13 years and 22 failed bills.

The same-sex marriage matter highlighted that parliament really did reflect the deep divisions within the community. That is understandable. However the difference is that the community is random and chaotic. Parliament should not be chaotic. It has, or should have, very ordered procedures and rules by which to interpret the chaos of the community and to turn it into order. Its members should remain professional and not be drawn into the chaos. Having said that, parliamentarians are human too, so the institute of parliament needs the best tools available in order to support its members to focus on their reason for being; to run the country fairly and wisely on behalf of the people.

The tools I'm proposing are documented procedures to be followed in the event that there is a blockage within a single House or a blockage in the passage of a bill between the House of Representatives and the Senate. Members would then know what the ramifications of their votes would be if the progress of items stalled. For this reason these procedures may never need to be used. Just knowing that they exist may be sufficient to keep the members focused and working for the country.

Parliamentary reform one: Fixed 4 year terms.

This is a no brainer. All six states and the two self governing territories have instigated four year terms. It has been talked about for the federal parliament for ages yet nothing is done.⁴¹ The people are ready for the referendum to change the Constitution. Of course, the Senate term would need to go to eight years with a half senate election every four years.

⁴¹ Parliament of Australia. (n.d.) *Chapter 7 Parliamentary Terms*. https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Completed_Inquiries/em/elect04/chapter7#int

Fixed four year terms would have prevented the crisis which culminated in the dismissal of Gough Whitlam in 1975. It would stop the abuse of Section 57 of the Constitution which deals with disagreements between the Houses which Malcolm Turnbull used to trigger the double dissolution on 2 July 2016. It would stop the political opportunism of going to the polls early. It would reduce the down time that parliament experiences when it goes into election mode and of course would mean fewer elections saving time and money across the board.

Parliamentary reform two: No ministers in the Senate.

The role of the Senate is to keep the Government honest and watch what they are up to. A minister who is a Senator therefore has a conflict of interest. How can they propose government legislation relating to their portfolio on the one hand and pretend to critically review it on the other? There are further, “substantial problems in having ministers in the upper house” which are detailed by David Hamer who served in both the House of Representatives and the Senate.⁴²

Parliamentary reform three: Legislation introduced in a single house repeatedly fails to pass.

This reform assumes four year fixed terms are in place. The aim is to loosen a majority Party’s stranglehold on the progress of a bill within the one House, typically in the House of Representatives. An example from the same-sex marriage issue was Tony Abbott not allowing the Coalition a conscience vote in the House of Representatives.

⁴² Hamer, D. (1995). *Can Responsible Government Survive in Australia?*. Published by The Department of the Senate. Page 270. https://www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/pops/pop26/c04

Figure 7 is suggested wording for this reform.

Figure 7

- If substantially similar Bills have been introduced into a House three times, by three different sponsors with a minimum of 12 months between each introduction, and has not passed, AND
 - There has been at least one committee of inquiry into the Bill, from either House, whose report into the matter has been published, THEN
 - A voluntary online public survey must be held.
 - After the survey has completed, regardless of the outcome, a conscience vote must be allowed.

 - If the Bill is then not passed it shall not be introduced again for the remainder of that Parliament.

Notes to Figure 7:

- The requirement for different sponsors ensures a single member is not excessively pursuing their own agenda.
- A minimum of 12 months between introductions allows time for consideration and contemplation of the matter and avoids the rapid and pointless introduction of Bills that was seen in the same-sex marriage debate.
- The need for at least one committee inquiry is to provide the opportunity for public submissions and the opportunity for in-depth research to be available before the voluntary online survey.
- The conscience vote is to free Members from party constraints on their votes. Members can be guided by the result of the voluntary online survey.

Parliamentary reform four: Disagreement between houses.

This recommendation is for the same scenario that is described by Section 57 of the Constitution which I shall repeat in part here:

“If the House of Representatives passes any proposed law, and the Senate rejects or fails to pass it, or passes it with amendments to which the House of Representatives will not agree, and if after an interval of three months the House of Representatives, in the same or the next session, agains passes the proposed law with or without any amendments which have been made, suggested, or agreed to by the Senate, and the Senate rejects or fails to pass it, or passes it with amendments to which the House of Representative will not agree . . . “

The Constitution text goes on to say that the Governor General may dissolve the Senate and the House of Representatives simultaneously. The rejection of bills by

the Senate occurs frequently enough but the dissolution of the Houses is not invoked at every instance. However qualifying bills can lie dormant to be used at any time by the Prime Minister to force a double dissolution. This is an abuse of Section 57 as it was never intended to be used in this manner.⁴³

Malcolm Turnbull used Section 57 to force a double dissolution in 2016 and it had been used a total of six times before that.⁴⁴

My proposal is that the fixed four year terms take precedence over any action to invoke a Section 57 double dissolution. Section 57 could remain in the Constitution as an emergency escape provision if all else failed. However I would hope that it would never be used.

Section 57 allows for the bill to be rejected two times, then the condition for the double dissolution is satisfied. I would allow three attempts at passing the bill with a minimum period between attempts. The minimum period could be three months as it is now or a longer period.

⁴³ Parliament of Australia. (n.d.). *No 7 Disagreement Between The Houses*. https://www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/Senate_Briefs/Brief07

⁴⁴ Parliament of Australia. (n.d.). *Disagreement between the Houses* (Senate Briefs 07). https://www.aph.gov.au/-/media/05_About_Parliament/52_Sen/523_PPP/Senate_Briefs/PDFs/brief07.pdf?la=en&hash=9AB7E2B4A52F44B0166AB759BD90A5B41D604758

Figure 8 is the suggested wording for this reform.

Figure 8

Disagreement Between The Houses

- If substantially similar Bills have failed to pass the other House three times, with a minimum of (3) months between each introduction, AND
- There has been at least one committee of inquiry into the Bill, from either House, whose report into the matter has been published, THEN
- A voluntary postal survey must be held before proceeding to the resolution stage below:

- IF the result of the voluntary postal survey is less than 50 percent in favour then the bill or a substantially similar one should not be presented again in that Parliament.
- IF the result of the voluntary postal survey is 50 percent or greater in favour, Parliament has a two step process to follow:

Step 1:
A chance to deal with the matter in the Parliament. The House that rejected the bill for the third time must have a conscience vote on the Bill. If passed, Step 2 is unnecessary.

Step 2:
If a conscience vote in the rejecting House results in the bill being rejected for the fourth time then there is a disconnect between the voluntary postal survey result being in favour and the rejection by the House. To resolve this the question must be put to the people in the form of a compulsory and binding plebiscite to be held coincident with the next general election.

- IF the plebiscite vote is 50 percent or more in favour then the Bill is automatically passed, requiring only the Governor General's assent to become law.
- IF the plebiscite vote is less than 50 percent in favour then the Bill has not passed and shall not be presented again in the forthcoming Parliament but may be presented in the one after that, i.e. after another four years.

In broad terms the principle outlined in the case of a blockage within a single House or a disagreement between the Houses is a 'three strikes and we ask the people' approach.

The four parliamentary reforms are important because the major structural reforms recommended in this paper will be vigorously opposed by powerful interests. When

parliament fails it must refer to the umpire, who is not the Governor General but the Australian people. We are all grown up now.

The reforms work together

The reforms support each other. A single one by itself would not have the full desired effect.

- A universal basic income would simply push up house prices without the addition of a land value tax.
- The money supply and debt would keep increasing if the banks were not required to fund 100% of their mortgage loans by borrowing them from the RBA.
- The Australian government would find its role very difficult if it had to manage the budget like a household instead of using its super power to spend money into existence.
- Precise control of the amount of money in the economy would be impossible without the tax savings account.
- Without WOKRs providing interest free equity money that is designed to be spent, the inherent instability of the Australia dollar would sabotage the other well intentioned reforms.
- The resilience and security of our digital economy would not be given the priority that is required if left to organisations whose top priority is to make a dollar.

This is why a holistic reform package is required. The components should not be cherry-picked to pander to one interest group or another. The proposed parliamentary reforms, perhaps the only ones that can stand alone, may be needed to provide momentum and a pathway for the bills through the parliament.

The reforms are affordable

Table 2 in the Executive Summary offered some broad numbers to the reforms to get a feel for how the national accounts might look after implementation

Two studies were referenced which examined what proportion of government expenditure might be funded by land value and resources rent taxes.

A 2003 paper by Terry Dwyer titled 'The Taxable Capacity of Australian Land and Resources' finds that a land value tax could replace income and company taxes.⁴⁵

⁴⁵ Dwyer, T. (2003, January 6). *The Taxable Capacity of Australian Land and Resources*. <https://www.prosper.org.au/wp-content/uploads/2007/11/dwyer-tax-resources.pdf>

'Total Resource Rents of Australia - Harnessing The Power of Monopoly', written by Karl Fitzgerald about ten years later, and which itself is an update of a 1999 paper by the late Tony O'Brien, concluded that 98.3 percent of government revenue could be provided by land and natural resources tax.⁴⁶ Of this a total of 53 percent would come from land tax and 47 percent would be collected from other unearned income.

Would the reforms cause inflation?

Table 2 showed that a deficit of 9.2 percent of GDP would be required to finance the reforms. The question of the effect of the reforms on inflation will now be discussed.

There are a number of versions of inflation:

- Consumer Price Inflation (CPI)
- Money supply inflation (M3)
- House price inflation
- Wages inflation

I will specify which type of inflation I am referring to in the discussion to avoid confusion. Here are some ideas on the likely effects on inflation.

Starting with wages inflation, the presence of a universal basic income and the absence of income tax would put more money into the hands of workers for the same amount of pay. Rather than inflationary, the initial pressure on wages would probably be in the downward direction. In the longer term, the naturally inflation resistant WOKRs would suppress wage inflation.

The banking and taxation reforms target house price inflation. I expect they will effectively end the role of housing as an investment vehicle and reposition it as an affordable necessity. These reforms will allow that process to be controllable and deliberate. The out of control house price inflation we have at the moment would end.

Interest free WOKRs and the banking reforms will end the uncontrolled creation of money and debt, and the unsustainable inflation of the money supply.

Consumer price inflation (CPI), the measure of price changes in a basket of consumer goods and services, may be affected by these reforms in the following way:

- The shift of taxation away from earned income to unearned income will take a large portion of taxation costs out of the cost of production, thereby reducing the CPI.

⁴⁶ Fitzgerald, K. (2013, December 3). *Total Resource Rents of Australia, Harnessing the Power of Monopoly* (Second Revision, page 12). <https://www.prosper.org.au/2013/12/total-resource-rents-of-australia-2/>

- WOKRs may have effects both ways. They take the interest cost out of the cost of production, thus having a reducing effect on CPI. However, the increase in the availability of financial capital may increase the demand for labour. A higher demand for labour may cause wages to rise thereby increasing CPI.
- The reduction of wages inflation mentioned earlier could put downward pressure on existing levels of wages and the cost of goods and services, hence lowering CPI.
- The reforms would make land prices more affordable, further lowering costs to business and the CPI.
- Other considerations, outside of the scope of this paper, that could effect CPI are people's responses to these reforms with regards to work/life balance and their consumption. Also, the degree to which human labour may be replaced by technology could play a role in the years ahead.

Overall, leaving aside the increased deficit spending for now, I believe these reforms will be deflationary for our domestic economy, not inflationary.

Imported inflation

Australia currently imports many of our consumer and capital goods from overseas. There is the possibility that inflation comes to our shores through this mechanism, as it did following the COVID pandemic. If that occurs, the taxation savings account is available to suppress the demand pressures domestically, thus mitigating the harm until the free market forces of supply and demand find a new equilibrium.

These reforms should give our manufacturers a new found international competitiveness which may result in us producing some items that are currently imported. This would help to reduce our exposure to overseas inflation and make our supply chains more robust.

The damage done by 'the business cycle'

There is another aspect to thinking about the financial effect of these reforms. That is to ask, how much better would our economy have been with these reforms in place? 'Better' here is measured by GDP. It's not a great measure but it's all we have for this study, and it does correlate somewhat with other indicators that measure the more human aspects of our economy.

A study was carried out on data for the years 1972 to 2006 which removed the economic recessions of 1974-75, 1982-83 and 1991-92 and compared the GDP calculated as if they had not occurred to the actual GDP which included those

recessions. It's a good proxy for the effects of the reforms recommended in this paper, as they are expected to eliminate recessions, as was done for the study.⁴⁷

The difference between the two outcomes is what economists refer to as 'excess burden' or 'deadweight loss' caused by the cycles.

The theoretically smoothed GDP, growing at 5.53 percent without the recessions, was \$1,987,506 in 2006. The actual GDP of the economy in 2006 was \$922,494. This indicates that over the 34 year period, the economy could have grown to over twice the size that it actually did, had these reforms been in place, and had they produced the anticipated effects. Productivity improvements of that magnitude would work to further suppress consumer price inflation.

Would a budget deficit of 9.2 percent be a problem?

According to Table 11.6 of the Budget 2024-25 Paper No 1, the largest fiscal deficit of the Australian Government since 1996-97 was associated with the COVID pandemic. A deficit of 4.8 percent of GDP in 2019-20 was followed a year later by a 6.5 percent deficit in 2020-21.⁴⁸

The 9.2 percent deficit in Table 2 is another 50% on top of the highest deficit yet. However given the economic environment would be completely changed by the time that deficit was reached following the twenty year transition period (see below) I don't think a direct comparison can be drawn between the two and any meaningful inference made.

As mentioned earlier, the recommended way forward is to take small steps through the transition period observing, and correcting if necessary, as we go.

The twenty year transition

Such significant reforms will take time to implement. A twenty year time line is recommended. The whole process can be mapped out before hand and reviewed in real time to ensure that things are moving according to plan. As I have mentioned the complexity is too great to expect a model to be able to reliably show the way.

⁴⁷ Kavanagh, B. (2017, March 1). *The Real Excess Burden an overarching approach*. The Depression. https://thedeppression.org.au/?page_id=31593

⁴⁸ Table 11.6: Australian Government general government sector revenue, expenses, net operating balance, net capital investment and fiscal balance. Commonwealth of Australia. (2024). *Budget 2024-25* (Budget Strategy and Outlook, Budget Paper No. 1). <https://budget.gov.au/content/bp1/index.htm>

Phasing out old practices and introducing the new reforms at a rate of five percent a year gives time to correct for unanticipated consequences. It would be amazing if the drafters of the legislation nailed it the first time but that is unlikely. If something is not working as it should the reform can be tweaked along the way before too much damage is done. This real time correction does not mean the whole reform package is flawed. It should be expected and everyone needs to understand this and be tolerant of it.

Most importantly the twenty year timeline would give people the opportunity to rearrange their affairs as required. This controlled and steady reform process following a clear path over five parliamentary terms of four years each would be much better than the uncertainty created by band-aid measures touted by politicians every three years or so as occurs now.

Support for the reforms

The whole country are stakeholders in these reforms. Some familiar battle lines will be fought over. These are my comments on some of them.

Capitalists and Socialists

Those who believe that general prosperity is best attained by private parties interacting through markets with as little government involvement as possible will be attracted to the clarification of the private sector's role.

Those who believe that markets tend to unfairly enrich the owners of capital at the expense of the working class will support the UBI and workers receiving the full reward for their labour. The provision of first class public education and health systems, largely free of the budgetary constraints of the past, will support the public sector's stronger focus on the common good.

Table 4 summarises the main characteristics of capitalism and socialism and shows where the reforms would fit in.

Table 4

Characteristic	Capitalism	Socialism	The aim of the reforms
Objective	Businesses and individuals operate for profit and wealth accumulation.	A just distribution of wealth, provision of social services such as welfare, healthcare, education and housing.	Workers and businesses get to keep all the income and wealth they earn. Unearned income that arises due to the community is collected and returned to the people.
Means of production	Owned by private individuals or businesses. Strong protection of private property rights.	Owned or regulated by the community as a whole, such as public ownership or cooperative management of resources and industries.	Mostly left to the private sector except for critical public infrastructure where national security is a consideration and is deemed to be in the public interest not to be operated by a for-profit organisation(s). The government may also provide essential services to remote regions where a for-profit organisation could not make a profit.
Allocation of resources	According to the free market mechanism: a competitive, open market environment with limited government interventions (primarily to enforce contracts and property rights)	Planned by the State in accordance with its goals.	Largely left to the free market mechanism. The reforms shift the constraint of government from financial to resources. The government employs economic resources when the private sector has spare capacity but must not crowd it out when the economy is near capacity.
Prices	Determined by supply and demand in a free market system..	Regulated by the state to achieve social and economic goals.	Predominantly set by the free market. Where price intervention may be warranted, the government should firstly satisfy itself that its policies are correct and working as desired before intervention such as seen for gas prices.

Anti Government, Anti Taxers

Those who were perpetually unhappy with government and taxes will be gobsmacked that the government really is their friend and is finally there to help. With the responsibility for their lives being shifted from the government onto their own shoulders they may find a new self-actualisation.

The States

The states will need to be on board. In exchange for relinquishing their claim to land taxes and resource royalties they could be offered:

- A greater say in matters of national importance, such as defence and international trade, via a beefed up National Council.
- A clear formula for the distribution of the tax revenue. Former Western Australia Premier Colin Barnett suggested an immediate allocation of 90 percent of the tax revenue in untied grants prorated upon the states' populations, with a further 10 percent allocated at the discretion of the federal government.⁴⁹ He was speaking about GST so the figures would have to be adjusted for the full taxation revenue but the principle could be the same.
- The federal government would assume all the states' debts. Recall that the federal government has super powers in this area so long as the debt is in Australian dollars.
- A commitment from the federal government that, on the condition that the economy had spare capacity and depending upon the project, funding over and above the distribution of the tax revenue may be available. This money would be spent into existence by the federal government.

Constitutional Change

To change the Commonwealth Constitution, four out of the six states and the majority of Australians overall need to agree. With that level of support nothing can stand in the way.

A Constitutional amendment that appears to be low hanging fruit is changing the federal parliament to a fixed four year term. As a first step, it would be a tremendous confidence booster to the organisers of the referendum and voters alike to have that section of our constitution changed. No longer would amending the constitution be the boogie man that it is made out to be. If people want it they can have it.

Even if everything in this paper makes perfect sense to people they still won't vote for it. Fear of the unknown, fear of change, better the devil you know, will stop them

⁴⁹ Saul Eslake & Colin Barnett. (2024, May 8). *The GST Debate*. The National Press Club of Australia. <https://www.npc.org.au/speaker/2024/1325-saul-eslake-colin-barnett>

from taking action at the polling booth until they are forced to. That compulsion may take the form of the next economic crisis.

As mentioned, a number of commentators have spoken of a turning point in our economy later in this decade. Inflexion points in cycles are a dismantling of the old ways and the beginning of the new. They are points of disruption that force change upon those affected.

That is why the federal election in 2028 will be the critical moment in the campaign for these reforms. Much background work will need to be done in advance of the public release when the time is considered appropriate.

Interested in finding out more?

If you or your organisation are interested in furthering these reforms I'd be happy to hear from you.

Please send comments, feedback and expressions of interest to Anthony Gill.

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